

Civil Aviation Policy and Privatisation in the Kingdom of Saudi Arabia

Abdullah Dhawi Al-Otaibi

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ABSTRACT

The study examines the extent to which the liberalisation and privatisation of the Saudi Arabian civil aviation sector achieved the claimed benefits of transforming public utilities into private ownership. At the theoretical level, it explored the nature of privatisation, and its relationship with wider reform policies and modernisation paradigms, as an approach for reforming public sector organisations. Empirically it examined the civil aviation sector in Saudi Arabia as its main case study, comparing it with the British Airways and Kenya Airways privatisations, and providing an overview of civil aviation liberalisation and privatisation processes in the Gulf region. Qualitative data collection methods were used, including personal interviews and official documents, and a broad meaning of privatisation was adopted as more suited to the Saudi case.

An in-depth analysis of the interview material and data relating to the process of Saudi Arabia's civil aviation privatisation and liberalisation, helped identify present successes as well as major issues and problems facing the sector. Despite considerable market potential, unfair competition and other bureaucratic restrictions and obstacles could still have negative consequences for newly-established private companies. Certain issues concerning the requirement for more private participation and more competition among operators and service providers need to be solved, while policy makers and regulators must take many important and crucial decisions to meet expectations and customer demands. All players in the Saudi civil aviation market should be treated equally and a sound regulatory framework, along with objective monitoring, needs to be established to support fair competition among the airlines and other private operators. Unless the situation changes, many opportunities for success in the Saudi market for civil aviation might be lost. However, further success is expected to be achieved with the eventual full privatisation of Saudi Arabian Airlines and the complete liberalisation of the civil aviation sector.

Key words: civil aviation privatisation, civil aviation regulation, civil aviation in Saudi Arabia.

DEDICATION

This research is dedicated to:

My father and my mother for their encouragement, support, sacrifices and prayers throughout.

My wife and my sons and daughters for their love, encouragement, support, and sacrifices.

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List of Abbreviations

AAI = Airport Authority of India

ARAMCO = Saudi ARAMCO: since 1988, the state-owned Saudi Arabian Oil Company (originally the Arabian American Oil Company).

ASA – Air Service Agreement

AT&T = Aircraft Transport and Travel (not the American telecoms company)

ATC = Air Traffic Control

BA = British Airways

BASA = Bilateral Air Services Agreement

BBO = Buy Build Operate

BOAC = British Overseas Airways Corporation (predecessor of BA)

BOO = Build Own Operate

BOT = Build Operate Transfer

BT = British Telecom

BTO = Build Transfer Operate

CAA = Civil Aviation Authority

CASA = Civil Aviation Safety Authority

CEO = Chief Executive Officer

CTS = Council for Trade in Services

FDI = Foreign Direct Investments

FIA = Foreign Investment Act

GACA = General Authority of Civil Aviation

GATS= General Agreement on Trade in Services

GCC = Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council)

EAA = East African Airways Corporation

GDP = Gross Domestic Product

IATA = International Air Transport Association

ICAO = International Civil Aviation Organisation

IFC = International Finance Corporation

INT = Interviews

KAIA = King Abdulaziz International Airport

KFIA = King Fahd International Airport

KIA = Kuwait Investment Authority

KKIA = King Khaled International Airport

KSA – Kingdom of Saudi Arabia

MEED = Middle East Business Intelligence magazine (formerly the *Middle East Economic Digest*); see www.meed.com

NAS = National Air Services

OIC = Organisation of Islamic Cooperation (prior to June 2011 named Organisation of the Islamic Conference)

NPM = New Public Management

PBUH = Prophet Mohammad, Peace Be Upon Him

PMIA = Prince Mohammed International Airport or Al Madinah International Airport

PPP = Public Private Partnership

Ryanair = Ryanair Limited Ireland – UK

SABIC = Saudi Basic Industries Corporation

SAGIA = Saudi Arabian General Investment Authority

SAS = Scandinavian Airline System

SARS = Severe Acute Respiratory Syndrome (SARS Virus)

SEC = Supreme Economic Council

SIDF = Saudi Industrial Development Fund

SOEs = State Owned Enterprises

STC = Saudi Telecommunications Company

SAUDIA (SV) = Saudi Arabian Airlines

WB = World Bank

WTO = World Trade Organisation

UAE = United Arab Emirates

YD = Yamoussoukro Decision

Chapter 1:

General Introduction

1.1. Introduction

This study contributes to the current research on civil aviation privatisation and liberalisation by critically examining the case of the Kingdom of Saudi Arabia. As Massey and Pyper (2005) have noted, one of the cornerstones of the New Public Management (NPM) is privatisation and the application of private sector techniques to improve the performance of poorly-managed public sectors. In this regard, privatisation and the encouragement of the participation of the private sector have become attractive policy instruments for policy makers in both developed and developing countries.

Recently, privatisation has become a theme of increasing relevance in the Kingdom of Saudi Arabia (KSA), as has been very clearly highlighted by its economic strategy of identifying various sectors that are to be opened up to participation by the private sector. In this context Saudi policy makers have been given the task of putting the necessary policies in place to encourage the private sector to contribute more effectively to the provision and production of various goods and services. The overall aim is to diversify the Saudi economy and reduce dependence on oil revenues as the main source of income. The tool for achieving this will be to increase private investments in service and non-oil economic sectors through the following procedures: encouraging competition and the privatisation of public projects, enterprises, and services; expanding self-sustainable direct investments; encouraging the management of public companies on a commercial basis; and creating an attractive environment for private investments by reviewing and harmonising all the laws and regulations governing both public and private practices.

Before going into the details of this subject and the structure of the study it is useful to outline briefly the socio-political, economic and legal climate in Saudi Arabia, and then, by focusing on the Saudi Civil Aviation sector, to indicate more precisely where the study might fit within the burgeoning networks of public policy scholarship.

Saudi Arabia is an Arab Islamic state, with Islam as its religion and the Qur'an and the Sunnah (traditions) of the Prophet Muhammad as its constitution. Arabic is the official language of the state and the capital city is Riyadh. Regarding the political system, the regime

in Saudi Arabia is a monarchy, in which the authority of the ruler and other political institutions is determined by the Qur'an and Sunnah, which supersede any other state laws. The monarchy represents the source of all political power, while the two other important bodies that influence the political system are the Council of Ministers, and the *Majlis al-Shura* or Shura Council (the Consultative Assembly). Within this political structure the Kingdom's main mechanisms of governance include justice, consultation (*shura*), protecting public property and private rights that perform social roles in conformity with *shari'ah*, and equality according to *shari'ah* (the moral code and religious law of Islam).

With specific regard to the civil aviation sector, the reform process began in March 2005 with the issuing of an Ordinance that transformed the former Presidency of Civil Aviation from a government department into an Authority – the General Authority of Civil Aviation (GACA). The authority is managed by an executive president and a Board of Directors, and its core mandate includes responsibility for the regulation of the KSA's air transport sector (the regulatory functions and the role of GACA are discussed in more detail in a later chapter). Since its creation GACA has taken various measures to facilitate the privatisation of Saudi Airlines and to encourage private sector participation in several service areas such as cargo, catering, and many other 'Build Operate Transfer' (BOT) projects. The civil aviation sector has included three private operators: National Air Services (NAS) (established 2006); Sama (established 2007); and Alwafeer Air (established 2009). In 2012 the regulatory agency invited private operators to submit bids for a fourth licence, as is explained later in the study.

1.2. Statement of the Problem and Research Questions

Privatisation is a key element of the KSA's shift towards economic liberalization and a host of sectors are being opened up to the private sector (Saudi Arabia Ministry of Foreign Affairs).¹ The Saudi economy is witnessing a major structural reform that will shift it from an economy that is centrally planned and dominated by the public sector to one that is market-driven. In line with developments worldwide, the Saudi Kingdom has embarked on a process of privatisation that includes a variety of economic sectors and state-owned enterprises. In this context, the Saudi Government has developed an official economic strategy that aims to increase private sector participation in all non-oil sectors of its economy, including transport and, in particular, the civil aviation sector. One of the most promising economic sectors in this

¹ See also for more details the website of the Saudi Ministry of Economy and Planning at www.mep.gov.sa (accessed 12/10/2009).

regard is the transport sector, which holds considerable potential for development and growth. However, the privatisation of what can be called ‘infrastructure industries’ in general, and the privatisation in particular of the civil aviation industry as one of the infrastructure industries is problematic. Unlike other economic sectors (for example, government-owned enterprises), privatisation in infrastructure industries has its particularities.

In this regard, the main research question asked by this study is “to what extent has the privatisation and liberalisation of the civil aviation industry in Saudi Arabia achieved the claimed benefits of transforming public utilities into private ownership?” This question raises other questions at both the theoretical and empirical levels. At the theoretical level, the study attempts to answer many questions about the nature of privatisation as a theoretical approach for reforming public sector organisations, and its relationship with wider reform policies and modernisation paradigms such as the new public management (NPM) movement. It also investigates the special features of privatisation programmes in infrastructure industries, since these differ from privatisation programmes in other sectors such as the state-owned enterprises sector.

A major theoretical concern of the study is to investigate the strategic factors that may or may not lead to the success of privatisation programmes in sectors such as civil aviation. Within such a theoretical framework, the study asks the following questions:

- What is privatisation? And what is the relationship between privatisation on the one hand, and New Public Management on the other?
- What is particular about the privatisation and liberalisation of civil aviation? And how does this differ from other forms of privatisation?
- What concerns should be taken into account when making policy decisions in this sector?

The theoretical framework developed in the first part of the study is used as an analytical guideline to study and assess the case of privatisation in the civil aviation sector of the Kingdom of Saudi Arabia. In this context, the aim is to answer the following empirical questions:

- What are the Saudi Government’s reasons for privatising the civil aviation sector?
- How have these intentions for the privatising the civil aviation sector been translated into policy actions?
- What are the main outlines of the privatisation policy in the Saudi civil aviation sector?

- How are important issues, including labour laws and health and safety, dealt with?
- Is there a clear regulatory framework for private sector participation?

1.3. Significance of the Study

This section provides an overview of the mainstream literature written on the privatisation and liberalisation of the civil aviation industry in general. In fact, compared with other economic sectors and infrastructure industries, there are relatively few studies dedicated to civil aviation at large, and it is important to note in this context that the focus of studies covering the civil aviation industry is quite varied. In other words, researchers sometimes refer only to specific sectors of the industry when discussing the world economy or the global air transport industry. Given these two general observations the body of literature reviewed was categorised into three main groups. The first focused on the experience of civil aviation reform in specific countries and regions, including Africa, Europe, and Asia. The second group was concerned with the impact on different economic and social aspects of the reform process, while the third group of studies focused on the global context of liberalisation and regulatory reforms of civil aviation sectors.

1.4. Research Methodology and Scope of the Study

This section concerns the way in which I set out to tackle the problems of data collection and data analysis in my research. Before discussing the research strategy, it is useful to define the term ‘research design’. According to Hakim (1997: 1) research design “deals primarily with aims, uses, purposes intentions, and plans within the practical constraints of location, time, money, and availability of staff.” In other words, identifying the research design is basically about answering a series of simple questions including “What I am going to study; why do I want to study it; what are the resources available to me in terms of financial, human, and time resources; what are the problems that I might face in studying this subject; and what are the solutions to these problems?” (this issues are explained in detail in Chapter 4).

To investigate the proposed research question this study used qualitative methodology. The main aim was to develop an understanding of the policy-making process, including the meaning of a certain form of behaviour from the perspective of the respondents being interviewed, and to locate that process within an understanding of the broader context in

which it occurs. The case study approach was chosen to investigate the extent to which the privatisation of the civil aviation industry in Saudi Arabia has achieved the claimed benefits of transferring public utilities into private ownership. The reason for choosing this approach was that it would help in answering important questions related to ‘how’ the Saudi government had proceeded in privatising this important sector, and ‘why’ it had chosen to follow certain policies to achieve its goals in this area.

The present situation in the Kingdom shows the need for empirical studies that try to illustrate the outcomes and impacts of government policies on specific sectors, such as civil aviation. For the purposes of this study, the justification for undertaking an in-depth investigation of that sector was the need to produce a sufficient amount of information and description regarding the way that policies and decisions are made. This type of information is rare because of the lack of systematic empirical analysis undertaken in such policy areas. This observation means that this research fills a gap at the empirical and theoretical levels.

Keeping in mind the shortcomings of the case study approach, the research attempted to reduce their effects on the results of the study. Regarding problems of generalisation, the study would not claim that its results can be generalised to other countries. However, the context of the Saudi liberalisation processes are explained sufficiently clearly to make it possible for other countries with similar conditions to benefit from the study. The serious treatment of the process of data collection and data analysis also helped in producing concrete rather than soft data. With regard to ethical concerns the researcher was issued with an ethical approval certificate, meaning that in designing and applying the different data collection tools, the appropriate ethical rules had been followed. Choosing to focus on a single case study (the Saudi case) and on one particular sector (the civil aviation sector) also helped in setting the boundaries for the case study. Finally, with regard to the effect caused by the presence of the researcher in the case study situation, this was not an easy problem to tackle. However, the researcher tried to remain objective and not to interfere with respondents or impose his personal views and interpretations on the analysis.

The data for this research was collected from primary and secondary sources. Primary data was collected through interviews with various informants from the industry, the regulatory agency and the ministry of civil aviation. Secondary data was gathered from government policy documents, and from books, journals and other articles relevant to the research question(s) posed. The ‘purposeful sampling’ technique was chosen to design the sample for

the study, and the process of choosing the sample involved mixing purposeful random sampling and 'Snowball' or 'Chain' sampling. Thus purposeful random sampling was used to select the key informants for interview; these were experts and decision-makers in the field of privatisation and civil aviation. The sample was completed by following the 'Snowball' or 'Chain' sampling technique, meaning that the key informants were asked to name some other people to participate in the study (Neal 2000: 249-265).

The sample consisted of 25 interviewees from the industry and the regulatory agency. Experts in the field of civil aviation were selected, the sample having been formed by contacting the informants in advance to seek their cooperation. They were sent e-mails and letters illustrating the objectives of the study and asking them to assist the researcher by fixing a date and a time for an interview. After receiving their responses a list of interviewees was drawn up, together with a timetable for interviews. Semi-structured interviews were used to collect data from the selected interviewees, first because this gave the researcher more freedom in directing the interview in the way that he wanted and enabled him to focus on the issues that were of most importance for him. Semi-structured interviews also allowed the respondents to speak freely and to reflect on their opinions, while giving more flexibility to the interview situation so that respondents would not feel as if they were being interrogated by being asked too many direct questions.

Conducting elite interviews is not easy since the interviewer must be aware in advance of an organisation's history as well as the respondents' backgrounds, to save their time as well as to use the time available to him efficiently. The researcher's training as a journalist made him aware of this issue and enabled him to make sensible use of the time in order to obtain the information needed for the study. In this respect, elite interviews represent an important tool for producing in-depth, high quality data about policy making, the way decisions are made, and the roles of the parties involved.

An interview questionnaire based on open-ended questions was also developed, in which the different aspects being investigated were mentioned (for details see Appendix 1). Developing this tool enabled the researcher to cover the various issues consistently and to produce reliable data from the collection processes. Interviewees' responses were anonymous, nor was any personal information disclosed, which meant they could answer the interview questions freely and without embarrassment or concern. They could also choose to answer off the record if

they wished. Finally, assurances were given that the data that was collected would not be used for any purpose other than scientific research within the framework of the present study.

The study was bound by two limitations, namely time and substance. In terms of time, the study was restricted to dealing with the topic during the specific period that existed between the Council of Ministers promulgating Resolution 90/2003 (when the Saudi Government planned to adopt an 'Open Skies' policy by granting licences to private airlines to provide domestic air transport services) and the 2011-2012 academic year, at which time the thesis was due for submission.

1.5. The General Plan of the Study

The study includes eight chapters. **Chapter One** is a general introduction which states the problem and the research question (s), explains the importance of the study, and outlines the methodological framework. It gives a brief overview of the main aspects of the research that are explored in more detail as the study progresses.

Chapter Two addresses the conceptual and theoretical bases of privatisation. It considers different definitions of privatisation and the theoretical debate as to how, why, and when to privatise public projects. Both theoretical and empirical literature on the topic is reviewed, including definitions of, and various scholarly perspectives on privatisation. The relevance of the issues discussed to the concerns of the thesis are underlined and examined.

The concept of privatisation is examined from an Islamic perspective in **Chapter Three**. The theoretical debate about public and private ownership in 'shari'a is scrutinised in light of the general role of the state and of private parties, as determined by law. Important questions are raised: what is the nature of ownership in Islam? Are Islam and privatisation compatible? How do scholars of Islamic policy interpret the relationship between public and private property? What are the roles and functions of the state according to Islamic tradition? Is private ownership allowed in Islam? Can public ownership be transferred to private ownership according to shari'a? These issues are considered based on sources including the Qur'an, the Hadith, and scholarly publications on the topic by Muslim authors.

The overall methodology of the study and the procedures followed in the collection and analysis of data are discussed in **Chapter Four**. The overall analytical methodology is explained by focusing on the case study approach, in order to show its suitability, as well as

its strengths and weaknesses, for the subject studied. The sampling process, data collection, and data analysis, in addition to other research design issues, are also examined.

Chapter Five gives an overview of the privatisation and liberalisation of civil aviation from a global perspective, which is important for placing the theoretical discussion of privatisation and liberalisation of civil aviation as well as the case study in a wider context. Several case studies in both developed and developing countries are examined, including the UK model, the experience of Kenya, and the example of the Gulf States. Based on these cases, the chapter reflects on the process of privatisation and liberalisation in civil aviation sectors.

Chapter Six introduces an empirical analysis of the liberalisation and privatisation of the Saudi civil aviation sector. It provides additional background information about the Kingdom before studying and analysing the liberalisation and privatisation of that sector. This is important for understanding the issues discussed in the wider context of the overall transformation of the country. In other words, to understand recent transformations in the KSA, it is necessary to understand the Kingdom's general set-up, including the socio-economic, legal, and political context. Focus is given to the privatisation programme, to highlight the main issues and underline the core changes in other economic sectors before discussing the civil aviation sector itself.

An analytical chapter focuses on the liberalisation and regulatory reforms of the civil aviation sector. In **Chapter Seven**, following an overview of the sector, the regulatory and legislative reforms and the resultant institutional changes in the civil aviation industry are discussed. Privatised projects are examined, and the pros and cons of each are indicated. The liberalisation of the market and the performance of the new private service providers is assessed, the challenges facing the private sector in this regard are explained, and the necessary solutions for improving competition in the market are investigated. The chapter also provides an overall evaluation of the liberalisation and regulatory reform process in the Saudi civil aviation sector. These discussions and analysis build on the analysis of official and company documents along with the material collected during the interviews.

Based on the theoretical and empirical study of the civil aviation sector **Chapter Eight** concludes with some policy recommendations on improving the privatisation process and gives suggestions for the direction of future research in this important area.

Chapter 2:

Literature Review and Theory of Privatisation

2.1. Introduction

Since the early 1980s privatisation has become a central feature of economic policies in both developed and developing countries. Privatisation programmes began by focusing on state-owned enterprises (SOEs), which were owned or controlled by governments. As these programmes evolved, some governments developed incentives to pursue more ambitious plans in order to emulate the experience of developed countries, to respond to conditions laid down by international banks, and to address general discontent about the performance of state-owned firms.

Despite the growing experience of privatisation, many concerns remain regarding the concept and its implementation in different cultural and political settings around the world. The aim of this chapter is to address the various theoretical and empirical issues related to privatisation, through reviewing some of the considerable body of theoretical and empirical literature on the topic. The first part of the chapter reviews the definitions of privatisation. The second explores different scholarly perspectives on privatisation, and discusses the views of leading authorities and their applicability to the concerns of this thesis.

2.2. The Meaning, Forms, and Objectives of Privatisation

Privatisation is a complex topic. Parker and Kirkpatrick (2003) have noted that the term 'privatisation' has been used to cover an array of different policies, and that the different perspectives adopted by authors means they define privatisation in various different ways. Some scholars use the term to refer to the selling of state assets, namely state-owned enterprises (SOEs). The following definitions are examples of this trend:

- "Privatisation is the transfer of the state-owned business to private control" (Soyebo *et al*, 2001).
- "Privatization is a two-fold process: first, it is a change from public ownership to a private one, and secondly, it comprises the reduction of public domination" (Jager, 2001:6).
- Privatisation "refers to the sale of all or parts of a government's equity in state owned enterprises to the private sector" (Ramamurti, 1992: 225).

- Privatisation is “the transfer of productive assets from the state sector to the private sector” (Parker and Kirkpatrick, 2003: 50).
- “Privatization implies permanent transfer of control, whether as a consequence of a transfer of ownership right from a public agency to one or more private parties or, for example, of a capital increase to which the public-sector shareholder has waived its right to subscribe” (Guislain, 1997: 10).

All these definitions focus on one thing; that privatisation entails the transformation of state-owned enterprises into privately-controlled ones owned by a group of shareholders. The practice and the experience of privatisation have also shown that there are other more general meanings to this concept than the simple selling of SOEs.

For instance, Hartley and Parker (1991:11) have defined privatisation as “the introduction of market forces into an economy in order to make enterprises work on a more commercial basis”. From this viewpoint, privatisation includes several strategies such as denationalisation or the selling-off of state owned assets, market deregulation, market liberalisation, competitive tendering, and the introduction of private ownership and market arrangements.

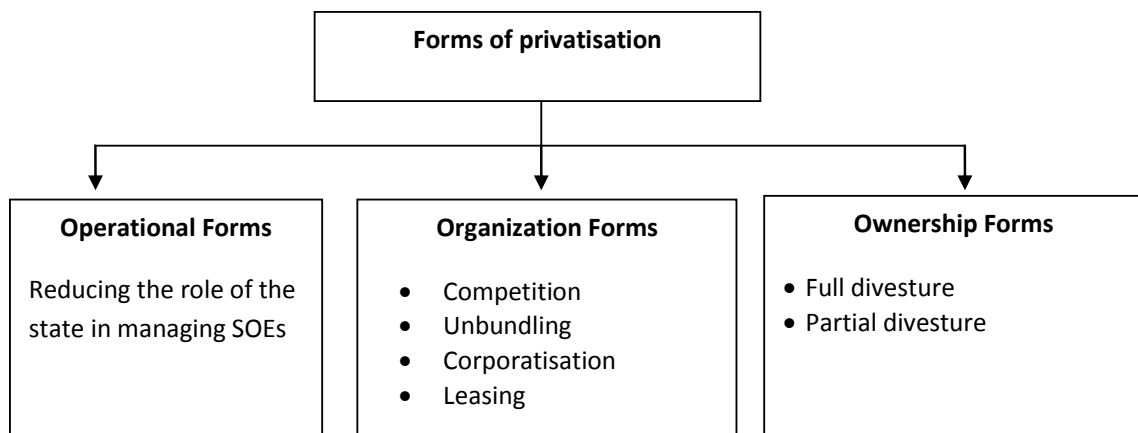
From the same general perspective, Boycko *et al* (1996: 310) refer to privatisation as a combination of the reallocation of control rights over employment from politicians to managers, and the increase in cash flow ownership of managers and the private investor. Similarly, Spindler (2003:4) has defined privatisation as transforming predominantly bureaucratised economic systems into predominantly market-oriented economic systems.

In other words, privatisation in its general meaning includes a range of different policy initiatives intended to change the balance between the public and the private sector and the services they provide. In this sense, privatisation may include any measure that results in the temporary transfer to the private sector of activities exercised up to that point by a public agency. Such a definition therefore also covers: subcontracting, management contracts, the lease of SOE assets, and concessions (see Guislain, 1997).

In subcontracting, the public agency that previously conducted the activity subcontracts its execution to a private company. This subcontracting can cover an entire public service or only part of the activity. Management contracts imply a temporary transfer of management responsibility without transfer of ownership or real transfer of control. Such contracts may or may not be of a performance-based nature. The government can also use lease-and-operate contracts for the equipment or assets of the SOEs. Finally, a concession contract may be given to the private sector, as is the case in infrastructure sectors with monopolistic characteristics.

The above definitions of privatisation suggest that in practice the application of this concept may take different forms. Narain (2003: 297-304) offers three forms of privatisation. First is the implementation of privatisation through operational measures without loss of ownership. The second involves the implementation of privatisation through measures by the organisation. The third form implies that privatisation can be implemented by way of ownership measures (Figure 2.1). As the figure shows, there are different forms of privatisation at different operational, organisational, and ownership levels.

Figure 2.1: Forms of Privatisation



Operational measures:

This form of privatisation implies that the role of government in public enterprises is reduced, in order to increase performance efficiency in such enterprises. Ramanadham (1989) has noted that operational measures represent very meaningful measures of privatisation. The options for companies are quite varied, and range between contracting out (where companies decide to acquire an input across the market) and presenting reward systems similar to those in private companies. In this regard, Andrisani and Hakim (2003:16) have identified the following factors for the selection of services to be contracted out:

1. A clear and precise definition of expected output(s) with measurement of quantity and quality of service. Thus, the contract should clearly state the terms that the contractor needs to satisfy.
2. A competitive environment with multiple providers.
3. Monitoring by government should be of low cost. Savings from contracting out should be higher than the contract bidding and monitoring (enforcement) costs.

4. Government must be prepared to pick up the delivery of services if the contractor fails before the contract expires.
5. An explicit definition of the population and/or geographic area to be served.
6. Choosing services which entail a low probability of changing conditions which will affect costs.
7. Government monitoring should be effective, but should not be so stringent as to smother the contractor.

Companies should also follow proper investment criteria or price principles. Target setting as a proxy exercise for public employees before exposing them to market forces is also an option. Dependence on the capital market for securing the necessary funds is an important factor. Last but not least, reform of the overall control system of government over public enterprises should be undertaken.

Organizational measures:

This form of privatisation has four sub-branches, including:

- a) Permitting competition: this method implies introducing competition for the purpose of eradicating a monopolistic hold. This method is considered a deliberate policy intended to promote the rate and quality of productivity. Competition is a very recent method that has been adopted in most industrial countries. It comprises pricing, quality, and innovation, and is therefore an appealing policy for privatisation representatives.

To achieve competition, a monolithic organisation can be subjected to two kinds of organizational changes: it can be broken into smaller units without losing economies of scale; or alternatively, major product lines or regional operations may be converted into independent companies.

- b) Unbundling: Privatisation here includes the dismantling of public enterprises into functional units. It is applied in the case of privatizing utilities that are administered under monopoly.
- c) Corporatisation: This form is based on the transformation of public enterprises into public joint-stock companies, so that they can be administered by market imperatives and issues of profitability.

- d) Leasing: This is a compromise between complete privatisation and absolute government control. The facilities of the enterprises are leased to the private sector (Ramanadham 1989).

Ownership measures:

This method of privatisation is conducted in most parts of the world. It can be explained as the change from public ownership to private ownership. This trend is divided into:

- a) Full divesture: In this division, the government sells its complete interest in public enterprises to private interests. This is done through auctions to investors.
- b) Partial divesture: Here there are two situations. In the first, the government possesses the majority of shares but leaves some shares for the private interest. In the second situation, private investors possess the majority of shares with the government holding a minority interest.

In addition to these forms, Savas (2000) mentions other forms of privatisation. These are:

Franchising: In this case the Government awards an exclusive or non-exclusive right to a company to provide a service in a restricted geographical area. In this sense franchising may take one of the two following forms: the use of the public domain by a private firm to conduct commercial activities; or the use of a government-owned property by a private lessee.

Grants/Subsidies: Governments may introduce grants to prompt private organisations or individuals to undertake certain projects, such as the Arts. Subsidies can also be granted to assist in cases of low-income housing, for research, and to encourage the private sector to grow within specific zones. Compared to contracts grants and subsidies, this form of privatisation usually leaves more discretion to the recipients.

Vouchers: Vouchers are a form of subsidy directed at the consumers rather than the suppliers of a service. In this case, the recipients buy the products or service in the market place, using governmentally-provided or -subsidised vouchers. Vouchers are currently used to provide food, education, health and housing to those who qualify.

Public-private partnership: This type of privatisation is most common in infrastructure industries. In this form, governments enter into a joint venture with the private sector to build new projects or extend existing ones.

Joint ventures between government and the private sector can take one of the following forms:

- a) A facility that is operated and maintained by a private company but owned by the government. The investment is made or financed by government, while a private company designs, contracts, operates, and maintains the facility;
- b) A private company finances, develops, operates, and maintains an addition to an already existing public facility. The private partner can operate both parts for a specific period of time or until the initial investment and a reasonable return on the investment is recovered.

Added to this, a publicly-owned facility may be leased for a long term to a private investor on condition that he develop, operate, and improve such a facility. An existing public facility is transferred to a private company for renovation and operation for a specific period of time, or until the investment and returns on the investment are recovered. An example of this would be a bridge whose condition has deteriorated and requires repair and maintenance, for which the public agency lacks the necessary resources. (Guislain 1997, Savas 2000)

Among these public-private forms of partnership the following are of prime importance:

- Buy-Build-Operate (BBO): in this form of partnership the government exercises control over safety, environmental effects, pricing, and quality of service, while ownership is reserved for the private partner.
- Build-Transfer-Operate (BTO): is a partnership in three steps: (1) a private company finances and builds the facility; (2) the private company transfers the project to the government; and (3) the government then leases the project to the private partner which operates it. The difference between BTO and BBO is that in the former case the governmental entity legally owns the facility. By leasing from the government, the private firm avoids a number of legal, regulatory and tort liability problems.
- Build-Operate-Transfer (BOT): in this case, the private partner transfers the ownership of the project to the government after financing, building, owning, and operating it for a specific period of time, until the investment and a return on the investment are recovered.
- Build-Own-Operate (BOO): this form of public-private partnership allows the private partner an unlimited time of ownership. By doing this it gives the private company the incentive to invest further in the facility, after financing, building, owning, and operating it in the first place. The private company may, however, be subject to price and quality regulations (Savas 2000: 250-252).

With regard to the objectives of privatisation, it has been noticed that in most cases privatisation programmes have different interrelated, and sometimes contradictory, economic, social, and political objectives. Guislain has summarized these objectives as follows:

Economic objectives at the macro level:

- Create a market economy – the key objective in economies in transition;
- Encourage private enterprise and expansion of the private sector in general;
- Promote macroeconomic or sectoral efficiency and competitiveness;
- Foster economic flexibility and eliminate rigidities;
- Promote competition, particularly by abolishing monopolies;
- Establish or develop efficient capital markets, allowing better capture and mobilization of domestic savings;
- Improve access to foreign markets for domestic products;
- Promote domestic and foreign investments;
- Promote integration of the domestic economy into the world economy;
- Maintain or create employment.

Economic objectives at the enterprise level:

- Foster efficiency of the enterprise and its domestic and international competitiveness;
- Introduce new technologies and promote innovation;
- Upgrade plant and equipment;
- Increase productivity, including utilization of industrial plant;
- Improve the quality of the goods and services produced;
- Introduce new management methods and teams;
- Allow the enterprise to enter into the domestic and international alliances essential to its survival.

Budgetary and Financial objectives:

- Maximize net privatisation receipts in order to fund government expenditure;
- Reduce taxation, trim the public sector deficit, or pay off public debt;
- Reduce the financial drain of the SOEs on the state (in the form of subsidies, unpaid taxes, loan arrears, guarantees given, and so on);

- Mobilize private sources to finance investments that can no longer be funded from public finances;
 - Generate new sources of tax revenue;
- Limit the future risk of demands on the budget inherent in the state's ownership of businesses, including the need to provide capital for their expansion or to rescue them if they are in financial trouble;
- Reduce capital flight abroad and repatriate capital already transferred.

Income Distribution or Redistribution objectives:

- Foster broader capital ownership and promote popular or mass capitalism;
- Develop a national middle class;
- Foster the economic development of a particular group (ethnic or other) in society;
- Encourage employee ownership;
- Restore full rights to former owners of property expropriated by previous regimes;
- Enrich those managing or implementing privatisation projects.

Political objectives:

- Reduce the size and scope of the public sector or its share in economic activity;
- Redefine the field of activity of the public sector, abandoning production tasks and focusing on the core of governmental functions, including the creation of an environment favourable to private economic activity;
- Reduce or eliminate the ability of a future government to reverse the measures taken by the incumbent government to alter the role of the state in the economy;
- Reduce the opportunities for corruption and misuse of public property by government officials and SOE managers;
- Reduce the grip of a particular party or group on the economy;
- Raise the government's popularity and its likelihood of being returned to power in the next election (Guislain 1997: 18-19)

In conclusion, the major privatisation methods can be summarised as presented by Ascher (1987) as follows (Table 2.1):

Table 2.1: Methods of Privatisation

Method	Example
Selling the whole	Amersham International
Selling complete parts of the whole	British Petroleum
Selling a proportion of the whole	National Fright Corporation
Selling to work force	British Telecom discount
Giving to public	Hoverspeed
Giving to work force	NHS prescription charges
Charging for the service	Local authority and NHS services
Contacting out	Road funding
Diluting the public sector	Council house sales
Buying out existing interest groups	Aviation (CAA)
Deregulation via voluntary associations	University of Buckingham
Encouraging alternative institutions	Free ports
Making small scale trials	Bus and coach services
Repealing monopolies	Social security (private pensions)
Encouraging exit from state provision	Transport tokens
Vouchers	Private searches
Curbing state powers	British Gas
Divestment	Hospitals
Applying liquidation	Quango activity
Withdrawal Right to private substitution	The right to repair

Source: Ascher (1987: 6)

2.2.1. Privatisation and the New Public Management (NPM)

Despite the differences between ‘privatisation’ and ‘NPM’, both are sometimes used to refer to the same thing. In this section the relationship between these two concepts will be illustrated. To do this, the meaning of NPM and its core components will first be highlighted to establish where exactly privatisation lies within the NPM framework.

NPM is a broad and complex term used to describe the wave of public sector reforms occurring from the end of the 1970s and during the 1980s. A review of the literature suggests that NPM is not a homogenous whole. Rather, it has several, sometimes overlapping elements representing trends in public management reform (Larbi, 1999). As Barzelay (2002) notes, the NPM movement started as a conceptual device aimed at organising debate and discussion among scholars, with regard to reform approaches and measures taken to improve the performance of government organisations. NPM as a field of discussion is thus rooted in that of systematic management and policy analysis (Barzelay, 2001: 157).

In this regard, Pollitt and Bouckaert (2004) have noted that NPM is claimed to assemble multi-disciplinary features, including public administration, accounting, economics and public policy. Therefore, the way in which this concept is defined depends on specialists. For

example, scholars of public administration tend to focus on the relationship between NPM and other administrative aspects such as budgeting, financial management, procurement, organisation and methods, and audit and evaluation. Accountants, on the other hand, are mainly concerned with management control and performance measurement for government organisations. At the same time, the main concern for public policy students is how NPM affects the processes of policy-making and implementation.

Focusing on public administration and public policy accounts, several definitions of NPM can be presented. At a general level, the term NPM is used to denote a wave of public sector reforms in the UK and New Zealand that started in the 1980s and gained momentum during the 1990s. The main purpose was to create a performance-oriented culture in a less centralised public sector (Mathiasen, 1999).

Barzelay (2001) has noted that NPM is a field for discussion, mainly about policy interventions within executive government. Institutional rules and organizational routines are the feature instruments of such interventions. These instruments affect different areas, including expenditure planning and financial management, the civil service and labour relations, procurement, organization and methods, and audit and evaluation; they also exercise a pervasive influence over many kinds of decisions made within government.

In his article “A public management for all seasons?” Hood (1991) describes new public management as a doctrine, or at least as a label, for a set of administrative doctrines which are identified as “new”. In its classic formulation, NPM has been discussed by a number of scholars (Clarke and Newman, 1993; Walsh, 1995; Metcalfe and Richard, 1990; Pollitt *et al*, 1998; Osborn *et al*, 1995), who claim that it consists of seven doctrines:

- (1) a stress on private styles of management and their supremacy;
- (2) a focus on hands-on entrepreneurial management, as opposed to the traditional bureaucratic focus of public administrators;
- (3) clear standards and measures of performance;
- (4) a stress on output controls;
- (5) the importance of disaggregating and decentralising public services;
- (6) promotion of competition; and
- (7) promotion of discipline and parsimony in resource allocation.

These transformations have been summarised by Larbi (1999: 12) who says that:

The ideas and themes about NPM may be put in two broad strands. On the one hand are ideas and themes that emphasize managerial improvement and organizational restructuring, i.e., managerialism in the public sector. These clusters of ideas tend to emphasize management devolution or decentralization within public services. On the other hand are ideas and themes that emphasize markets and competition. It should be pointed out, however, that these categories overlap in practice. They should therefore be seen as a continuum ranging from more managerialism at one end (e.g., decentralization and hands-on professional management) to more marketization and competition at the other (e.g., contracting out).

In this sense, Larbi (1999: IV) notes that NPM reform shifts the emphasis from traditional public administration to public management by focusing on key elements, such as the decentralization of management within public services (e.g., the creation of autonomous agencies and devolution of budgets and financial control); an increasing use of markets and competition in public services provision (e.g., contracting out and other market-type mechanisms); and an increasing emphasis on performance, outputs and customer orientation.

In other words, the focus of NPM is mainly on creating an institutional and organizational context which, as much as possible, mirrors the critical aspects of private sector modes of organizing and management. The most important among those critical aspects is the construction of market mechanisms, so that contracts, rather than hierarchy, become the dominant means of control (Dawson and Dargie, 2002: 35).

As a result, NPM can be understood as implying an emphasis on contract management, the introduction of market mechanisms into the public sector, and linking pay to performance. The main purpose is to create a performance-oriented culture in a less-centralised public sector (Mathiasen, 1999). In order to achieve this, NPM focuses on the following areas:

- results in terms of efficiency, effectiveness, and quality of service;
- The replacement of highly-centralised hierarchical structures by decentralised management, where decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other stockholders;
- The flexibility to explore alternatives to direct public provision and regulation;
- Efficiency in the services provided directly by the public sector, involving the establishment of productivity targets and the creation of competitive environments within and among public sector organizations;

- The strengthening of strategic capacities at the centre to guide the evolution of the state and allow it to respond to external changes automatically, flexibly and at least cost.

In theory, NPM emphasises the modernisation of government organisations towards outcomes and efficiency. Such a reform can be achieved through competition, a visible market, a strong preference for privatisation, and the separation of politics from administration. In other words, the criteria for evaluating the performance of public organisations have changed. In contrast to traditional public administration, NPM focuses on the outputs and the outcomes of the administrative processes, rather than focusing on the control and the technicalities of these processes.

The theoretical roots of NPM can also be traced in some other accounts, such as rational choice theory and cultural theory. Public choice schools of thought, such as the Virginia School, the Chicago School, and the Austrian School have emphasised the supremacy of market mechanisms and market-based solutions to the problems of public service delivery (see Massey and Pyper, 2005: 31-35). According to this view, motivated by their incentive structures, people can decide via market mechanisms as to which services are to be delivered and in what form.

At a more philosophical level, NPM is deeply rooted in capitalist traditions, as reflected in many of the New Right accounts of political economy and public administration (see Denham 1996). In his *Think Tanks of the New Right*, Denham reviewed the mainstream publications of the UK's major New Right think tanks, such as the Institute for Economic Affairs, the Adam Smith Institute, the Centre for Policy Studies, and others. This review shows that reform programmes including NPM set out by governments, such as the Conservative government in the UK during the 1980s and the 1990s, were in fact products of a long journey of deliberation by scholars from different liberal and neo-classical backgrounds. These scholars held specific theoretical and philosophical assumptions about the role of the state in society and how states should practise this role through their governments. Generally the argument was for a limited role for state intervention in the handling of economic and social affairs, and for a greater role for market mechanisms and for the private sector in service provision and the production and distribution of goods (see also Kandiah and Seldon 1996).

This line of thought was consistent with the 'individualist view' of life presented in Douglas's cultural theory. Hood (1991) proposed that this theory could be useful in the study of public

administration. According to the individualist view of the world (characterised by ‘low grid’ in terms of the rules that constrain people’s behaviour, and ‘low group’ meaning a low level of group traditions concerning the way people take decisions), it was market approaches, rather than hierarchical, egalitarian, or fatalist approaches, that best served people’s needs and achieved the required efficiency and effectiveness.

In order to give some structure to the abstract conception of NPM, and in an attempt to link it with policy, science and practice, Barzelay (2001) has identified two main elements of this concept: ‘process’ and ‘substance’. The first refers to the political and organisational processes through which policy change occurs. The key analytical issues of this element are to estimate the feasibility of policy change, and to craft lines of action to satisfy the situation’s specific requirements of policy entrepreneurship. These processes are influenced by both institutional and non-institutional factors. Policy dynamics can be analysed in terms of specific mechanisms and patterns through which policy-making processes operate.

By ‘substance’, Barzelay means discussion about the advantages and disadvantages of various combinations of institutional rules and routines within specified contexts:

Analysis is best regarded as a process of argumentation, for two reasons. First, policy conclusions – even retrospective, evaluative ones – are supported by beliefs about government that are plausible rather than definitively true. Second, analysis takes place in a dialectical context where disagreement arises because of the variety of beliefs, expertise, and interests that are relevant to the choice of management controls in government (Barzelay 2001: 158).

Taking into account the previous discussion, NPM can be regarded in a more practical and pragmatic sense as a rational response to some of the pressures with which governments are faced. Such pressures, which were identified by Borins (1995), include:

- Too large and expensive a public sector;
- The need to utilise information technology to increase efficiency;
- The demand by the public for quality services;
- The collapse of the centrally planned economic systems which underscore the poor performance of government services worldwide; and
- The quest for personal growth and job satisfaction by public sector employees.

In response to such pressures, some common reform themes were designed to achieve results-oriented administration, devolved authority, the provision of flexibility, performance control and accountability, the development of competition and choice, the provision of responsive

service to citizens, an improvement in the management of human resources, the exploitation of information technology, an improvement in the quality of regulation and the strengthening of steering functions at the centre (OECD, 1995:28).

In order to summarise this discussion, and before discussing the relationship between the NPM and privatisation, it may be helpful to refer to Barzelay's (2001) contribution. According to him, if scholars and policy-makers are to benefit fully from previous work on NPM, they need to be familiar with the way in which this field of discussion has evolved.

In this regard, Barzelay distinguishes between three types of NPM: NPM1, NPM2 and NPM3. NPM1 refers to discussions taking place within governments, such as those that took place within the New Zealand Treasury in the 1980s and were presented in its post-election briefing, 'Government Management'. NPM2 refers to professional commentaries, such as Osborne and Gaebler's *Reinventing Government* (1992), illustrated by publication of the OECD's 'Public Management Service'. Academic scholarship represents the third form NPM3.

Based on this distinction, Barzelay (2001: 159-160) has presented the following observations regarding the origin and evolution of NPM:

- The concept of New Public Management originated in NPM3. NPM was initially characterized as an international trend. The essence of the trend was distilled from an array of specific ideas about management and government drawn from NPM1 and NPM2. An influential account identified two paradigms of ideas: public choice and managerialism.
- The main empirical referents of the trend were the United Kingdom, Australia, and New Zealand in the 1980s.
- In professional and academic discussions, countries in which public management policy change was less than comprehensive were labelled as "laggards".
- The notion that NPM is a widely applicable blueprint for the organizational design of the public sector is commonplace in professional discussions of NPM2.
- Some scholars in continental Europe argue that NPM is an Anglo-American model whose relevance outside its core cases is highly questionable.

The economic, social, political and technological drivers for the widespread expansion of the NPM reforms have been identified by Larbi (1999: 2-6) as:

- Fiscal crises, which triggered the quest for efficiency and for ways of cutting the cost of delivering public services.

- The crisis of the welfare state, leading to questions about the role and institutional character of the state.
- In the case of most developing countries, reforms in public administration and management have been driven more by external pressures and have taken place in the context of structural adjustment programmes.
- The ascendancy of neo-liberal ideas from the late 1970s and the development of information technology.
- The growth and use of international management consultants as advisers on reforms.
- Lending conditionality and an increasing emphasis on good governance.

Since NPM includes ways of commercialising public activities, it has been argued that the concept has developed out of the best practices of the private sector (see Osborne and McLaughlin, 2002). The experiences of many countries which have different economic, institutional, and governance environments show that new management techniques and practices involving market-type mechanisms associated with the private for-profit sector, are being used to bring about changes in the management of public services (see Osborne and McLaughlin, 2002). Hence, the relationship between privatisation and NPM can be understood as the latter representing the wider framework within which privatisation programmes take place. In this sense, NPM is not just about selling state assets or transforming public ownership to the private sector. It also includes other reform approaches that aim at changing the culture of public organisations and the way in which public managers think and act (for more details see Massey and Pyper 2005: 81-84).

The NPM seeks new demarcations in relations between the public and private sectors. The new instruments, such as contracting out and privatisation, require new structures of relationships and a new distribution of responsibility between public and private actors. The main role of government is to work as a buyer and to decide which service or product is to be provided by the private actors, under what conditions, and with what level of quality.

In order to tackle this task, governments should clearly specify qualifications for the outputs or policy goals that need to be achieved, and should monitor and evaluate performance through mechanisms to follow up the process of implementation. Clear and obvious goals and specifications are very important prerequisites for the monitoring and evaluation process. At the same time, an effective monitoring and evaluation system is crucial, especially if one takes into consideration the probability that contractors might deviate from what has been

stated in their contracts in order to achieve greater profits. In addition, there is the possibility that service providers may behave in opportunistic ways.

2.2.2. Why privatisation? Historical background and explanatory factors

The privatisation of public services to reduce costs and improve quality has a long history. As noted by Al-Najjar (2005), the notion of privatisation can be traced back to the 14th century historian Ibn Khaldun, who wrote in his famous book *Al Muqqadimah* that politics and trade should not be mixed and that the state should not interfere in economic life. His justification was that the state always had different sources of power which made it superior to other economic players. Therefore, neither the state nor the ruler should be involved in practising economic activities.

Along similar lines, Adam Smith (1776) argued in *The Wealth of Nations* for a minimum role of the state in economic activity and identified four conditions under which governments could intervene in the marketplace: (1) public goods; (2) externalities; (3) natural monopolies; and (4) products or services with zero marginal cost.

The notion of privatisation appeared later on in the writings of other scholars who focused on different aspects of this concept. However, the common element in all of them was that the private sector was more efficient and effective in practising economic activities than the state and the public sector. Andrisani and Hakim (2003) have pointed out that Peter Drucker (d. 2005), the Austrian-born management thinker, was the first to suggest the contracting out of local services to private companies.

The election of Margaret Thatcher in 1979 as Prime Minister was a turning point in the history of privatisation. By 1980 many municipal services were already contracted out in Great Britain, signalling the way to the rest of the world. In the following decade a host of SOEs were privatised, including British Petroleum, British Aerospace, Jaguar, Rolls Royce, the National Freight Corporation, Cable and Wireless, British Airways, British Gas, British Telecom, and several water and electric utility companies. In addition, public housing was sold off to its residents. In fact this major Conservative policy simply copied certain local American practices in places like Southern California, where services like rubbish collection were contracted out (see Ascher 1987).

This line of thinking was a reflection of the poor performance of public organisations that followed the widespread nationalisation movement all over the world. Commenting on these phenomena Pierre Guislain pointed out that:

The current wave of privatization follows a long period characterized by nationalization and growth of the size of the public sector in the economy. Like today's privatizations, these nationalizations took place in practically every area of economic activity and in a great majority of countries. The United States is among the few countries that was only marginally affected by this trend (1997: 17).

According to Guislain (1997), the worldwide explosion of privatisation programmes at a pace that would have been hard to predict only ten or fifteen years previously could be explained by several factors. One major reason was the disappointing performances of SOEs in many countries. Many of these companies and organisations were notoriously inefficient and managed to survive only through various forms of subsidy, such as tariff protection against competing imports, preferences in public procurement, exclusive rights, preferential access to credit (often from state-owned banks) government guarantees, tax exemptions, and public subsidies.

In their study of SOEs and privatisation in Korea, Kim and Chung (2002) note that the performance of SOEs over the last 30 years had been disappointing and that there had also been doubts about their privatisation. Policy makers around the world were faced with few SOE policy options at a time when their performance was causing not only administrative headaches but also political nightmares. The situation was similar in Korea, where a sizeable SOE sector had underperformed and the government was hard-pressed to find solutions to enhance their performance prior to the privatisation program. In this context, SOEs were seen as stifling the local private sector and fostering economic stagnation. They suffered from frequent interference by governments and bureaucrats who wished to achieve certain political objectives, and were also used as a redistribution mechanism for income in favour of the well-off in society.

Budget deficits and public finance crises were other important explanatory factors for the transformation towards privatisation (see also Massey and Pyper, 2005). In this regard, Guislain observed that:

The state no longer has the financial resources either to offset the losses of SOEs or to provide the capital increases necessary for their development. Privatisation can be the answer, as illustrated by the

United Kingdom, where in 1981 SOEs that have since been privatized cost the treasury £50 million a week; these same companies now contribute £55 million a week in taxes (1997: 7).

Another important factor that encouraged privatisation in many countries was rapid change in the international economy. In a global economy where companies were required to form alliances and to adopt flexible strategies to respond to the challenge of globalisation and technological innovations, the SOEs appeared to be very poor at coping with these changes. They were unable to perform flexibly to survive in a rapidly changing economic environment.

Regarding certain industries, the reason behind state intervention in the infrastructure sectors no longer exists, although for a long period, these industries were regarded as natural monopolies that were best managed by the state. A natural monopoly is said to occur, according to DiLorenzo (2011), “when production technology, such as relatively high fixed costs, causes long-run average total costs to decline as output expands. In such industries, the theory goes, a single producer will eventually be able to produce at a lower cost than any two other producers, thereby creating a ‘natural’ monopoly.” And as noted by Depoorter (1999: 498)

The concept of natural monopoly presents a challenging public policy dilemma. On the one hand a natural monopoly implies that efficiency in production would be better served if a single firm supplies the entire market. On the other hand, in the absence of any competition the monopoly holder will be tempted to exploit his natural monopoly power in order to maximize its profits.

In spite of the awkward dilemma of natural monopolies, there are still many reasons behind the belief of several of the major players that the huge amount of investment required to run these industries cannot be provided by the private sector. In addition, because of their strategic and vital nature, any fault occurring in some of these industries, such as water and sanitation, is likely to cause great public concern. However, technological advances in various fields have rendered the natural monopoly feature obsolete, and today many infrastructure industries are open to competition. Indeed for some, natural monopoly is no more than a myth (DiLorenzo 2011).

Added to the reasons mentioned above concerning the transfer of public ownership to the private sector, there was also a growing demand by private investors to participate in

providing services and making products in different economic sectors. In other words, private capital saw windows of opportunity through which to invest and to profit.

2.3. Perspectives on Privatisation

Privatisation represents a wide area for different kinds of researches and studies from different fields. Reviewing many of the previous studies in this area, seven theoretical perspectives can be identified. At the conceptual level, many studies, including Kent on entrepreneurship and the privatising government, and Dieter's work (1991) on the theoretical treatment of privatisation have examined the definitions, reasons, motivations and future of privatisation.

2.3.1. An Economic Perspective: Privatisation and Performance

From an economic perspective, scholars such as Bouin and Michalet (1991) in *Rebalancing the Public and Private Sectors*, and Ramamurti and Vernon (1991) in *Privatization and Control of State-owned Enterprises* have tried to show the impact of government intervention on the economic system and its effect on the equilibrium between the public and private sectors.

The core argument of many of these studies is that privatisation has positive impacts with regard to cost efficiency and the productivity of privatised companies. Private enterprises employ extensive research on production techniques and marketing strategies that directly affect production efficiency. However, the counter argument is that practical evidence does not find private firms to be necessarily more cost efficient than public ones. For example, with respect to cost efficiency Vickers and Yarrow (1988) did not find any evidence of clear-cut superiority of private to public ownership.

Many other economic arguments have been presented to indicate the positive impacts of privatisation on profits, subsidisation, taxation, and government revenues. From this angle, the failure of public enterprises to make profits is the real impetus behind privatisation. However, the reasons behind that failure must be borne in mind. These are summarized by Gogkur (1996) as being unclear, multiple and contradictory objectives, bureaucratic interference, overly-centralized decision-making, managerial ineptitude, excessive personnel, high labour turnover, and price controls. So, if these failures were corrected, there would be potential for profit-making without privatisation. As for subsidies, it has been claimed that

privatisation will help to direct resources away from subsidising state-owned enterprises. This would be achieved through the reallocation of public resources used previously to subsidise state-owned enterprises.

With respect to the impact of privatisation on government revenues and taxation, arguments for privatisation show that it will lead to a reduction in government spending as well as a reduction of taxes. With privatisation, public sector borrowing is reduced. Privatisation will also lead to a reduction in taxation. This line of argument has been criticized on the grounds that if severe budget constraints are established, privatisation is not essential. It also assumes that the proceeds will feed into one basket without making allowances for restructuring or for the modernisation of industry. This is a dangerous way of thinking.

2.3.2. A Political Perspective on Privatisation

Privatisation has also been examined from a political perspective as a political choice. Two studies in 1993, M. M. Dobek's, "Privatization as political priority", and Peter's "The Public-Private Choice: the Case of Marketing a Country to Investors" are good examples of research conducted in this area.

From a political viewpoint, some authors argue that following the privatisation route will lead to the de-politicization of management and will make public managers more accountable. Since managers of public enterprises were often politically appointed, they were required to meet defined objectives rather than to ensure profit maximization. In addition, in cases of unsatisfactory performance, these managers tended not to be threatened with the sanction of dismissal.

Thus, lack of accountability is one of the most frequently voiced arguments in favour of privatisation. From a developmental viewpoint, privatisation has been dealt with as a means of guaranteeing the effectiveness and efficiency of public enterprises in playing their role in the development process. These trends have been studied by Taïeb Hafsi in his *Strategic Issues in State-Controlled Enterprises* (1989).

2.3.3. A Social Perspective: Privatisation and Labour Adjustment

Despite its importance, labour is the least addressed issue in privatisation. As noted by Gupta *et al* (1999) privatisation may affect labour in different ways. It may affect salary levels and

structures, working conditions and benefits. In this context, a major concern for policy-makers is to find out and mitigate the effects that privatisation has on labour. Without such considerations, privatisation could cause major job losses as new owners of privatised firms shed excess labour to improve efficiency, and as divesting governments cut work forces to prepare for privatisation.

The impact of privatisation on labour is not a clear issue. In some cases it has led to positive outcomes for labour and in other cases the opposite is true. This has prompted scholars such as Boubakri and Cosset (1998) to investigate this issue. In their analysis they found that the impact of privatisation on labour in newly-privatised companies depended on the initial conditions of these companies and the level of their exposure to competition. In this regard, large-scale labour force reductions are expected to occur when big and poorly performing state enterprises are preparing for privatisation and when privatised entities are exposed to greater competition.

Another survey sponsored by the World Bank came to a different conclusion with regard to the effects of privatisation on labour. In his study, Kikeri (1998) concluded that in many instances, labour can and does gain from the process.

2.3.4. A Case Study Perspective on Privatisation

These studies concentrated on the specific experiences of certain countries and adopted a case study approach to the topic of privatisation, their core objective being to highlight the lessons learned from each case and to point out areas of success and failure. Their scope was then extended to cover privatisation programmes in many countries and in different parts of the world. The World Bank conducted studies on privatisation programmes in countries such as Russia, Ukraine, and the Baltic states (Leroy, 1991; Charles, 1988), while others have presented European experiences; thus Frydman *et al* (1993) examined the privatisation process in central Europe. Some writers ranged even further, such as Richardson (1990), whose work extended to privatisation as well as deregulation, in both Canada and Britain.

Cases from developing countries have attracted the attention of many scholars. Ramandham (1989) covered different issues relating to forms and implementations of privatisation programmes in developing countries. Focusing on Saudi Arabia, and adopting the same case study approach, a number of studies have dealt with the political economy of the Kingdom in general, and have tried to show developments there. Niblock and Malik's *The Political*

Economy of Saudi Arabia (2007) is a good example, as is Wilson *et al* (2004) on *Economic Development in Saudi Arabia*. In addition, Sabri (2000) looks in detail at the Malaysian experience of the transfer of ownership to the private sector and the methods used by Malaysia to achieve this. His study highlights certain negative aspects of privatisation as expressed by several Malaysians who felt that the process had led to behavioural changes in Malaysian society. These included the following: an increase in the number of hours worked; a lack of interest in carrying out duties towards the family; the proliferation of a media devoid of moral restraint; and the introduction of habits, cultures and ideas by foreign workers which may contradict the teachings of Islam.

The case of Saudi Arabia has also been investigated by many scholars. Pampanini's study, *Saudi Arabia: Moving towards a Privatised Economy* (2005) for instance, provides an overview of Saudi privatisation programmes in different economic sectors, including natural resources and the utilities sector, as well as some other industries. Bakr's, *A Model in Privatisation* (2001) focuses specifically on the privatisation of Saudi ports. Bakr attempts to evaluate the different available models of privatisation and proposes his own model, which he tested through a number of case studies. Through an attitudinal survey, Al-Sarhan (2001) studied the views of businessmen and public sector employees towards privatisation, and found that a high percentage of the sample (91 percent) supported privatisation and expected various benefits to accrue from it, while 77percent expected improvements in service quality levels. His study also revealed the fear of private investors that the preconditions for private participation in providing services were not fully in place.

In a more general study, Blank (2000) outlines the conditions under which government ownership is preferable to private ownership, concluding that because of the very specific nature of certain social services sectors (such as telecommunications), governments may rely on public rather than private ownership, although in such cases it can be difficult to monitor the quality of the service provided because standards are not sufficiently clear.

Reviewing such literature enabled the researcher to build up a strong background on privatisation, and provided a recent and up-to-date overview of the topic which was very helpful in analysing the Saudi case in depth.

2.4. Conclusion

The main aim of this chapter was to underline the main theoretical and empirical issues relating to privatisation. Based on a wide literature review, the different definitions of privatisation were outlined, along with the different forms that privatisation may take in practice. The relationship between privatisation and its wider theoretical framework, the NPM, was discussed, and the different analytical perspectives on privatisation were noted. Looking at these issues has provided a solid basis for understanding the different shapes of privatisation in addition to the location in which privatisation fits as a tool within the broader concept of NPM. To complete this theoretical discussion Chapter Three focuses on privatisation from an Islamic point of view.

Chapter 3:

An Islamic Perspective on Privatisation

3.1. Introduction

The previous chapter looked at the theoretical bases of privatisation and examined how the topic is studied from different economic, legal, political, and case study perspectives. These issues were examined within the framework of NPM and the relationship between concepts was explained. Given the relatively little attention paid to privatisation in the Islamic world it seemed useful to contribute to existing studies by providing an Islamic perspective on privatisation. It is worth noting here that most studies have tended to approach the issue either in predominantly economic terms, or from the perspective of different political and social points of view, with only a few references and studies on privatisation as it relates to Islamic law, since the Islamic roots of the concept are rarely explored. This study tries to address this gap in the literature through a concentrated focus on the Islamic perspective, which is particularly important given that Saudi Arabia is an Islamic country ruled by Shari‘a law. The chapter explores the extent to which the Islamic treatment of this concept differs from other legal, economic and social approaches to privatisation.

This chapter addresses various questions relating to this topic. These include:

- What is the nature of ownership in Islam?
- Are Islam and privatisation compatible?
- How do Islamic policy scholars interpret the relationship between public and private properties?
- What are the roles and functions of the state according to Islamic tradition?
- Is private ownership allowed in Islam?
- Can public ownership be transferred to private ownership according to Shari‘a law?

The answers cannot be found in a single source, and to investigate the issues fully, various sources need to be consulted, including the Qur’an, the Hadith, and relevant scholarly works, including recently published literature by other scholars. The chapter first presents the concept of ownership from an Islamic point of view, then moves on to investigate both the role played by the state in privatisation, and the nature of the property system according to Shari‘a Law. Next, the chapter examines the relationship between public and private ownership, and

highlights the determinants of transforming the former to the latter. It concludes with some more general remarks on privatisation from an Islamic perspective.

3.1.1. The Islamic Approach to Public Administration

Although the practice of public administration has a long history in Islamic tradition the Islamic model of public administration is not very well known compared to other well-known and widely-recognised western models and administrative systems. In this respect Hassan (1992: 6) has noted that

the fanaticism and prejudice for Western managerial systems have also, among other things, veiled the relevancy of Islam as a model of management, as well as generating a cynical reaction that the Islamic model existed in history and concept only, but never practiced in modern life, even by countries with a Muslim Majority.

This issue needs to be dealt with by scholars in order to show the main features of the Islamic model of public administration and the relevance of this model for solving the current problems of public organisations.

In this section the core values of the Islamic model of public administration are explained in order to understand the way in which public administration in Islam differs from other models, basically developed in the west. In spite of the similarities between them, the Islamic model is unique in many ways as it has its own traditions that derive from the Qur'an, the Sunnah and historical traditions. As noted by Mir (2010: 1) "Islam is by nature administration-oriented, as is borne out by its rituals like daily congregational prayers and the annual pilgrimage to Mecca". Islamic public administration focuses on the same issues and topics that are studied and researched in the west, including: efficiency, effectiveness and economy in public sector management; employee satisfaction and productivity; bureaucratic dysfunction; administrative reform; administrative accountability; corruption; decentralization and popular participation; and local government (Syafiq 2012: 6).

However, an Islamic approach to public administration focuses more on the orders of Allah as revealed in the Qur'an, which provides a guide to governors and those who are governed as to how to organise and manage the Islamic state. In this view Allah is the source of all powers, including government, and the Qur'an and the Sunnah explain how the governors are to manage the country's resources in a way that does not contradict Islamic teaching. In the Islamic approach to public administration, ethics is a very important aspect that should be taken into account at all times. Focusing on issues such as justice and equality are also major

aspects of Islamic public administration. Sayyid Abu'l Qasim al-Khu'i's important work, *Rationality of Islam* (1978) includes a basic guide to 'Islamic Administration' summarising the main features of the Islamic approach to public administration, as reflected in a letter by Imam Ali sent to Malik-e-Ashter, whom he had appointed as a governor of Egypt in 657 CE:

This letter is based on the principles of administration as taught by the Holy Quran. It is a code to establish a kind and benevolent rule, throwing light on various aspects of justice, benevolence and mercy, an order based on the ethics of a benign and pious ruler ship, where justice and mercy is shown to human beings irrespective of class, creed and colour, where poverty is neither a stigma nor a disqualification and where justice is not tarred with nepotism, favouritism, provincialism or religious fanaticism and on the other hand it is a thesis on the higher values of morality.

The general principles expressed in this quotation emphasise the importance of obeying the commandments of Allah as contained in the Qur'an and illustrated by the Prophet's life through his actions. Public administration is part of the overall social system; it needs to identify its goals and the means to reach these goals in accordance with the teachings of Islam and in manner which does not contradict the Qur'an and the Sunnah.

Comparing the Islamic and western models one can see that Islamic public administration places more weight on the human aspect of public management. In principle, people have the freedom to act morally or immorally – it is purely a matter of choice. However, man was created with many weaknesses including forgetfulness, greed for material comforts and power, oppressiveness and ignorance, recklessness and impatience, mean and miserable ingratitude; he is also quarrelsome, ruthless and full of self interest (Hunter 2008: 2). To deal with these weaknesses and to act morally Allah has provided humankind with principles to guide them throughout their lives; these principles provide an Islamic perspective on human resources and the role they play in public administration.

The humanistic view of Islamic public administration is distinct from the materialistic value-scale approaches of public administration developed in the west. Mir (2010: 2) notes that "Islam has approached the human aspect of administration in its characteristic way. It regards man as a thinking and feeling entity, declares him to be the supreme creation and sets him the highest possible task, that of achieving moral perfection." If one compare this view of the role of human resources in public administration with other views such as those presented by Frederick Taylor in his theory of scientific management, it will become clear that the human element has enjoyed more emphasis in the Islamic traditions.

An Islamic approach to public administration, like other administrative models, also focuses on the principle of accountability. Here a major difference is the focus in the Islamic model on the accountability of human beings for their actions, not only in this life but in the afterlife as well. In other words, public officials are responsible for their actions at two different levels. First, they are responsible in the present life to their superiors; and after they die, when they are asked about their actions and doings, Allah will punish them for any misconduct or abuse of the powers delegated to them. This two-level system of accountability puts more restrictions on public employees, who have to bear in mind not only what might happen to them in the present life if they abuse their powers, but also the punishment of Allah in the afterlife. In this respect

this stress is ethical in nature and Islam inculcates the sense of responsibility in its adherents by equipping them with what Reinhold Neibuhr describes as ‘the passion of moral good will’ and what Marshall Dimock calls ‘a sense of mission’. With its teachings it strengthens man from within so that he feels impelled –and not compelled – to do the right and proper thing (Mir: *ibid*).

Rulers, governors and administrators are also accountable to the people. Imam Ali’s letter to the governor of Egypt when he stated that:

Men will scrutinize your actions with a searching eye, even as you used to scrutinize the actions of those before you and speak of you even as you did speak of them. The fact is that the public speak well of only those who do good. It is they who furnish the proof of your actions. Hence the richest treasure that you may covet, should be the treasure of good deeds. Keep your desires under control and deny yourself that which you have been prohibited against. By such abstinence alone, you will be able to distinguish between what is good and what is not (al-Khu’i 1978: 6).

In this regard those who are trusted with managing public resources are accountable at different levels to different people above them, as they are accountable in the present life to their superiors and after death to Allah. Below them they are also accountable to the people they serve and to the public in general. They have to explain their actions and justify their methods and means.

In addition to accountability Islamic public administration also emphasise the ‘Supremacy of Law’ as one of its main administrative principles. One may argue that there is nothing new in this since other administrative models have also focused on the rule of law and administrative law. However, Mir (2010: 3) makes the distinction clear:

Supremacy of law in Islam should not be mixed up with the English rule of Law. The latter is usually contrasted with the French Droit Administratif (Administrative Law), but in one sense these two are alike. That is, although Rule of Law and Administrative Law stand for two different kinds of legal spirit, yet neither of them points up the presence of any definite body of law. But the Islamic doctrine, besides upholding the cause of law, also implies the existence of a definite and identifiable corpus juris – the Shariah. Hence supremacy of law is perhaps better called supremacy of the law.

In this respect every public employee has the right to discharge his duties with a certain level of discretion. At the same time those who are in leading positions must be obeyed, whether or not one agrees or disagrees with their views. A legal system is equally important for keeping this administrative tradition running, and courts play an important role in solving conflicts and disputes. And in all cases public officials must undertake their duties in accordance with the commandments of Allah and the actions and the deeds of his Prophet. If a public official is uncertain about an issue he must seek guidance from Allah and the Prophet. As mentioned by Imam Ali:

Turn to God and to His Prophet for guidance whenever you feel uncertain regarding your actions. There is the commandment of God delivered to those people whom He wishes to guide aright: "O people of the Faith! Obey God and obey His Prophet and obey those from among you who hold authority over you. And refer to God and His Prophet whenever there is difference of opinion among you." To turn to God is in reality to consult the Book of God; and turn to the Prophet is to follow his universally accepted traditions.

These roles and guiding principles represent the pillars of any Islamic administrative structure and to explain them in detail is beyond the scope of the present study. However, this quick overview of the main features of a highly detailed Islamic public administration system is a helpful introduction to the following sections, which discuss the concept of ownership in Islam more fully.

3.2. The Concept of Ownership In Islam

Owning property is an innate tendency in humans. In the light of this it is important to start by discussing the conceptualization of ownership in Islamic traditions. First this discussion illustrates the similarities and differences between the concept of ownership in modern economic systems and in Shari‘a law. Secondly, we can identify how Islam regards private and public ownership by examining how Islamic law deals with the subject. Thirdly,

recognising what constitutes private ownership and what should be considered as public property helps in determining what type of public projects can be transformed into private ownership and which should be kept under the supervision of the state. Finally, this discussion will enable us to discuss in detail the role of the Islamic state in economic matters as well as the property system in Islam.

Ownership is as old as mankind. Some scholars argue that the early humans knew many different forms of ownership, although they do not agree on which form prevailed first. Al-Khatib (2001:54) suggests three points of view in this respect: first that at that time individual private ownership was the prevailing form of ownership; second that collective and not private ownership prevailed; and third that both forms of ownership can be found throughout human history. The question remains, is there a difference between the Islamic approach to ownership, and the approach taken by other systems?

From an Islamic point of view, ownership is the right of the owner and the owner alone to control and manage his/her property, unless there is a restriction to doing so. Such a restriction could be due to the age of the owner; young people are not permitted to manage their own properties until they reach a particular age. Other restrictions may relate to the substance of the ownership itself, such as in collective ownership where there is more than one owner of the property: in these cases none of the owners has the right individually to manage the property (see Al-Ayady 2003: 35). In this respect ownership can be both private (since property can be owned by an individual or a group of people), and public (in the sense that the whole of society, or at least part of it, shares the same property) (Al-Simadi, 2004: 4).

Compared to other socialist and capitalist economic systems, the Islamic perspective on the concept of ownership is unique. Chaudhry (1999: 2) has stated that “both capitalism and socialism are secular systems and their aim is the same i.e. the achievement of material well-being of their followers although the methods adopted by them for achieving this end are diametrically opposed.” Economic freedom is the main pillar upon which the capitalist system is based. Individuals in capitalist societies are free to own and run their properties any way they want (depending of course on market forces). Although private ownership is dominant, the state does run public institutions (see Al-Simadi, 2004: 5). On the other hand, in socialism, economic freedom is suppressed, and the state controls all means of production, distribution and exchange with the aim of achieving economic equality.

The Islamic concept of ownership is different. According to the Qur'an, Allah owns everything, and mankind is just a trustee (see El-Alem 1975: 42-44). In Surah Al-Baqara verse (30), God states that mankind is the viceroy of Allah on earth:

وَإِذْ قَالَ رَبُّكَ لِلْمَلٰٓئِكَةِ اِنِّىْ جَاعِلٌ فِى الْاَرْضِ خَلِيْفَةً قَالُوْۤا اَتَجْعَلُ فِىْهَا مَنْ يُّفْسِدُ فِىْهَا وَيَسْفِكُ الدِّمَآءَ وَنَحْنُ نُسَبِّحُ بِحَمْدِكَ وَنُقَدِّسُ لَكَ قَالَ اِنِّىْۤ اَعْلَمُ مَا لَا تَعْلَمُوْنَ (۳۰)

And when thy Lord said unto the angels: Lo! I am about to place a viceroy in the earth, they said: Wilt thou place therein one who will do harm therein and will shed blood, while we, we hymn Thy praise and sanctify Thee? He said: Surely I know that which ye know not. (30)

As trustees and viceroys, human beings have the right to use the various resources that Allah has provided for them either for their own benefit or for the benefit of the wider society. Allah created the earth and its resources for the benefit of mankind. This meaning of ownership is alluded to in multiple instances in the Qur'an:

- **Surah Al-Baqara verse (29)**

هُوَ الَّذِىْ خَلَقَ لَكُمْ مَّا فِى الْاَرْضِ جَمِیْعًا ثُمَّ اَسْتَوٰى اِلَى السَّمٰٓءِ فَسَوّٰهُنَّ سَبْعَ سَمٰوٰتٍ وَهُوَ بِكُلِّ شَیْءٍ عَلِیْمٌ (۲۹)

He it is Who created for you all that is in the earth. Then turned He to the heaven, and fashioned it as seven heavens. And He is knower of all things. (29)

- **Surah Luqman verse (20)**

اَلَمْ تَرَوْۤا اَنَّ اللّٰهَ سَخَّرَ لَكُمْ مَّا فِى السَّمٰوٰتِ وَمَا فِى الْاَرْضِ وَاَسْبَغَ عَلَیْكُمْ نِعْمَهٗ ۗ ظَهْرَةً وَّباطِنَةً ۗ وَمِنَ النَّاسِ مَنْ يُجَادِلُ فِى اللّٰهِ بِغَیْرِ عِلْمٍ وَلَا هُدًى وَلَا كِتٰبٍ مُّنِیْرٍ (۲۰)

See ye not how Allah hath made serviceable unto you whatsoever is in the skies and whatsoever is in the earth and hath loaded you with His favours both without and within? Yet of mankind is he who disputeth concerning Allah, without knowledge or guidance or a scripture giving light. (20)

- **Surah Al-Mulk**

هُوَ الَّذِىْ جَعَلَ لَكُمْ الْاَرْضَ ذَلُوْۤا فَاَمْشُوْۤا فِى مَنَاكِبِهَا وَكُلُوْۤا مِنْ رِّزْقِهٖ ۗ وَاِلَيْهِ النُّشُوْرُ (۱۵)

He it is Who hath made the earth subservient unto you, so Walk in the paths thereof and eat of His providence. And unto Him will be the resurrection (of the dead). (15)

Surah Al-Araf verse (10)

وَلَقَدْ مَكَّنَّاكُمْ فِي الْأَرْضِ وَجَعَلْنَا لَكُمْ فِيهَا مَعْيِشًا قَلِيلًا مَّا تَشْكُرُونَ (١٠)

And We have given you (mankind) power in the earth, and appointed for you therein livelihood. Little give ye thanks! (10)

Chaudhry (1999: 7) quotes Muhammad Akram Khan to explain the role of mankind as trustees and the nature of ownership in Islam:

thus, subject to the sovereignty of Allah, man has been granted the right to own property. As man is not its ultimate owner, so the mode of its utilization has also been defined by the real owner (i.e. God Almighty). At the termination of this worldly life everyone shall have to account for the resources provided to him in this worldly life and placed at his disposal as vicegerent to Allah.

Following on from this it can be understood that there are two types of ownership acknowledged in Islam: personal/private ownership which refers to the control of a person over his/her belongings; and community/public ownership which constitutes the resources owned by society and over which individuals do not have full control. God Almighty owns both types of property and human beings have the right to own them only under the sovereignty of Allah. This Islamic conceptualization of ownership raises the question of accountability: human beings will be held to account for the resources they have been given by Allah, and those who misuse these resources will be punished.

In regard to this, M. A. Mannan has explained that legal ownership by an individual, which is to say, "...the right of possession, enjoyment and transfer of property is recognised and safeguarded in Islam, but all ownership is subject to the moral obligation that in all wealth, all sections of society, and even animals have the right to share" (cited in Chaudhry, 1999: 6). As such, property rights in terms of the right to obtain, own, possess and enjoy property, as well as the right to give property away via lawful means such as selling, giving, or exchanging, are all admitted by Islam.

The Qur'an has, at various points, emphasized the right of human beings to earn and obtain property. For instance, in Sura 4 (An-Nisa) verse 32, God says:

وَلَا تَتَمَنَّوْا مَا فَضَّلَ اللَّهُ بِهِ بَعْضَكُمْ عَلَى بَعْضٍ لِّلرِّجَالِ نَصِيبٌ مِّمَّا كَسَبُوا وَلِلنِّسَاءِ نَصِيبٌ مِّمَّا كَسَبْنَ
وَسَأَلُوا اللَّهَ مِن فَضْلِهِ ۗ إِنَّ اللَّهَ كَانَ بِكُلِّ شَيْءٍ عَلِيمًا (٣٢)

And covet not the thing in which Allah hath made some of you excel others. Unto men a fortune from that which they have earned, and unto women a fortune from that which they have earned. (Envy not one another) but ask Allah of His bounty. Lo! Allah is ever Knower of all things (4: 32)

In Sura 53 (An-Najm) verses (39-41) the Qur'an mentions that:

وَأَن لَّيْسَ لِلإِنسَانِ إِلَّا مَا سَعَىٰ (٣٩) وَأَنَّ سَعْيَهُ سَوْفَ يُرَىٰ (٤٠) ثُمَّ يُجْزَاهُ الْجَزَاءَ الْأَوْفَىٰ (٤١)

And that man hath only that for which he maketh effort, (39) And that his effort will be seen. (40) And afterward he will be repaid for it with fullest payment; (41)

In this context, Islam puts no restrictions on man's efforts to earn and to hold properties as long as those properties are acquired, kept, and managed in a way that does not contradict the teachings and supreme values of the religion. Islam also safeguards properties and highlights the importance of respecting and protecting other people's properties by all means. In this context, in his famous speech to his followers during his last pilgrimage, Prophet Mohammad said "O, people! Surely your blood, your property and your honour are as sacred and inviolable as the sacred inviolability of this day of yours, this month of yours and this very town of yours. Surely you will soon meet your Lord and you will be held answerable for your actions" (see Chaudhry, 1999: 8). Further evidence of the importance of protecting private properties can be found in Sura Al-Maeda, verse 38 of the Holy Book:

وَالسَّارِقُ وَالسَّارِقَةُ فَاقْطَعُوا أَيْدِيَهُمَا جِزَاءً بِمَا كَسَبَا نَكَالًا مِّنَ اللَّهِ وَاللَّهُ عَزِيزٌ حَكِيمٌ (٣٨)

As for the thief, both male and female, cut off their hands. It is the reward of their own deeds, an exemplary punishment from Allah. Allah is Mighty, Wise (38).

This suggests that in Islamic societies, property rights are granted to human beings by the sovereignty of Allah. People have the right to work and obtain property, and to enjoy their properties on condition that they fulfil the teachings of Allah and respect the properties of others. In other words, with property rights and private ownership come other obligations. While there is no limit in Islam as to how much a person may earn and possess, those who are wealthy have to pay *zakat* and alms, as well as other taxes imposed by the state. It is worth noting that many scholars have warned Imams against overtaxing the people. In this context

Imam Al-Nawawi said, “Taxing populations is an unpleasant practice”, and further that “it is not legal that the money is extracted from people while Beit Al-Mal has money or owns lands that could be sold” (see Al-Saidi, 2005: 18-24).

In handling their properties, people must be wise: they should not be wasteful of their money and other resources and they must not spend their wealth on any prohibited activities such as gambling, drinking, or prostitutes. Those who disobey the teachings of Islam by stealing or attacking private properties must be subject to the sanctions of Sharia Law.

In this respect the Islamic concept of ownership differs from other economic systems. It represents a mid-point between capitalism, where the absence of an active role by the state can put people in danger, and socialism, which denies individuals any right of ownership. According to Al-Khatib (2001: 28), “the main aim of capitalist societies is production and in turn profit maximization” and “In socialism all means of production must be owned by the state (ibid: 30).

While capitalism tends not to put any restrictions on ownership and money transactions, Islam dictates that ownership and money spending must conform to Shari‘a law. At the same time, while the state is heavily involved in (and mostly controls) every single aspect of economic life under socialist systems, Islam and Muslim scholars have encouraged the state to keep out of private ownership unless there is a reason for interference, such as to protect people’s lives. In this context, the example given before of Ibn Taymiyya’s opinion regarding private ownership, is a case in point. Additionally, Imam Shafe‘i has emphasized that no one can take other people’s properties because individuals should be in full control of their money. Ibin Taymiyya confirmed this when he stated that not even the ruler had the right to control private properties according to his wish, since he was a trustee who should respect private properties (see also al-Alem 1975: 42).

In Islamic law individuals are fully entitled to own and accumulate money, and to pass it on to their successors without any interference from the state. In fact, although there are some limits on the amount of money and property that is allowed to be passed to successors, the treatment of property rights and ownership under Islamic law is even more economically expansive than communism. Although Islamic law, like capitalism, does not give property owners the right to do whatever they please with their property, unlike capitalism, Islamic law does not allow monopolization and unjust ways of handling property rights (al-Alem, 1975; Al-Simadi, 2004: 8).

Ownership must not be an end in itself, but rather a means to serve Allah's commandments (al-Alem 1975: 49). By acknowledging this, Islam tries to limit the materialistic element of ownership. In other words money in all its forms should not be all that Muslims care about. Money is a responsibility and it must be spent wisely according to the teachings of Islam and the rules of the Shari'a, an important lesson taught by Allah in Surah Al-Tawba verse 24:

قُلْ إِنْ كَانَ آبَاؤُكُمْ وَأَبْنَاؤُكُمْ وَإِخْوَانُكُمْ وَأَزْوَاجُكُمْ وَعَشِيرَتُكُمْ وَأَمْوَالٌ اقْتَرَفْتُمُوهَا وَتِجَارَةٌ تَخْشَوْنَ كَسَادَهَا وَمَسَاكِينُ تَرْضَوْنَهَا أَحَبَّ إِلَيْكُمْ مِّنْ اللَّهِ وَرَسُولِهِ وَجِهَادٍ فِي سَبِيلِهِ فَتَرَبَّصُوا حَتَّى يَأْتِيَ اللَّهُ بِأَمْرِهِ وَاللَّهُ لَا يَهْدِي الْقَوْمَ الْفَاسِقِينَ (٢٤)

Say: If your fathers, and your sons, and your brethren, and your wives, and your tribe, and the wealth ye have acquired, and merchandise for which ye fear that there will be no sale, and dwellings ye desire are dearer to you than Allah and His messenger and striving in His way: then wait till Allah bringeth His command to pass. Allah guideth not wrongdoing folk. (24)

What can be understood from this verse is that ownership in all its forms (money, trade, land, homes, etc) must not outweigh a Muslim's spiritual commitments. For Muslims, love of Allah and his Prophet, and obedience to their orders, must be more important than the accumulation of money and property. In addition, Muslims would be responsible before Allah regarding properties and money that they own. They will be asked how they obtained it and how they spent it. Money or ownership in general must be earned from legitimate ("halal") sources, and must be spent wisely. The Prophet said this in many of his Hadiths:

As narrated by Abdullah bin 'Umar: Allah's Messenger said, "Certainly! Everyone of you is a guardian and is responsible for his charges. The leader of the people is a guardian and is responsible for his subjects: a man is the guardian of his family and is responsible for his subjects, a woman is the guardian of her husband's home and of his children and is responsible for them, and the slave of a man is a guardian of his master's property and is responsible for it. Surely, everyone of you is a guardian and responsible for his charges." [Sahih Bukhari, Volume 9, Book 89, Number 252].

In another Hadith narrated by 'Abda, the Prophet said, "Do not withhold your money by counting it (i.e. hoarding it), (for if you did so), Allah would also withhold His blessings from you." [Sahih Bukhari, Book 24, Number 514].

Finally, as narrated by An-Nu'man bin Bashir, the Prophet said, “both legal and illegal things are obvious, and in between them are (suspicious) doubtful matters. So who-ever forsakes those doubtful things lest he may commit a sin, will definitely avoid what is clearly illegal; and who-ever indulges in these (suspicious) doubtful things bravely, is likely to commit what is clearly illegal. Sins are Allah's Hima (i.e. private pasture) and whoever pastures (his sheep) near it, is likely to get in it at any moment.” [Sahih Bukhari, Book 34, Number 267].

These general rules and regulations dictated by Islam and Islamic law on the management and transferral of ownership differ from those of other economic systems. Islamic law emphasises a compromise between the benefits of individuals, and the benefits of the overall society. The principle of causing no harm to the society is epitomised by Prophet Muhammad’s saying, “no harm and no reciprocated harm”. The source of ownership must be *halal*; therefore according to Shari‘a law, anyone earning money from illegal or forbidden activity will be punished, in this life and in the afterlife (see Al-Jabiry, 2005: 36).

3.3. The Functions of the State and the Property System in Islam

The subject of privatisation constitutes one of the state’s largest societal roles, especially in the economic sphere. Thus, by examining the property system, and how the state functions, we can determine the Islamic economic approach to privatisation. As noted by Sabri (2000: 60-66) the task of the state in Islam is embodied in one principle: ‘community care’. The state is therefore required to fulfil the following duties:

- To provide basic services to the community, especially defence, security and justice;
- To secure a minimum level of life standards for every individual living in the community;
- To develop the appropriate framework for economic activity.
- To protect of public interest and preserve the ‘Sharia’ principles;
- To supervise the private sector and to maintain consideration of its affairs;
- To ensure the efficient use of energy and resources and to work on their development;
- To balance social and economic issues.

The property system in Islam combines public and private ownership (El-Alem, 1975: 56). All Muslim scholars agree on this, but differences do emerge concerning the nature and scope of each type of ownership. Scholars tend to make a distinction between the two types of

property: public or collective ownership, and state ownership or 'Beit al-Mal' (see Al-Simadi, 2004: 7, and Shehata 2000: 58).

Hajazi (2005: 5) has warned against combining state ownership with public ownership. In his view people often confuse the state with the public sector, and mistakenly bring the two together. The state has many more important things to do than to run the public sector, which is only one of its projects, and the intervention of the state in this field will sometimes divert the state from its original role, which is to provide services and security to the people. The first type of property includes resources such as land, water, minerals and energy. Individuals are not entitled to use these resources. Prophet Muhammad explains this in the following words: "Muslims have common share in three things: grass, water and fire". These resources are therefore supposed to be, or at least are better, shared. Some scholars, such as Sabri (2000: 42), have interpreted this by explaining that from an Islamic point of view, the state has no right to transfer the ownership of these collectively-owned resources to the private sector (see also Al-Shibani, 2005, Al-Simadi, 2004). However, the state must improve them and use them in a way that benefits all in society. In another Hadith the Prophet says, "Protection is only given by God and the Prophet", which means that the main source of protection for the public facilities owned by the entire Muslim community is Allah and not any one person.

The Prophet's Hadiths do not imply that he was against private ownership. In fact, he recommended private ownership in many situations, for example private ownership of water in the Taif and Khaiber. In this particular incident, one might refer to the importance in Islam of sharing water, grass and fire (and what this constitutes). The importance of sharing these three things in Islam can be evidenced by the steps that needed to be taken once these things were no longer available for a certain group or tribe. Among these necessary steps was the migration of tribes at times of scarcity, to a new environment in which water, grass and other resources were more abundant (Al-Simadi, 2004: 6).

Other scholars, including Al-Simadi (2004: 7), have added other properties to the sources mentioned above, such as machines that can be used for the benefit of the entire Muslim society (*umma*). The Muslim *umma* can share and benefit from the production of such machinery. According to this point of view, for instance, water pipes and electricity generators are collectively owned.

The second type of ownership includes state ownership or what is known in Shari‘a as “Beit Al Mal”. Under this type of ownership there are different forms of resources including: *zakat* (alms giving); *ushr* (an amount of money payable by Muslims as a form of land tax); *kharaj* (an amount of money payable by non-Muslims as a form of a land tax); *jizya* (an amount of money payable to the Sultan by non-Muslims in return for protection); war booty and mineral resources; money that belongs to unknown owners; money that belongs to unknown inheritors and temporary taxes (Al-Simadi, 2004: 7). In other words these resources include funds under public ownership. These funds are all under the auspices of the ruler or the Imam. The Imam, in turn, is responsible for using them in a way that is sustainable, and that achieves their goals. For instance the state can use the funds to build new projects or to ask the private sector to participate in building such projects. Consequently, according to Sabri (2000: 51), Islam accepts the privatisation of these types of property.

As noted by Shehata (2000: 72), scholars in Islamic economic jurisprudence distinguish between strategic economic projects and projects that can be subsumed under the “traditional” category. Since they concern public interests such as national security, strategic projects are those that the state would establish and operate. Individuals or groups of people can, however, own the “traditional” projects. The state tends not to interfere in issues that relate to running or supervising such projects because this form of (private) ownership does not endanger or affect public welfare.

In this context, Ibn Taymiyya, the renowned Islamic scholar, stated: “the state ought not to interfere in people’s economic projects” (see Shehata 2000: 68). In some socialist countries, as noted, governments even seek to establish simple economic projects with the intention of preventing ordinary people from running private businesses, which thus increases poverty. This in fact contradicts the Islamic norms and forms of ownership that we have been exploring: the state, according to Islamic jurisprudence, should only play a role in establishing, running and supervising *strategic* (public welfare) projects.

In summary, the Islamic system accepts both private and public ownership: it sees public ownership as the cornerstone of the economic system, and private ownership as the foundation of a healthy economy. The Islamic economic system rejects the privatisation of the ownership of some public funds, but permits others.

3.4. The Relationship between Public and Private Ownership in Islam

The relationship between public and private ownership in Islamic societies raises many questions: How do Islam and Islamic law regard the relationship between these two types of ownership? Can public ownership, according to Islamic tradition, be transferred to the private sector? How, and under what conditions, can this be achieved? Public ownership (according to Islam) refers to all the properties that are owned by the state, the society as a whole, or a group of people within that society. In other words, in public ownership, individuals are not distinguished as far as property usage is concerned. All the profits from a certain property are reserved for the prosperity of the whole society (Al-Simadi, 2004: 17-19).

In this regard, Shehata (2000: 64) explains that public ownership in Islam is constructed by a combination of individual expenditures/earnings, and group expenditures/earnings for the Islamic umma. But when an individual earns money, Islam recommends that it is from a specialised task, i.e. an individual's ability to undertake a specific form of work for the benefit of the Islamic umma. The ruler is an important case in point. In Shehata's view, the ruler of an Islamic society is responsible for administering, protecting, and organising public property. He is also entitled to control the way in which people acquire a share of a property, service, or product. Omar Ibn Khatab, the third caliph in Islam, clarified this particular point when he said: "money should be used in three things: to be taken just rightly, spent just rightly and also in preventing injustice."

Public ownership is legitimised in Islam by the Qur'an and by the Prophet's Hadiths. In the Qur'an, Allah professes, in Sura Al-Hashr, that:

مَا أَفَاءَ اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَى فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ
وَالْمَسْكِينِ وَابْنِ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ وَمَا ءَاتَاكُمُ الرَّسُولُ
فَخُذُوهُ وَمَا نَهَاكُمْ عَنْهُ فَانْتَهُوا وَاتَّقُوا اللَّهَ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ (٧)

That which Allah giveth as spoil unto His messenger from the people of the townships, it is for Allah and His messenger and for the near of kin and the orphans and the needy and the wayfarer, that it become not a commodity between the rich among you. And whatsoever the messenger giveth you, take it. And whatsoever he forbiddeth, abstain (from it). And keep your duty to Allah. Lo! Allah is stern in reprisal. (7)

Meanwhile the Prophet Mohammad says, “Never does a Muslim plant trees”, or cultivate, but has reward for him for what the beasts eat, or the birds eat or anything else eats out of that”. In this Hadith, the Prophet indicates the importance of infrastructure projects and encourages Muslims to invest in such projects because they will benefit the entire Muslim community (Al-Hasani 2005: 14).

Historically, the Islamic state has witnessed many forms of public ownership. These include two different types of property ownership: state ownership, and collective or public ownership. By state ownership we mean the capital and the infrastructures owned by the state, which are thus subject to the jurisdiction of the ruler, or the Imam. Properties under the umbrella of “collective ownership” can be compared with what we call today “public goods,” such as rivers, bridges, streets etc., which might be controlled and managed by the state. However, the ruler has no right to dispose of them, as they are owned by the Muslim society as a whole (see Al-Ayady 2003: 37-38).

Generally speaking, there are a number of similarities in approaches to public ownership between Islamic and non-Islamic states. Nevertheless, Islamic states have their own particularities with regard to applying specifically Islamic rules and regulations (by which the society is controlled); protecting religion (which they do by providing security to people by enforcing Shari‘a law); running state systems and institutions (including state courts, security institutions and all sorts of public institutions chiefly built for the advantages of the whole society); employing alms systems (*zakah*) (to support the poor and thus promote social solidarity);² and finally giving loans³ to people wanting to buy property (see Hajazi 2005: 12).

In addition, the Islamic state has an obligation to protect public and collective ownership. It has to make sure that all land resources are properly used. Because these kinds of resources are of the utmost importance in achieving public welfare, they have therefore to be managed properly, either by encouraging plans that call for the practise of such kinds of activities, or by divesting the land from people seeking to abandon its using or ceasing to invest in it. Furthermore, the ruler must not consider public property as his own property, for public property belongs to the whole of the Muslim community: Allah has given it to them to

² Rich people are asked to donate money to help the poor. Islamic rulers can decide how much money is to be levied from wealthy people. Alms (*zakah*) can help stabilise and enhance a state’s economy and avoid debt. Islam also facilitates giving loans to people who are in desperate financial need, but without interest.

³ Loans, in this case, will be returned with no interest in order to prevent usury (*riba*).

preserve it. Omar, the third caliph in Islam, emphasized this particular point by saying, “all Muslims have their own share of public money” (Shehata 2000: 70).

According to Sabri (2000: 43-44) the concept and the goals of “public ownership” in Islam can be summarised by the following:

- Covering the basic economic needs of the people,
- Working to achieve an economically efficient society,
- Improving the quality of economic life for the people,
- Maintaining a balance between economic and social aspects, and
- Working towards the achievement of justice in society.

Shehata (2000: 103-117) also summarises public ownership with the following points:

- The importance of achieving public welfare through using any form of public property.
- Taking into consideration what might be called ‘Islamic priorities’, since there are sometimes certain necessary products incorporated within public ownership that people have no interest in producing. Here it is obligatory for the state to produce them in order to supply the people with these basic needs.
- The importance of reducing dangers that might befall society. It is the state’s duty to make sure that no one individual or group of people is able to control certain commercial activities. The interference of the state not only prevents monopolisation, but also helps to achieve social welfare by ensuring that no one is able to control or manipulate ordinary people’s interests. In this respect, Al-Jabiry (2005: 23) points out that the Islamic Shari‘a brings benefits to Muslims. The Prophet says, “No harm and no reciprocated harm”, a principle that exemplifies the Islamic view on corruption. In Shari‘a law monopolies are also prohibited as they harm people as well as society, particularly when practised in the black market.
- Following from this, it is worth stressing the importance of banning any form of monopolization in society. At the level of economic relations in society in particular, the state must do whatever it can to prevent monopolisation, as this can make people’s lives very difficult. Needless to say, monopolies can cause havoc in society, thus putting the country’s security on the line.
- The importance of striking the balance between private and public interests.

One of the main arguments for keeping public ownership in Islam concerns control. Control consists of three main components: self-censorship, control of the executive authority, and popular control. From this perspective, the state is responsible for the maintenance of public ownership and ensuring justice, and basic needs.

In this regard, the driving forces behind privatisation in Islamic states may include: the accumulation of foreign debts and in the budgets of many Islamic countries; pressures from the International Monetary Fund and the World Bank; and the absence of leadership and managerial skills that enable project managers in the public sector to act as private businesses.

Administrative corruption and the misuse of public funds by some officials and influential power-holders might also act as motivations for privatisation. Other motivations may come from the spread of the idea that public institutions are failing, and the desire of businessmen to increase their activities and thus their profits and influence.

It has been claimed that transferring public ownership to the private sector will have several positive effects on the economy of an Islamic state. For example, the participation of the private sector may lead to a rise in the productivity, efficiency, and effectiveness of public management. Also, this transfer may alleviate the state's financial burdens, and reduce the budget deficit. Privatisation may also encourage the return of migratory capital, attract foreign investments, and raise the spirit of competition in the national economy. The process of transferring public ownership to the private sector is regarded as a state policy, and is treated flexibly by Islamic law. This means that all kinds of transactions are allowed ("halal") except those, such as monopolisation, that are prohibited by the religious texts.

With regard to the economic role of the state, Sabri's study asserts that economic freedom is the overriding principle in Islamic law: including a person's freedom to use, exploit, and dispose of his own property. State intervention in the activities of the private sector may protect public interest, without prejudice to individuals. For example, the state may legitimately intervene in order to prevent religiously forbidden activities that are not in the public interest, such as drugs, gambling, fraud, bribery, monopoly and any other behaviour that is harmful to others. In addition the state can also intervene by monitoring the practices of the private sector and ensuring that it meets its performance standards. It can also intervene by setting wages and prices to protect public interest.

As well as the above-mentioned aspects, the study looks at some of the economic, administrative, moral, and social arguments that Islamic law puts forward regarding the transfer of public ownership to the private sector. At an economic level, specific criteria must be developed identifying the economic units that can be sold, according to a clear list of priorities together with an appropriate formula for the sale of each unit. Moreover, the state should review the concessions given to companies in terms of retention or cancellation. If the state is forced to keep specific companies, they must be organized so that they can produce high quality goods and sell these goods at a high price in order to achieve appropriate profit margins.

At an administrative level, there is a need to coordinate between the public and private sectors in selecting priority projects. This ensures that both the interests of the community, and the interests of individuals can be fulfilled. Accountants and observers in this process need to be righteous, pious and committed people. It is also important to determine the sales price and to allow a interim period for the transition from the public to the private sector. A sudden transition has many disadvantages. It is equally important to lay the foundations for how the financial investment is to be raised. This is to ensure that it is not used in areas that do not contribute to economic activity, and thus to the subsequent doubling of recession.

Regarding foreign direct investments (FDI), it is important to ensure that foreign investors are forbidden from engaging in activities that contradict Shari'a law in the area in which the financial transactions are taking place. These include antitrust activities and the fraud and deception of consumers through misleading advertising. Here, there is also a need to take the measures necessary to reduce controls on foreign capital, to select foreign investments that support national interests, and to pursue policies that lead to the selective identification of areas and sectors that need foreign investment.

Following privatisation the state should monitor the performance of investors to make sure that local experts and manpower are recruited and employed. The state also needs to guarantee the participation of the people in the purchase of public enterprises.

At a moral and a social level, the private sector must: adhere to the standards and rules that help to preserve the environment, take into account the feelings of Muslims, and respect the Islamic religion by allowing all Muslims who are working in business projects to practice Islamic rituals.

The state should also ensure that for each of the public sector units sold, the social benefits are maintained, and abuses of power are prevented. Workers in these industries should not be displaced as long as they can meet the necessary moral, professional, and efficiency criteria.

Based on discussion of these aspects of privatisation, the study concludes the following (Sabri, 2000: p137)

- The main objective of the process of transferring public ownership to the private sector is to raise the level of performance and improve the efficiency of production and distribution. In addition, it aims at lowering public spending to reduce the debt faced by the state.
- Originally, according to Islamic teaching, there was no absolute ownership without restrictions or conditions. Whether the ownership was public or private, restrictions were designed to achieve the public interest and to prevent any harm to citizens.
- Islam does not deny foreigners the right to exploit a national resource for a certain part of the profit, as long as the exploitation possibilities are not available to Muslims. This should be done under the supervision of the state, provided that the exploited resources are essential to the development and the modernisation of the nation.
- Islam approves of benefiting from the experience of foreign countries in different aspects of life, provided such benefits do not oppose the teachings of Islamic Shari‘a.

In another account of privatisation from an Islamic (economic) point of view, Shawki (2003: 4-5) argues that the state is the basis for a strong and effective economy, but that it is required to provide a strong, effective, and rational private sector. From this viewpoint the existence of a strong private sector is the cornerstone of the existence of a strong state. As a result, there is a need for both parties to be present, and for a distinction to be drawn between the role of the state and the role of the private sector. The role of the state is to rule, authorise, supervise, regulate and control the activities of the private sector, while the role of the private sector is to practise and implement economic activities in a way that contributes to the evolution of the state. Any other approach is not acceptable to the Islamic economy.

In the view of the researcher, and in accordance with contemporary rational economic thinking, the Islamic economy, in principle, does not reject the concept of privatisation. It does, however, reject the marginalising of the role of the state in society and transferring its important functions to the private sector.

To summarise, a balance should be struck between public and private ownership, and this should be done according to Islamic rules. Projects that aim at supplying society with basic and necessary needs, and products that people are not normally interested in producing, need to be under public ownership. Projects that need large amounts of money, such as national security and economic stability, should be funded and run by the state for the benefit of the wider Muslim community. The ruler must manage the money and the machinery invested in these projects. Additionally these types of projects should not be subject to competition rules with the private sector, since there are benefits other than profits and economic efficiency to be achieved by running these projects. For example, these projects are important for preventing enemies from controlling national interests, and for improving economic performance.

3.4.1. Determinants of Transforming Public Ownership to the Private Sector

Privatisation in its wider meaning indicates a transformation in the market. The market becomes the dominant factor in economic life, and this transformation may then spread to other aspects, accompanied by various disadvantages for certain sectors of society. According to Sabri (2000: 126-127), the privatisation process might also result in the state's role in the economic field becoming marginalized, as well as many of the state's functions being relegated to the private sector; the state might even become a guardian state. Islam has therefore put many restrictions on the transfer of public ownership to the private sector, in order to ensure that no harm is caused to any group in society: it also makes sure that anyone who is harmed or disadvantaged is compensated.

Because of the importance of public properties, some scholars oppose the idea of the indiscriminate sale of such properties as a means for privatisation. Instead of selling public properties to private investors they encourage policies that aim at disposing of public sector companies by, for example, selling them to the private sector. In contrast, others argue openly that public sector companies are important for achieving economic stability. Instead of selling them, those who embrace such views contend that "we" have to consolidate their productivity by funding "them" continually.

Shehata (2000: 88-90), for instance, has argued that privatisation should be seen as only one solution to the problems of the public sector. Before selling public projects to the private

sector, which might cause harm to society, other options should first be tried. These options include:

- Improving the profitability of these projects by not interfering in how the prices are set, since monopolization threatens the stability of the marketplace, together with redeploying employees who would be affected into other companies.
- Improving the productivity of the public projects by removing restrictions on public sector companies, particularly restrictions that demand that the companies buy their raw materials from, and sell their production to, particular places; as well as restrictions that prevent the goals of long-term production plans from being achieved. Because achieving these goals sets productive competition on the move, it will, in turn, improve the production of good-quality products and creativity.
- Backing away from any form of usury in funding public sector companies, which can be achieved by applying forms of funding that are promulgated and supported by Islamic jurisprudence.
- Appointing company leaders and managers whose tenure should depend on standards and categories relating to ethics, commitment and hard work.
- Improving the affordability of public projects by finding solutions to problems related to fund-raising. The best possible way for decreasing debt, for example, is to transfer the money payable in debt into the company's money shares, thus removing the burdens of lending money. This might also include avoiding all forms of unnecessary expenditure. It is also important that public sector companies connect output with input: the amount of money spent needs be comparable with the amount of money being poured into the company's "pockets".

Once all these options are exhausted, and there is still a need to sell the project, Islam dictates several conditions according to which the sale must be completed. In describing the nature of these determinates or restrictions, Hajazi (2005: 18-21) has summarised the conditions for transferring public ownership to the private sector by stating that privatisation is not a target, but an instrument; a method by which social welfare is secured. Therefore, it is crucial that the money gained from privatisation is distributed equally by the state amongst the people. It is also mandatory that privatisation causes no harm to the community, in the present or in the future. If privatisation causes harm, the result might be a deteriorated economic situation,

which would avoid the regulations recommended by the Islamic economy. This might also create a monopoly on property or an inequality in the distribution of wealth, and it might encourage foreign control of the local economy. These factors might de-stabilise the economic order and/or threaten community interests.

Shehata (2000: 97) has categorised these determinants into economic, social, political, and financial rules. From an economic and a financial perspective, privatisation via the selling of public units must be accompanied by a price scheme: this sets the price at a level that does not exclude the price of the assets owned by the company. The person setting the prices should take into consideration the benefits of dividing the whole amount into shares, so that people from various walks of life can own part of the property that is intended for sale. Additionally, local banks should be allowed to buy some of the shares when the workers are unable to buy them. In this situation, it is likely that the financial loss that might be incurred upon selling the unit would be less.

It is equally important to have plans to mitigate the negative side effects of privatisation for workers and employers particularly in the case of selling public institutions. Shehata (2000: 155) has listed the problems that face workers under privatisation:

- Problems relating to laying off unneeded, unskilled or untrained workers whose presence might cause inconvenience for the new administration. The ensuing problem is that once these workers are driven out of the workplace, they will add pressure on the government through increased unemployment rates.
- Problems related to relocating workers through opening new branches in different places. In some privatised companies this might be taken as a way of pressuring workers to leave their jobs.
- Privatisation might cause psychological concerns for workers. In fact, this normally happens when workers realise that the new owner of the company, probably a foreign national, is only interested in profit and achieving financial success, regardless of jeopardising national economic security.
- Problems relating to technology: the more that technologically-developed machines are adopted, the less secure are the workers' positions.

The money procured from the selling process should be carefully supervised in order to prevent corruption.⁴ In this regard, Al-Jabiry (2005: 11) notes that scholars and analysts agree that corruption normally crops up in countries that lack political freedom and economic growth. Corruption also emerges in countries that lack institutions to combat corruption. Another condition of this is that the sale of certain economic units should not decrease the productivity of other economic units. On the contrary, the money procured from selling should be invested into buying new technological and administrative expertise so that the public sector company can operate efficiently (Shehata 2000: 152).

At a political level, national security interests need to be taken into account when public units are privatised. In other words, the enemies of the state must not be permitted to buy these projects or control them through whatever methods they can. Socially speaking, the social benefits that public sector companies have provided for their workers should be kept intact, despite any intentions for the companies to be sold. Furthermore, it is recommended that workers buy into the companies in which they work, and in fact, the rules state that when the workers show interest in buying the companies, those in charge of selling them should support the workers in their efforts to purchase the companies by removing administrative obstacles. And when the workers do not want to buy the companies, new owners should not be allowed to replace the current workers who could run the companies efficiently. However, workers employed for political reasons can be replaced. In this matter, the state must be responsible for employing these kinds of workers.

Privatisation might also be accompanied by the marginalisation and eventual withdrawal of the state from various (and possibly vital) economic sectors. This marginalisation of the role of the state in the economy contradicts Islamic rules, and since the state must ensure security and justice in Islamic societies, under no circumstances can this role be made private. In this regard, Hajazi (2005: 9) has indicated that the marginalisation of the state is against Islamic tradition since it jeopardises the Islamic economic system. The absence of the state in the market might also create chaos in the economic system. It is far from judicious for the state to leave the public sector to the interests of private individuals.

⁴ On the effective supervision of Islamic banking and institutions, see Mahmoud (2005) and Al-Saad (2005).

3.5. Conclusion: Privatisation in the Balance of Islamic Law

The discussion in this chapter has indicated that while the topic is dealt with in predominantly economic terms, there is little scholarship that addresses privatisation from an Islamic perspective. One of the main aims of this chapter was to contribute to the development of this concept and to understand it better in light of Shari‘a law and Islamic tradition. The chapter focused on the concept of privatisation from an Islamic point of view and investigated the meanings of different forms of ownership in Islam. It also examined the role of the state in the economy, together with its relationship with private parties.

The discussion indicates that Islam and Islamic rules recognise both public and private ownership. Each type has its own regulations for making sure that benefits are distributed equally among Muslims. And when privatisation is considered, religious scholars are agreed that if it is absolutely necessary, it must be done in accordance with Islamic law (see Al-Matyoti, 2005: 7). Therefore, Islam does not reject the notion of privatisation entirely. On the contrary, it recognises and supports privatisation when it contributes to the development of the economic role of the state, and it can be done when the state focuses on the real tasks and leaves the artificial tasks to the private sector. Therefore, instead of establishing economic projects and providing services to citizens, the state must focus on the duties that cannot be performed by the private sector, leaving the private sector to take on the other economic activities.

In fact Islam has encouraged and protected private ownership, as Muslehuddin (cited in Chaudhry (1999: 7) clearly shows:

Private ownership of property is regarded as a spur to stimulate the best efforts of man which add enormously to the wealth of the community, but to a socialist it is the main cause of irrational and unjust distribution of wealth. The Islamic concept of private ownership is of a unique nature. Ownership, in essence is that of God while some rights only, under specific conditions, are vested in man so that he may fulfil the purpose of God, that is, the purpose of community by acting as a trustee for those in need.

When it comes to the possibility of transforming public ownership to private investors, the scholars do not agree. The question in this regard is, if there was a public sector running according to Shari‘a law, would the state have the right to privatise it? As the discussion indicated, views vary between those who deny the possibility of transforming public

ownership to private ownership, and those who would allow such transformation in certain areas and under specific conditions.

According to the first group of scholars, the state, consistent with Islamic tradition, should not transfer public ownership to private ownership since profits from these public projects must be shared among the people. A careful examination of the functions of the Islamic state in the economy leads to strong reservations and even outright rejection of some of the broad concepts of privatisation. According to this view, Shari‘a law forbids the leasing or sale of oil fields, phosphate and potassium mines, roads, sea, and rivers to the people. Additionally, industries such as petrochemicals, natural gas, electricity, water, telecommunications, and other strategic industries should remain under public ownership.

What should be clear in this regard is that what these scholars oppose is only one shape and form of privatisation, which is privatisation via the selling of projects to individuals. Their convincing argument is that according to Islamic Law, the state has a role to play in securing the supply of these services to people in society and to protect the Islamic Umma from any harm that might be caused by selling such projects to the state’s enemies. As such, not all forms of privatisation are opposed: for example, Muslim scholars and Islamic institutions legitimise forms such as BOT and BOT projects.

In its nineteenth session (No. 182/19) in the Emirate of Sharjah (UAE), the Council of the International Islamic Fiqh (2009) (part of the OIC, or Organization of the Islamic Conference/Organisation of Islamic Cooperation),⁵ examined the research on applying the BOT system to the reconstruction of Awqaf⁶ and public utilities. It was decided that the introduction and application of BOT was acceptable for such projects. The Council also recommended that the search for all forms of BOT projects should be intensified, in order to clarify the different aspects related to them. This decision means that there is no contradiction between privatisation and Islam. As such, the answer to the above-mentioned question could be “yes” for all public projects, if privatisation targets administration only, and not ownership. When it comes to the ownership of public projects, there is no agreement among Muslim scholars as to the answer.

⁵ The Organisation of the Islamic Conference (OIC) was established in 1969 in Rabat. In June 2011 the OIC changed its name (but not its abbreviation) to the Organisation of Islamic Cooperation. Currently it has 57 members, and it attempts to be the collective voice of the Muslim world and to safeguard the interests, progress, and wellbeing of Muslims. In 2008 the collective population of OIC member states exceeded 1.4 billion people.

⁶ Awqaf (s. waqf) are inalienable religious endowments in Islamic law, typically buildings, plots of land or even cash, donated for Muslim religious or charitable purposes.

To conclude, Islam recognises and legitimises both public and private ownership. However, Shari'a law places some restrictions on the process of transferring public ownership, particularly the transfer of sensitive and strategic industries, to the private sector. As a rule of thumb, the transfer, or the marginalisation or withdrawal of the state, should not harm the society in any way. The state is the protector of the needy and the poor in the society, and the guardian of public interests in general. The state practises this role in modern society under what is known as its 'regulatory role'. As a regulator, the state has to make sure that all negative side-effects associated with privatisation are mitigated. The best way to do this is according to the wisdom of Prophet Mohammed, who summarised all these meanings and principles as "no harm and no reciprocated harm".

Having discussed the theoretical and conceptual issues in the two previous chapters, Chapter Four will focus on the methodology of the study and how the research for the thesis was carried out.

Chapter 4:

The Methodology of the Study

4.1. Introduction

Research methodology has been defined by Adams and Schvaneveldt (1991:16) as, “the application of scientific procedure towards acquiring answers to a wide variety of research questions.” In other words, it includes the tools for conducting the different stages of research such as problem formulation and conceptualisation; investigation of the research questions; the process of collecting and analysing data, and generalising the results. In this sense, research methodology is a cornerstone for the serious academic treatment of any subject.

This chapter aims to highlight the methodology of the study and to spell out the analytical procedures that were followed in collecting and analysing the data. It illustrates the overall analytical methodology by focusing on the case study approach, in order to show its strengths and weaknesses as well as its suitability for the subject studied. The research design, including the process of sampling, data collection and data analysis, is explained in the second part of the chapter.

4.2. Background of the Research Method

This study investigates the process of liberalisation and privatisation in Saudi Arabia in one of the most important sectors (civil aviation), using qualitative methodology. The main aim was to develop an understanding of the policy making process, including the meaning of a behaviour from the perspective of the respondents being interviewed, and to ground that process in an understanding of the broader context in which it occurred.

As noted by Stein and Mankowski (2004), over the last decade or so, the merits of qualitative research have increasingly been recognised by scholars from various disciplines, for several reasons including the following:

- Qualitative approaches to research reflect an underlying philosophy of science and a set of methods that embody many of the values of community research and action.
- Qualitative approaches are a way towards a better understanding of individual diversity and the nuance of social context.

- Qualitative methods are thought to enhance the study of behaviour embedded in a larger social world by emphasizing detailed, first-hand descriptions of people and settings.
- Qualitative methods are also used to arrive at more ecologically-sensitive constructs upon which quantitative measures can be based.
- Qualitative findings are said to help dispel misconceptions about marginalized populations that are perpetuated by the use of quantitative methods.
- Qualitative approaches enable managers and, in turn, decision- and policy-makers to express their reactions in their own words, and allows themes to be developed for further testing (Brand, and Slater 2003).
- Applying qualitative research methods that adhere to principles engages writers and readers in an informative and mutually respectful interaction (Sandelowski and Barroso 2003).
- Qualitative research is contextual research, which emphasizes the meanings of a multiplicity of realities in any given context (Ambert, Adler, and Detzner 1995).

As a process, qualitative research includes four major acts, as summarised in Table 4.1.

Table 4.1: Qualitative Research: A Process in Four Acts

Name of Act	Process
Act I: The Act of Asking	Identifying and enlisting the people who will be the focus of qualitative inquiry. Requires reflection about assumptions and goals that motivate selection of qualitative methods. Can choose to enlist disenfranchised groups in qualitative research to support empowerment aims or enlist dominant groups to support power sharing or other transformations designed to end oppression.
Act II: The Act of Witnessing	Listening to and affirming the experiences of research participants. A witness is an open, totally present, passionate listener, who is affected and responsible for what is heard. Focus of witnessing is on acceptance of what is heard and accountability for acting upon it, not on the personal needs of the researcher or a desire of mutuality between researcher and participant.
Act III: The Act of Interpreting	Making sense of the collective experience of participants by transforming “participant stories” into “research stories” based on the experiences and knowledge of the researcher. Researcher recognizes his or her interpretive authority in

working with qualitative material. A critical point of departure in the experience of researcher and participant.

Act IV: The Act of Knowing

Creating publicly accessible representations of knowledge gained by conducting qualitative research. Embodies the reflections and understandings of the researcher about the social context and lives of research participants. Knowing can be represented through variety of activities such as writing, teaching, speaking, organizing, depending on research and action goals.

Source: Stein and Mankowski (2004: 16)

In attempting to understand qualitative research Ambert, Adler, and Detzner (1995) noted that it was critical to delineate its foci and its goals. In this regard they mentioned four observations about qualitative research:

1. Qualitative research seeks depth rather than breadth. Instead of drawing from a large, representative sample of an entire population that is of interest, qualitative researchers seek to acquire in-depth and intimate information about a smaller group of persons.
2. The aim of qualitative research is to learn about how and why people behave, think, and make meanings as they do, rather than focusing on what people do or believe on a large scale.
3. The goals of qualitative research can be situated on several levels. Qualitative research spans the micro-macro spectrum and both structural and ‘processual’ issues
4. In addition to its critiquing function, qualitative research frequently falls within the context of discovery rather than verification.

4.2.1. The Case Study Approach

As a method of research, case studies are not a new form. Until the development of the scientific method, naturalistic inquiry was the primary research tool. The modern appearance of case studies can be traced back to the fields of sociology and anthropology. Nevertheless, case study research has drawn from a number of other areas, including clinical methods of doctors, the casework techniques being developed by social workers, the methods of historians and anthropologists, plus the qualitative method.

According to Eisenhardt (1989:534), the case study approach represents a “research strategy which focuses on understanding the dynamic present within single settings.” The particularity of the studied setting is very important in this regard and it is claimed that focusing on the studied case leads to a deeper and better understanding of the topic under investigation. From a technical point of view, Yin (1994:13) has described case study methodologies as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and its context are not clearly evident and in which multiple sources of evidence are used.” Context and contextualisation is very important from a case study perspective, as this approach attempts to examine the phenomena under investigation within the wider framework and context in which they happen.

From this angle, case studies typically examine the interplay of all variables in order to provide as complete an understanding as possible of an event or situation. This type of comprehensive understanding is arrived at through a process known as ‘thick description’, which involves an in-depth description of the entity being evaluated, the circumstances under which it is used, the characteristics of the people involved in it, and the nature of the community in which it is located. Thick description also involves interpreting the meaning of demographic and descriptive data, such as cultural norms and mores, community values, ingrained attitudes, and motives.

The case study approach has certain advantages compared to other research methods in which scholars tend to extract the subject they study from the context and try to control many variables. Such an approach can sometimes be helpful but it does not help with obtaining an overall view of the subject studied. Added to this Eisenhardt (1989) has noted that the case study approach can be helpful in other areas, such as providing descriptions, testing theory and generation of theory.

Unlike quantitative methods of research such as surveys (which focus on questions of who, what, where, how much, and how many), and archival analysis (which often situates the participant in some form of historical context), case studies are the preferred strategy when ‘how’ or ‘why’ questions are asked. Likewise, they are the preferred method when the researcher has little control over events, and when there is a contemporary focus within a real life context. In addition, unlike more specifically directed experiments, case studies require a problem that seeks a holistic understanding of the event or situation in question, using ‘inductive logic’ reasoning from specific to more general terms. By focusing on ‘how’ and

‘why’ types of questions, the case study research helps in theory building and theory testing (see Table 4.2).

Table 4.2: Research questions according to different research strategies

Strategy	Form of Research question
Experiment	How, Why
Survey	Who, What, Where, How many, How much
Archival	Who, What, Where, How many, How much
History	How, Why
Case study	How, Why

Source: Yin (1994:6)

As Table 4.2 shows, when the study is driven by answering ‘how’ and ‘why’ questions, the case study approach appears to be helpful. In this research, the case study approach was chosen to investigate the extent to which the privatisation of the civil aviation industry in Saudi Arabia has achieved the claimed benefits of transferring public utilities into private ownership. The reason for choosing this approach is that it helps in answering important questions related to ‘how’ the Saudi government proceeded when privatising this important sector, and ‘why’ it chose to follow certain policies to achieve its goals in this area. The situation in the Kingdom at the present time (2012) shows the need for empirical studies that try to illustrate the outcomes and impacts of government policies on specific sectors, such as civil aviation. This observation means that this research fills a gap at the empirical and theoretical levels.

In comparison to other research methods, the case study approach is claimed to have the following advantages (Denscombe 2003 and Grunbaum 2007):

- Case study is suitable for studying contemporary phenomena.
- It has descriptive and explanatory powers.
- It is mainly qualitative and can therefore serve several objectives, including description, explanation, and / or exploration.
- It allows the application of numerous data sources in case study research.
- It allows the production of rich and contextual interpretations.
- It takes several types, according to the research purpose, such as exploration, theory building, and theory testing and theory extension/refinement.

- Case studies are multi-perspective analyses. This means that the researcher considers not just the voice and perspective of the actors, but also those of the relevant groups of actors and the interaction between them (Feagin, Orum, and Sjoberg, 1991).
- Case study is a triangulated research strategy. Triangulation can take place with data, investigators, theories, and even methodologies. The protocols that are used to ensure accuracy and alternative explanations are called triangulation Stake (1995).

In addition to these general advantages of the case study approach, this methodology is particularly relevant to this study for the following reasons:

- First, it helped the researcher in investigating the case of the liberalisation and privatisation of the civil aviation sector, leading to a rich description of one of the areas that has not yet been studied empirically and in depth.
- Second, understanding the reasons behind the way in which this sector was liberalised and privatised can show the policy rationale presented by government officials to justify their policies; this may also be applicable to other industries and policy fields.
- Third, the detailed investigation of the process of liberalisation and privatisation itself enabled the researcher to highlight weak points and shortcomings that need to be avoided in the future privatisation and liberalisation of other sectors.

Despite these advantages, the case study approach raises certain concerns with regard to different areas, including the following: credibility and generalisations of case study findings; the production of ‘soft’ data; the ethical issues related to access to information and people; the difficulty of setting boundaries for the cases studied; the effect of the researcher’s own beliefs and interpretations concerning the data collected about the cases studied. Among these criticisms, the ability to generalise from examining case studies represents a substantial issue for case study analysts.

The conventional wisdom about the case study approach, according to Flyvbjerg (2006), is that it reflects a detailed examination of a single example of a class of phenomena. A case study cannot provide reliable information about the broader class, but it may be useful in the preliminary stages of an investigation since it provides hypotheses that can be tested systematically with a larger number of cases. Such an understanding is common among

proponents of the natural science ideal within the social sciences. For example, Giddens (1984: 328) commented on this issue by noting that:

Research which is geared primarily to hermeneutic problems may be of generalized importance in so far as it serves to elucidate the nature of agents' knowledge ability, and thereby their reasons for action, across a wide range of action-contexts. Pieces of ethnographic research are not in themselves generalizing studies. But they can easily become so if carried out in some numbers, so that judgements of their typicality can justifiably be made.

Flyvbjerg (2006) sees such conventional wisdom as wrong or misleading. He emphasises that the case study is a necessary and sufficient method for certain important research tasks in the social sciences, and that it is a method that holds up well when compared with others in the range of social science research methodologies. He also explains that it is correct that the case study is a “detailed examination of a single example”, but as is shown below, it is not true that a case study “cannot provide reliable information about the broader class.” It is also correct that a case study can be used “in the preliminary stages of an investigation” to generate hypotheses, but it is misleading to see the case study as a pilot method to be used only in preparing the real study's larger surveys, systematic testing of hypotheses, and theory building. Added to this, formal generalisation (whether on the basis of large samples or single cases), is considerably overrated as the main source of scientific progress. In addition, Yin (1994) pointed out that generalization of results, from either single or multiple designs, was applied to theory and not to populations. Multiple cases strengthen the results by replicating the pattern-matching, thus increasing confidence in the robustness of the theory.

With these shortcomings thus identified, the research tries to reduce their effects on the results of the study. For generalisation problems, the study would not claim that its results can be generalised to other countries. However, the context of the Saudi liberalisation processes are clearly explained, which will make it possible for other countries with similar conditions to benefit from the study. The serious treatment of the process of data collection and data analysis will also help producing concrete rather than soft data.

With regard to ethical concerns the researcher was issued with an ethical approval certificate, meaning that in designing and applying the different data collection tools the appropriate ethical rules had been followed in this regard. Choosing to focus on a single case study (the Saudi case) and on one particular sector (the civil aviation sector) helped in setting the boundaries for the case study. Finally, concerning the effect produced by the presence of the

researcher in the case study situation, it must be admitted that this was a difficult problem to tackle. The researcher sought to be objective and not to intervene with respondents, or to impose his own views and interpretations on the analysis.

4.3. Research Design

Identifying the research method and research design is a crucial step towards writing up a good piece of research. In order to do this, two main questions must be answered. The first concerns how the data was collected and organised. The second concerns how the data collected will be analysed. For several reasons, answering these two questions is quite important. First, it is very important for the reader and the examiners to know the way in which data was collected, organised, and analysed, since these processes can affect the results of the research. Second, it is equally important to show the reader that the best methodology has been applied to collecting and analysing the data, because there is more than one way to study the same subject. As such, choosing one of these ways and justifying it, is very important for demonstrating the value of the work. Thirdly, the reader will need to be sure that the way in which data was collected and analysed is consistent with accepted practice in the field of study, and with scientific methods of conducting research in general. Fourth, the design of the research can give a good idea about how consistent the objectives of the research are and to what extent the chosen research methods can fulfil such objectives. Finally, this section of the study gives the researcher an opportunity to illustrate the problems that faced him/her in data collection and analysis.

Having illustrated the importance of research design and research methodology the focus of this section is mainly on the way in which I tackled the problems of data collection and data analysis in my research, meaning that my research strategy is the subject of discussion. By research strategy, I mean the way in which data was collected and the tools that were used to do this. In addition, the analytical techniques and the way in which data was analysed is also be a subject for discussion. Before considering the research strategy, it is useful to define the nature of a 'research design'.

As noted by Hakim (1997: 1) research design "deals primarily with aims, uses, purposes intentions, and plans within the practical constraints of location, time, money, and availability of staff." In that sense a research design can be regarded as the logic that links the data to be collected and the conclusions to be drawn to the initial questions of the study. Thus a research

design is basically a blueprint for getting from the beginning to the end of a study. The beginning is an initial set of questions to be answered, and the end is some set of conclusions about those questions.

Identifying the research design is basically about answering a series of simple questions, including what questions to study; what data is relevant; what data to collect; how to analyse that data, what resources are available in terms of financial, human, and time inputs, what problems might one face studying this subject, and what are the solutions to these problems.

The research questions of this study address issues arising from the impact of privatisation on the overall performance of the civil aviation sector in Saudi Arabia. The analysis conducted in this study, therefore, sought to determine whether the privatisation of the civil aviation sector in the Kingdom was truly desirable and if it has lived up to the expectations of the Saudi government on the one hand and those of the customers on the other. In particular the study tried to determine whether privatisation of the Saudi civil aviation industry had led to: (1) improvements at the level of the sector's efficiency, (2) an increase, decrease or maintaining of the work force, and (3) contributing to budgetary advantage.

4.3.1. Types and Design of the case study

'Case study' is a general term that includes different forms and shapes of cases. Generally speaking, four types can be identified: illustrative, exploratory, cumulative, and critical instance case studies (GAO/PEMD-91-10.1.9 Case Study Evaluations, 1990). Illustrative case studies are primarily descriptive; they serve primarily to give readers a common language about the topic in question and to familiarise them with the situation under investigation. Exploratory or pilot case studies are usually performed before implementing a large-scale investigation. The main aim is to help identify questions and select types of measurement prior to the key examination. Premature conclusions represent the major pitfall of this type of case study.

In Cumulative case studies, information is aggregated from several sites at different times, in order to allow greater generalisation without additional costs or time being expended on new and possibly repetitive studies. Critical Instance case studies are useful for answering cause-and-effect questions and for proving casual relationships by examining one or more sites either for the purpose of investigating a situation of unique interest with little or no interest in

generalisability, or to call into question or challenge a highly generalized or universal assertion.

In addition to these four types, case study scholars tend to use different typologies and classifications for case studies. The following table presented by Baxter and Jack (2008), and based on the work of Stake (1995) and Yin (2003), summarises the main typologies and the characteristics of the various types of case studies:

Table 4.3: Case Study Types and Their Characteristics

Case Study Type	Characteristics
Explanatory	This type of case study would be used if you were seeking to answer a question that sought to explain the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies. In evaluation language, the explanations would link program implementation with program effects.
Exploratory	This type of case study is used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes.
Descriptive	This type of case study is used to describe an intervention or phenomenon and the real-life context in which it occurred.
Multiple-case studies	A multiple case study enables the researcher to explore differences within and between cases. The goal is to replicate findings across cases. Because comparisons will be drawn, it is imperative that the cases are chosen carefully so that the researcher can predict similar results across cases, or predict contrasting results based on a theory.
Intrinsic	Stake (1995) uses the term intrinsic and suggests that researchers who have a genuine interest in the case should use this approach when the intent is to better understand the case. It is not undertaken primarily because the case represents other cases or because it illustrates a particular trait or problem, but because in all its particularity and ordinariness, the case itself is of interest. The purpose is NOT to come to understand some abstract construct or generic phenomenon. The purpose is NOT to build theory.
Instrumental	Is used to accomplish something other than understanding a particular situation. It provides insight into an issue or helps to refine a theory. The case is of secondary interest; it plays a supportive role, facilitating our understanding of something else. The case is often looked at in depth, its contexts scrutinized, its ordinary activities detailed, and because it helps the researcher pursue the external interest. The case may or may not be seen as typical of other cases.
Collective	Collective case studies are similar in nature and description to multiple case studies

Source: Baxter and Jack (2008: 547-549)

Each of these case study approaches can be used to study either single or multiple case studies. As noted by Yin (1994) while multiple-case studies follow replication logic, where each individual case study represents a ‘whole’ study in which facts are gathered from various sources and conclusions drawn on those facts; single case studies are normally used to confirm or challenge a theory, or to represent a unique or extreme case. In this context, a

single case study approach can be useful for analysing revelatory cases where an observer may have access to a phenomenon that was previously inaccessible. It can also be helpful for holistic studies when the same case study involves more than one unit of analysis. This type of case study requires careful examination to avoid falsification and to take full advantage of the investigator's access to the evidence.

In the present context, the case of the civil aviation sector in the Kingdom of Saudi Arabia is analysed as a single case study. The justification for this is that the thesis seeks an in-depth investigation of that sector in order to produce sufficient information and description regarding the way that policies and decisions are made. This type of information is rare because of the lack of systematic empirical analysis of such policy areas.

Because of the wide range of topics that can be studied using the case study approach, there is no universal design that can be adopted by all researchers. As Yin (1994:20) notes case study designs vary according to at least five criteria: a study's questions; its propositions; its units of analysis; the logical linking of the data to the propositions; and the criteria for interpreting the findings.

4.3.2. Conducting the Case Studies

Yin (2003) notes that one of the major characteristics of case study research is the use of multiple data sources. In this context, potential data sources may include, but are not limited to: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts (see also Stake 1995). In this section, various issues related to the conduct of the case study are considered. The discussion focuses initially on the matter of sampling, followed by an explanation of the way in which primary and secondary data are collected, and an account of the analytical tools and methods that are applied.

4.3.2.1. Sampling

Before discussing sampling, it is worth noting that case study research is not sampling research (Stake 1995, Yin 1994). However, case study scholars have confirmed that selecting cases must be done in order to maximise learning outputs, in the period of time available for the study. In short, and as Yin (1994) states, the case studies must always have boundaries. But how can such boundaries can be determined?

Various forms and types of selection are summarised in Table 4.4. The selection of the Saudi case study was very close in nature to information-oriented selection since, as indicated previously, the main aim was to acquire information about the process of liberalising the civil aviation sector and the degree of success achieved through this process.

Table 4.4: Strategies for the Selection of Samples and Cases

Type of Selection	Purpose
A. Random selection	To avoid systematic biases in the sample. The sample's size is decisive for generalization.
1. Random sample	To achieve a representative sample that allows for generalization for the entire population.
2. Stratified sample	To generalize for specially selected subgroups within the population.
B. Information-oriented selection	To maximize the utility of information from small samples and single cases. Cases are selected on the basis of expectations about their information content.
1. Extreme/deviant cases	To obtain information on unusual cases, which can be especially problematic or especially good in a more closely defined sense.
2. Maximum variation cases	To obtain information about the significance of various circumstances for case process and outcome (e.g., three to four cases that are very different in one dimension: size, form of organization, location, budget).
3. Critical cases	To achieve information that permits logical deductions of the type, "If this is (not) valid for this case, then it applies to all (no) cases."
4. Paradigmatic cases	To develop a metaphor or establish a school for the domain that the case concerns.

Source: Flyvbjerg (2006: 230)

The literature on research methods makes a distinction between random and non-random samples (Patton, 2002, and Onwuegbuzie and Leech, 2007). These two types of samples are useful in conducting quantitative research that seeks generalisations. Qualitative researchers tend to use another type, called purposive samples, to reflect particular features of groups within the population. This allows the researcher to obtain insight into a phenomenon in order to understand it, but is not intended to be statistically representative (Onwuegbuzie and Leech, 2007).

Many forms of purposive samples can be found in the literature. These include extreme or deviant sampling; intensity sampling; maximum variation sampling; homogeneous sampling; typical sampling; stratified purposeful sampling; critical case sampling; snowball or chain

sampling; criterion sampling; theory-based or operational construct sampling; confirming or disconfirming sampling; purposeful random sampling; politically important sampling; and combination or mixed purposeful.

In the context of this study, the purposeful sampling technique was chosen for designing the study sample. A mix of purposeful random sampling and Snowball or Chain sampling guided the process of choosing the sample. Purposeful random sampling was used to select the key informants for interview; they represented experts and decision-makers in the field of privatisation and civil aviation. The sample was completed by following a Snowball or Chain sampling technique which meant that the key informants were asked to name some other people to participate in the study.

While the size of a studied sample represents an issue for quantitative analysis, since the sample should be large enough to represent the whole society of the study in order to be able to generalise, this is not the case in qualitative research. Larger samples were not required for the purpose of the present study since it did not seek to generalise the results either for the entire society or for other countries. Therefore, the sample consisted of 25 interviewees, who came from the industry and the regulatory agency, or who were experts in the field of civil aviation.

The researcher approached respondents from related organisations including the General Authority for Civil Aviation (GACA), the Saudi airlines, the regulatory agency, and the regulated private companies, as well as experts, academics, and journalists. These respondents were selected with the aim of eliciting well-thought out reflections regarding the progress of liberalisation and privatisation processes in the Kingdom's civil aviation sector. To balance the responses and obtain differing views on the progress of these liberalisation and privatisation processes, the researcher also chose several respondents, such as legal experts and journalists, who would provide neutral opinions and would not take sides with either the government or the private companies.

The sample was formed by contacting the potential informants in advance to seek their cooperation. E-mails and letters were sent to them explaining the objectives of the study and asking them to assist the researcher by fixing a date and a time for the interview. A list was compiled of the interviewees after their responses had been received (see Appendix 3, p. 271 for details).

4.3.2.2. Data Collection

Qualitative methods are commonly known to include open-ended questionnaires, in-depth interviews, ethnographic studies, and participant observation. However, as noted by Ambert, Adler, and Detzner (1995) these methods do not do justice to the diversity of procedures in qualitative research. They state that:

Basically, it includes research that has at its base (a) oral words whether in conversations, sentences, or monologues; (b) written words in journals, letters, autobiographies, scripts, texts, books, official reports, and historical documents; (c) the recorded field notes of observers or participants of meetings, ceremonies, rituals, and family life; (d) life histories and narrative stories in either the oral or the written form; (e) visual observations (whether live, videotaped, or in pictures) or other modes of self-expression such as facial expressions, body language, physical presentation of self, modes of dressing, and other forms of self-expression.

In short, according to this point of view, qualitative research includes both field observations and analysis of texts where the term text is broadly defined. Some of these methods are closely related to particular epistemologies, whereas others, such as the interview, cut across theoretical perspectives.

In this study, primary data was collected through an interview with various informants from the industry, the regulatory agency and General Authority of civil aviation (GACA). The secondary data was collected from government policy documents, scholarly books and monographs from library collections; articles and news items were also collected from libraries and online sources for material that would assist in answering the research question(s) posed.

4.4. Primary Data Collection

The interview was the main tool for collecting primary data. Using interview techniques represents one of the core competencies of data collection that researchers in social sciences should have in their disposal. Together with participant observation, interviews are considered the keystone of qualitative research in the areas of cultural anthropology and sociology (Liedtka, 1992). Compared to other data collection methods, interviews enable researchers to obtain in-depth information around a topic and to discover the story behind the interviewees' experiences. By enabling direct communication with respondents, interviews make it easier for investigators to follow up specific issues and to encourage respondents to reflect on their

responses. This is not to say that interviews represent a problem-free technique. Like any other data collection tool, interviews have their own problems, being, for example, time-consuming, more expensive, and requiring a high level of communication skills which may not be available to all researchers.

In this section I look at interviews as a data collection tool, with the aim of establishing the validity of conducting interviews in order to collect the data required for tackling research problems. In other words, the core question to be asked is 'how useful can interview techniques be for collecting data to analyse and investigate the civil aviation sector, following privatisation and liberalisation processes?'

Church and Rogers (2006) describe interviews as one-on-one contact with stakeholders, either in person or by telephone. The definition by Liedtka (1992) of interviews as processes of interaction, in which questions are asked by one party and answered by another can also be considered. With these two definitions of interviews, and without going into a more theoretical and conceptual debate about the meaning of the term, the crux of interviews is to gather information via direct contact with other people, either through face-to-face communication or by using a telephone. In this sense, interviews are most useful when in-depth information about people's experiences or perspectives is needed, or when interaction with respondents is important for clarifying questions or for providing them with information.

The ways in which interviews are conducted may be reflected in the results obtained by the researcher. In this regard, several factors can interfere with the ability of researchers to reach their interviewees if they use the telephone interview technique. Vigderhous (1981) noted that one of the fundamental problems of telephone interviews was how to maximize the response rate. In his view, this problem involved an optimal utilization of all resources, such as human effort, time, and money. Optimizing interviewing schedules meant minimizing the number of call-backs by selecting the most appropriate time to reach respondents. Alfred (1972) highlights timing as another intervening factor that could affect the response rate of telephone interviews, arguing in this context that the proportion of completed interviews would be greater during mid-week days than on Saturdays and Sundays, based on a general knowledge of the timing of shopping and recreational activities. He also claimed that telephoning in the morning would result in more interviews being completed than in the afternoon or evening hours.

Opinions regarding the nature of interviews differ according to different aspects. Such aspects include, among other things, the role of respondents and interviewees, the focus of the research, and even the nature of ‘truth’ itself. From this angle a distinction can be made between two perspectives. The first sees interviews as a science while the other regards them as a form of dialogue. The core differences between them can be summarised in tabular form (see Table 4.5).

Table 4.5: Competing Perspectives on Interview Methods

	Interviews as Science	Interviews as Dialogue
Representative Approach	Protocol Analysis	Interpretive Interactionism
Model of Process	Stimulus – Response	Story Telling
Nature of "Truth"	Objective -accessible to all -shared meanings assumed	Subjective -accessible only to self -no shared meanings exist
Focus of Research	Generalizing	Particularizing
Methodological Priority	Reliability	Validity
Rigor Introduced via	Standardizing to Reduce Reactivity	Personalizing to Contextualize meaning
Role of Respondent	Data Source	Co-researcher/informant
Role of Interviewer	Detached Scientist -Naive Subjects - Independent Coders	Involved Reporter -Rapport - Shared meaning among Coders
Critical Assumptions	Decontextualized tasks evoke real world responses Interviewees accept Interviewer's framework of meaning	Individuals can accurately recall events and are capable of introspection

Source: (Liedtka, 1992: 165)

The expected role of interviewers and the degree of their involvement during the interview process is another subject of debate when it comes to using interview-based research (see Mirvis and Louis, 1985). The core question here as stated by James (1940) is whether the function of the interviewer is one of enlightenment? On the one hand, some expect an interviewer not to be heavily involved in the interview process since his main role is to be an outside observer who should be fully aware of his potential biases. On the other hand, some scholars argue that is hard for the interviewer to achieve full neutrality and impartiality, and according to this perspective, interviewers are encouraged to share their experience with the

interviewee (Denzin, 1989). From this point of view, Mishler (1986) regards interview results as a joint product between the interviewer and the interviewee. The ways in which they interact is reflected in the final outcomes of the interview.

In my view, the role of the interviewer is complex and multifaceted since it includes many tasks, such as locating and enlisting respondents; motivating informants to reflect on their thoughts; encouraging them to clarify any confusion/concerns; and observing the quality of their responses. With such complex tasks in place one can hardly argue that an interviewer can be totally neutral and impartial; nor can the presence of the interviewer in the interview situation be disregarded. This is one of the limitations of the interview technique that will be explored further below. However, the potential impact on the final outcomes of the interviewer's involvement in the interview situation can be minimised by following well-designed procedures.

4.4.1. The Interview Procedures

Generally speaking, the interview procedures can be divided into three main stages; before, during, and after conducting the interview. Each has its own preparation requirements that are illustrated in this section.

4.4.1.1. Preparing for the Interview

Before conducting the actual interviews, a researcher should make up his/her mind with regard to many issues. First, a researcher needs to select the appropriate type of interview. In this regard, Liedtka (1992) has noted that the range of variants classified as personal interviews can be quite extensive. As such, it is important to admit the diversity of approaches that come under the category of 'the interview method'. From this perspective, and based on the 'level of formality' criterion, Liedtka has distinguished between three forms of interviews; the informal or conversational interview, the semi-structured interview, and the structured interview. The choice among them is a matter of practicality as it depends on the kind of information the researcher seeks. Information on a specific topic across a selected number of interviewees may call for structured or semi-structured types of interview, while general information about certain subjects across a diversified collection of informants may require an informal type of conversational interview.

In this study, semi-structured interviews were used to collect data from decision- and policy-makers in addition to experts, scholars, and practitioners. There were many reasons for choosing this type: firstly, it gave the researcher more freedom to direct the interview in the way that he wanted, and to focus on the issues that were most important for him; it also allowed the respondents to speak freely and to reflect on their opinions. In addition it gave more flexibility to the interview situation as respondents did not feel as if they were being interrogated by being asked too many direct questions.

Once a researcher chooses the type of interview, the next task is to prepare the interview protocol. This stage requires a visualisation of how the interview guide should be designed. What types of questions are needed to obtain the required information from interviewees? At a general level, questions can be asked to acquire different items of information about respondents' status, knowledge, behaviours, feelings, opinions, experiences and so on. In addition to the importance of choosing the right type of questions, the way in which questions are organised in the interview guide and the wording of the questions are equally important for conducting successful interviews. The sequence in which questions are asked is very important. It may be useful for the interviewer to start with factual questions that are unthreatening for the respondent and then ask more searching or controversial questions that might require the opinions or evaluations of the respondent(s) on certain issues. It can also be helpful if the interviewer asks some cross-checking questions that will reflect the level of consistent responses.

For the present study, an interview questionnaire was developed, based on open-ended questions, in which the different aspects to be investigated were outlined (see Appendix I). Developing this tool enabled the researcher to cover the various issues using the same tool, leading to consistency in the data collection processes.

Asking respondents at the end of an interview if there is anything else that they may want to add to their answers can be helpful for obtaining more information from them. Added to the details above about types and sequences of questions, the manner in which these questions are asked is quite important. The wording of the question can direct the interviewee in certain directions and force them to produce certain answers. Hence, the interviewer should ask the question in a neutral way during the interview, to encourage respondents to give genuine answers regarding the issue at stake.

Preparing the interview question guide paved the way for the researcher's second task which was to decide whether he would conduct the interviews himself or if assistance from other researchers might be needed. Such a decision should be taken on the basis of available resources. If a team of interviewers will be conducting the interviews, the researcher must train them beforehand by describing the whole project; explaining the purpose of the interview; explaining the format of the interview; addressing issues related to respondent confidentiality; and covering and explaining the entire protocol of the interview. It may also be helpful to illustrate issues related to interview bias and the exact role of the interviewer in interview situations.⁷

4.1.1.2. Conducting the Interviews

Once the preparation stage is completed, the next step is for the researcher to conduct the actual interviews. As in the previous stage, there are several things that should be taken into account while carrying out the actual interviews. First, a researcher should check the suitability of the interview location to assure the continuity of the interview and to avoid interruptions. It is also important to check interview equipment such as recorders or cameras if the interview is also going to be filmed. An introduction by the interviewer to the subject of the interview and the reasons for choosing the interviewee can be a good way of breaking the ice and encouraging the respondent to interact positively during the interview. Assuring the respondent at the beginning of the interview of complete anonymity and confidentiality by indicating that any information that he/she is going to give is exclusively for research purposes can encourage respondents to express their views freely, especially when it comes to sensitive and/or controversial issues.

In this study, interviewees' responses were anonymous and their names and personal details were not disclosed. This was to give them an opportunity to reflect freely on the interview questions and not to worry about being embarrassed about anything they might have said. They were also given the choice of speaking off the record if they wished. Added to this, the collected data was not intended for any other purpose than the research within the framework of the study.

The output of an interview depends to a large extent on the way the interviewer questions the interviewee. In other words, effective questioning is a prerequisite for successful interviews,

⁷ For more details see *Basic Guide to Program Evaluation*.

and it is important for the interviewer to be relaxed, positive, interested, and enthusiastic and to maintain an encouraging attitude during the interview. Interviewees should not feel as if they are being cross-examined. Questions should be asked in a friendly and conversational manner. Reading questions from the interview guide is useful but it is preferable for the interviewer to memorise them and ask them in a more informal way. Encouraging respondents to reflect on their answers by using probing questions is another important interview technique. Initially respondents may not necessarily answer questions in detail, so revisiting the topic and asking them to expand on previous responses may enable interviewers to extract the level of information they need.⁸

A good interviewer not only asks questions effectively, but is also a good listener. Good listening skills are important for conducting fruitful interviews. Once an interviewer has asked a question, the respondent should be given the opportunity to answer it fully. Interrupting a respondent may distract and distort their ideas and thinking. Paying close attention to their answers, thinking critically about what they are saying, and trying to establish the main point is essential for interviewers to develop appropriately searching questions. Effective listening also includes taking shorthand notes of what respondents say regarding certain issues. This helps interviewers not to miss any of the main ideas, thoughts, or points mentioned by the interviewee, and enables them to focus, organize their thoughts, and retain important details.

Added to these skills, time management is another essential requirement for effective and productive interview processes. Since interviewees may have time restrictions, the length of the interview may vary according to their timetables. Therefore, time is a precious resource that should be allocated and used wisely. Concluding the interview is as important as opening it. Interviews should be concluded in a positive manner that shows appreciation for respondents giving the interviewer their time and positive interaction during the interview. Thanking interviewees for being helpful can sustain rapport and good relationships, as will informing them as to when the anticipated research outcomes can be expected.

4.5. Collecting Secondary Data

The beginning of the 21st century has seen a technological information explosion; today's researchers and scholars do not face any problem of information scarcity. Advances in communication and information technologies have made vast amounts of information

⁸ For more details see *Assessment Methods: Conducting Effective Interviews*.

available in various printed and electronic forms. For example, consulting Google on any subject will produce thousands of relevant websites and materials. In this respect, the challenge facing scholars and researchers is no longer related to availability of information but is more concerned with how to evaluate and assess the credibility of the vast amount of available information and its relevance to the topic at hand.

To tackle this problem it should be clear to the researcher from the start what strategies are needed to gather, organise, analyse, and assess the available information. The researcher should also be aware of the most relevant sources of information related to the subject he/she is investigating. It is a sound idea when choosing a research topic to try to evaluate and assess the available sources of information, either electric or printed, so as to ascertain what the advantages and disadvantages of these resources might be.

Taking my research topic, “Civil Aviation Policy and Privatisation in the Kingdom of Saudi Arabia”, my strategy for collecting secondary data for searching on and around this subject included the following steps:

1. Searching the library catalogue.
2. Running a desktop search.
3. Searching electronic data bases and journals.
4. Searching private membership online libraries.
5. Searching the World Wide Web.

In my view, a good starting point was to investigate the university library catalogue, which offers different options for searching; this can be done by author, keywords, title, and by title and author together. An advanced search facility using the same criteria is also available and allows the researcher to limit his search results to a certain type of material, a certain location, a certain language, and a certain period of time. The advanced search also enables the possibility of establishing logical connections between variables included in the search, such as ‘and’, ‘and not’, ‘after’, and ‘before’.

The university library catalogue with its varied options provided me with a valuable source of information. Using ‘privatisation policies’ as keywords I found many results, although these were not chronologically ordered. Thus if one wishes to concentrate on the most recent material one would need to go through all the results. However, searching using keywords gave me a good idea of the range of resources available on my research topic.

To narrow down my search and concentrate on the most recent material on the topic, in addition to linking my theoretical framework with my case study I resorted to the advanced search option, choosing 'and' to link my two variables. Regarding the materials, I also chose printed and e-books, and archival materials only. To locate recent and updated materials I restricted my search to publications after 2000.

The possibility of searching in different languages was of great help. Since Arabic, not English, is my first language, the possibility of searching and finding materials written in Arabic enabled me to access Arabic resources that helped me to establish a good background about the subject before starting to read about it in English. In addition the possibility of using the exact title of a publication helped in the speedy location of references that I had known previously. Author search was also very useful and helped me to find references for several well-known authors in this field, while the subject heading option enabled me to find additional and often useful categories for my search topic.

In my opinion searching the library catalogue using a computer is not enough, since it is a highly biased process and depends to a large extent on keywords or titles or any other method that a researcher might use to conduct research. Inevitably, the results shown on the computer do not necessarily include everything on the library shelves. Therefore, a desktop search combined with physically visiting the library was an important step to supplement the results I had reached through catalogue searches. The way the library is divided according to subject areas was also very helpful for finding relevant materials that had not appeared in my catalogue search. However, because the library has extensive collections in all its specialist areas, the shelf-searching process can be time-consuming.

Electronic journals, especially those specialising in my topic area, such as *Arab Studies Quarterly* and *Journal of Economic Perspectives*, were of great use and provided me with updated articles directly linked to the subject of my research. The availability of some of these journals (e.g., *Journal of Economic Perspectives*) via online databases like JSTOR enabled me to search various issues with ease and download useful articles in accordance with copyright limitations. However, other journals like *Arab Studies Quarterly* were only available in print format. Another problem with journals is the availability of back issues. The most recent issue of ASQ available in the library was dated 1989, meaning that if I needed a recent issue I had to resort to other databases that had high subscription fees. Another issue with journals, especially those that are available on line is the matter of copyright. Despite their richness as sources of information, the number of journal articles that an individual is

permitted to download is limited by copyright restrictions. If, for example, there was a special issue of a journal on a certain topic, copyrights rules prevented downloading or printing the entire issue.

By providing access to more than 22,000 periodical articles and conference proceedings since 1914 in different scientific disciplines, via online science, social sciences, arts, and humanities databases, such as ISI Web of Knowledge, any researcher can utilise valuable information sources. However, to make the most of the electronic databases one has to learn the search techniques associated with them. Some provide simple search techniques; others are more complex. They also differ with regard to the available facilities and options; thus, some allow full access to articles while others require payment or are by subscription.

Focusing on the ISI Web of Knowledge as an example, it was really easy to search. The database provides different search options by topic, by author, and by name of publication. It also offers the possibility of linking two subjects or two research variables via logical relations such as 'and', 'or', 'not', etc. A researcher can also choose the most important references related to a topic by marking them to 'export' later either to any reference manager or to be sent via e-mail. The research subject can also be limited to a certain period of time by, for instance, focusing on publications over the last five years, last two weeks, or by searching the current issues only.

Inputting my search topic, using 'civil aviation policies' as keywords, to the ISI Web of Knowledge produced many results although use of my second variable, the 'Saudi Arabian case study' as key words for my search I found no results. However, when the two variables were combined using 'and' as the link, I still ended up with no results. The database website actually tries to help the researcher overcome such problems by offering tips and examples to illustrate where the problem might lie. This can be very helpful to the user. In addition, finding no results meant the topic had not been widely researched.

The major shortcoming that I found in dealing with ISI Web of Knowledge was that it only offers abstracts and not full access to the publications, which can be a bit frustrating when a good piece of work is located but it is not possible to access it. The other problem that I faced was the programme's high sensitivity to spelling errors. To be fair, this is a problem with most of the online databases; therefore, the user should be very accurate in the spelling of key words. The user also needs to allow a reasonable period of time to learn how to use the database to good advantage.

Private membership databases such as the Questia online library also proved to be a helpful and efficient tool for data collection. In addition to the search facility it offers other useful services, including creating one's own research projects and saving relevant search results in designated folders, and also provides online course materials in many subjects. As with other databases, the search facility includes many options, including author's name, title, subject, publisher, and contents, and searches can also be limited to certain time periods by using the 'before' and 'after' feature. Many useful results appeared when I searched using my two variables as key words.

One of the advantages of the online library is that search results always include different types of materials, including books, journal articles, magazine articles, newspaper articles and encyclopaedia articles. Because of this wide range of resources, I had thousands of results for each of my two variables; e.g., 'privatisation policies' produced around 8900 books, 800 journal articles, 200 magazine articles, 100 newspaper articles, and 300 encyclopaedia articles. Searching such numbers takes a long time but since the results are relevant to the search topic, the time spent in searching them is not wasted. For some people the major problem of these online libraries is membership. They are not public libraries and require subscription fees that can some people find very expensive.

In addition to libraries and electronic databases, general search engines such as Google and Yahoo also proved very useful in researching my topic. Many good published papers and articles can be found free of charge; they can also help the user to identify problems by suggesting other related topics to be searched or asking the user about alternative spellings or vague statements. The major disadvantage of these general search engines is that they gather everything related to the topic one is researching, thereby in many instances producing several million references. Since there is no system to focus on the most relevant results, one has to be highly selective by refining one's own search parameters. Of course these are intentionally 'general' search engines and will therefore often come up with different types of materials including articles, websites, documentary films, etc.

In addition to these sources, the researcher investigated local public libraries during the field study period, including the Saudi Arabian Airlines library, the library of the General Authority for Civil Aviation (GACA), that of the Ministry of Economy and Planning, and the World Bank library. The aim was to collect books, reports, news articles and other published documents dealing with the description, analysis and background of the privatisation of civil aviation in the Kingdom, and with privatisation from an Islamic perspective. Collecting this

material for the case study was very important as I could check the data collected from the interviews against another data source to confirm its accuracy.

In conclusion, the problem facing students in different academic disciplines is no longer one of lack of information. Information is now easily available through a diversity of media and in different formats. The challenge is how to choose, assess, learn about, and use these different media to serve the main purpose of the research.

4.6. Analysis of the Data

In order to arrive at conclusions, there must be a clear analytical strategy in place. Many researchers see the analytical part of case study analysis as the most difficult one. One reason is that because of the nature of the case study approach, quantitative analysis is not possible all the time. Hence, analysts need to find other ways to organise and analyse their data. Yin (1994) described two ways of organising and analysing case study material, first by starting with the theoretical propositions of the study, and then analysing the evidence in light of those propositions. The second way is to develop a framework for organising the case study, based on case description.

Most researchers begin their case studies expecting to look for particular observable characteristics; however, it is not unusual for key variables to emerge during data collection. For this to happen, the collected data needs to be interpreted and given meanings by the researcher. The process of analysis can be done either historically (where researchers try to draw conclusions based on the text as a whole) or via coding (which means the systematic searching of the collected data to identify and/or categorize specific observable actions or characteristics).

Miles and Huberman (1984) suggested analytic techniques such as rearranging the collected data, placing the evidence in a matrix of categories, creating flowcharts or data displays, tabulating the frequency of different events, using means, variances and cross tabulations to examine the relationships between variables, and applying other such techniques to facilitate analysis.

Merriam (1985) proposed seven analytic frameworks for the organization and analysis of data. According to her view, the collected data can be organised by looking at the role of participants, or at formal and informal exchanges among groups. It can also be organised and analysed historically, thematically, or according to resources, rituals and symbolism, or

critical incidents that challenge or reinforce fundamental beliefs, practices, and values. Applying one or more of these frameworks can help the researcher to identify patterns among data that may give meanings to the case study.

For the purposes of this study, the collected data was organised and analysed using qualitative analysis. Utilising this approach was expected to be of great benefit, especially for coding the collected data and creating categories and subcategories for analysis. It also had the ability to present data in charts, which can be helpful for step-by-step summarising and discussing the results of the analysis.

The data collected was organised and categorised thematically by focusing on the main points for investigation during the interviews. The selection of these themes was intended to fit into the theoretical discussion of the thesis. From discussion of the theoretical framework the following themes were chosen: the meaning and definition of civil aviation privatisation; the pros and the cons of civil aviation privatisation; the success of civil aviation privatisation; the difficulties of civil aviation privatisation; relationships among private companies and the regulator; competition in the civil aviation sector; customer satisfaction; and how to improve the implementation processes. The data collected was classified and analysed according to the relevant themes.

4.7. Conclusion

This chapter has dealt with the methodology of the study. Many topics have been discussed, including the methodological background and the techniques used for conducting the analysis. The case study approach was chosen to guide the examination of the civil aviation sector in Saudi Arabia. The advantages and disadvantages of this approach and its suitability for conducting this study were discussed, and it was concluded that the case study approach offered many advantages for analysing policy issues such as civil aviation policies. This approach can also be used to achieve the following: to produce new theory, to dispute or challenge theory, to explain a situation, to provide a basis to apply solutions to situations, to explore, and/or to describe an object or phenomenon.

In spite of these advantages, case studies are, for many reasons, complex approaches that include a multiplicity of data sources, a variety of cases within a study, and the large amounts of data generated for analysis. This means that case studies do more than merely studying a single situation. In fact they have the potential to deal with simple but also with highly

complex situations. They enable researchers to answer questions of the “how” and “why” type. At the same time they take account of how context influences the situated subject. In this sense, case studies provide a good opportunity to gain insight into a case and enable scholars to collect data from a variety of sources.

With the theoretical, conceptual, and methodological issues of the research having been explained in the first three chapters it makes sense before starting the in-depth analysis of the Saudi case study to look at the experience of other countries. Chapter Five will be devoted to a comparative overview of civil aviation privatisation and liberalisation in a number of developed and developing countries.

Chapter 5:

Civil Aviation Policy and Privatisation: A Comparative Perspective

5.1. Introduction

The theoretical discussion in the previous chapters needs now to be linked to the concrete experiences of countries in which these theories have been tested empirically. To bridge the gap between theory and practice in the civil aviation sectors, Chapter Five includes three case studies of liberalisation and privatisation in the civil aviation sector. The first is the UK's experience of the privatisation of British Airways. This case was selected because it was regarded as a success story, and therefore has many implications for civil aviation privatisation in developing countries, such as Kenya, and states in the Gulf area. The UK example is also representative of the developed countries, and for comparative purposes it is useful to contrast the experience of both developed and developing countries.

With regard to the developing countries, the Kenyan case study was chosen because it also represents a success story and because it was modelled on the British example. With some exceptions, as will be seen, there are many similarities between the two cases. Since the main case study (civil aviation in the Kingdom of Saudi Arabia) is geographically located in the Gulf, it is also useful to review the situation in this region as a way of introducing the detailed case study, and to explore whether there are particular elements unique to this area when compared with the Kenyan and British case studies. In this context, the processes of the liberalisation and privatisation of civil aviation in Kuwait, the UAE, Oman, Bahrain, and Qatar are explained.

The chapter provides an initial overview of the privatisation and liberalisation of civil aviation from a global perspective, which places discussion of the main case study into a wider context. The first case study examines the UK model; the second looks at the experience of Kenya; and the third considers the experience of several of the GCC states. The chapter concludes with reflections on the process of privatisation and liberalisation in the civil aviation sectors, based on these examples.

5.1.1. An Overview of Civil Aviation Reforms

This section provides an overview of mainstream literature on the privatisation and liberalisation of the civil aviation industry. In this regard, there are not many studies dedicated

to liberalisation of the civil aviation industry compared to other economic sectors and infrastructure industries. Furthermore, the focus of such studies is diverse, since researchers sometimes refer to specific sectors of the civil aviation industry only in relation to the world economy or the global air transport industry. In light of these two general observations, the literature reviewed is categorised into three major groups: the experience of civil aviation reform in specific countries and regions including Africa, Europe, and Asia; the impact of the reform process on different economic and social aspects; and liberalisation and regulatory reform of civil aviation sectors in the global context.

5.1.2. The Experience of Civil Aviation Reform in Specific Countries and Regions

Reforms in the civil aviation industry progress at different speeds in different parts of the world. In this context, scholars have investigated certain countries and regions. Focusing on the African continent, Fatokun (2005) studied the contrasting experience of Nigeria and Kenya, noting that while countries such as South Africa, Mauritius, Kenya, and Ethiopia have been relatively successful in their air transport experience, many other countries, such as Nigeria have been less successful in establishing a strong and viable air transport industry. The researcher looked at the Nigerian and Kenyan experiences, in order to evaluate the Nigerian air transport industry and at the same time identify best practices and success factors in the Kenyan experience that could make Nigeria a relatively successful nation in passenger and cargo air transportation. Various policies and results were assessed in the areas of air transport administration, air cargo transportation, air transportation of passengers, airport management and airline strategic management.

The study showed that Kenya was more successful than Nigeria in the area of international passenger generation, air cargo transportation and air transport administration. Success factors and best practices in the Kenya experience that were responsible for the performance gap in the air transport experience of the two countries were also identified.

Another study by Abeyratne (2003) reviewed the state of civil aviation in Africa. Here the author observed that African air transport, when considered sub-regionally, showed distinct characteristics in each geographical area. East Africa was surging ahead with Ethiopian Airlines, which had developed a substantial route network and was converting Addis Ababa into a busy hub. With regard to regional competition, the study noted that Kenya Airways was aggressively promoting its presence in the region since the government of Kenya was

strengthening its already powerful tourism base. Recent efforts by Kenya Airways to modernize its fleet with Boeing 737-700 and 777-200ER aircraft boded well for competition in the region. Based on analysis of the provisions of the Yamoussoukro Decision (see Section 5.3.below) the study concluded that the critical factor that would make the Yamoussoukro Decision (YD) sustainable within African aviation was the harmonious balance between regulatory control and economic strategy. Autonomy of civil aviation authorities, aggressive development of infrastructure, and personnel training represented the key that could open the door to strategic management of African airlines within the Yamoussoukro Decision.

A paper by Morphet, Wagener and van Dijk (2008) tried to assess the impact of the YD on Africa's civil aviation industry. They found that one key requirement for a liberalised regional air transport market in Africa would be the introduction of measures to ensure fair and equal opportunities to airlines and the promotion of healthy competition. They noted that various concerns with regard to competition could be identified in the processes necessary to achieve full implementation of the YD, including the fact that no regional or African Union (AU) competition rules and arbitration procedures had been activated to support the implementation of the YD. No community treaties had been set up to ensure that competition in the African market was not distorted and that markets would operate as efficiently as possible within a single economic arena. Nor was there a supra-national authority to enforce a single set of competition rules within Africa, similar to Europe's Directorate General for Competition. The commercial operation of a Bilateral Air Services Agreement (BASA) air service route relies on traffic generation in the markets of origin on either side of the route, by means of service offerings such as seating capacity and price discrimination associated with timing and conditions/restrictions on the use of tickets.

Based on these observations the authors concluded that adequate competition rules were a key requirement for the development of a regional liberalised air transport market in Africa. The YD attempts to create a more competitive international (across borders) inter-African air services network, instead of an open (deregulated) market for internal (domestic) air services. This implies that no single Competition Authority will have exclusive jurisdiction over air services that are based on an exchange of traffic rights between two states in terms of BASAs. A pragmatic solution might be found by including suitable measures and procedures in BASAs and adopting elements derived from the unilateral measures taken by the USA and in Europe, since these could be rapidly adopted by the aeronautical authorities and the Ministers

of Transport that in any case are charged with liberalising air transport and implementing the YD.

In addition to academic studies, other reports have reviewed the state of the civil aviation industry in Africa. In its analysis of the continent's economic performance and near-term prospects, the Economic Commission for Africa (2004) noted that a thorough appraisal was needed of the potential of air transport to enhance intra-African trade and the continent's trade with other parts of the world. Inadequate land transport infrastructures and services within Africa provided an added incentive to improve the efficiency of air transport. This was of particular relevance to the enhancement of intra-African trade. In October 2003, the Air Transport Action Group (ATAG) also reported on the contribution of air transport to sustainable development in Africa, noting that the aviation industry had a vital role to play in achieving sustainable development in Africa. Expansion of air services was a necessary condition for the development of a more diversified export base across the continent, and for the expansion of tourism to the region. Improvement in the air transport infrastructure would also help to raise living standards and alleviate poverty in Africa by lowering transport costs, supporting more rapid economic growth, and increasing personal mobility.

Another academic investigation by Ganesh (2006) of the liberalisation and regulation of civil aviation sectors in developing countries raised many questions regarding the Indian experience. It asked whether the government, as a regulator, could have been more proactive in the modernization of airports and taken the necessary steps to avoid "confrontation" between various stakeholders? Would the government be successful in applying the Delhi and Mumbai Airports Modernization model to other international airports in India while keeping its commitment to economic reforms? In addition, what steps did the new management of Delhi and Mumbai airports need to take, to integrate Indian Airlines employees and achieve modernization of these airports to international standards?

In a more recent account of the privatisation of civil aviation in Africa, and taking Kenya as a case study, Massey (2008) investigated the privatisation of Kenya Airways. After reviewing issues of government, governance, public administration reform and civic structures, and taking policy transfer as a framework for analysis, he concluded, on the basis of several theoretical insights, that the privatisation of Kenya Airways represented a successful experience. This success was due to many factors including political support and willingness to reform the sector, along with good leadership. Massey's paper concluded that not only

could the Kenyan experience be transferrable, although local conditions needed to be taken into consideration, but it could also be repeated, provided that the same conditions that had led to the programme's success were still present.

With regard to continental Europe, some scholars were interested in civil aviation industry reforms in European countries. Kort and Kluiters (2003) for example, studied the reform process of the Russian aviation industry, and discussed whether the Russian aviation industry had restructured sufficiently to create a position for itself as a supplier of aircraft. Their paper described the collapse of the market for aeroplanes in Russia that had wiped out domestic demand for aircraft, and discussed privatisation policies and restructuring of the industry. Analysis of the reform process showed that the outcomes were of a mixed nature; On the one hand, a deep restructuring had been avoided, only to become more pressing subsequently. On the other hand, firms had shown great creativity in surviving and the Putin government was pursuing a process of further concentration and consolidation.

The paper concluded, based on these observations, that it did not seem likely that Russia could sustain the current size of the aviation industry, since its markets had simply shrunk too much. Furthermore, Russian producers were facing serious competition from western firms. Although more expensive to purchase, western aircraft are cheaper to operate and manufacturers are often able to offer financing to their customers. Companies and the state alike have to take restructuring seriously if companies are to survive in the global market. Like other sectors, the aviation industry was able, during the 1990s, to avoid thorough restructuring; however, the prospects for the future of the aviation industry are mixed. Although the government did not actively use its share in companies, it continued its involvement in the industry by ordering companies into groups.

Kyohei Shibata (1994) studied the characteristics of airline privatisation in Eastern Europe and the former Soviet Union from a wider perspective, noting that although the main reasons for privatisation were similar to those in other parts of the world, the collapse of the independent air transportation system in the ex-communist region had produced a number of specific features with regard to fleet, management, finance, and partnership with foreign carriers. A net effect of privatisation associated with the purchase of new aircraft, is the debt burden that prompts the airlines to expand into lucrative international markets. These trends are worthy of close scrutiny even though it is so far unclear whether Eastern European and ex-USSR airlines undergoing privatisation can transform themselves into organisations fit to survive.

The privatisation of airlines throughout Eastern Europe and the former Soviet Union shows similarities and peculiarities compared with other experiences worldwide. The main drivers of privatisation, which include a government's budgetary constraints, a scarcity of foreign exchange, and the need for access to international capital markets for fleet renewal, are common among various cases in the Third World, as is the search for partnership with a powerful foreign carrier. Another common but important feature in this regard is that almost every government in the world takes some kind of precautionary measure to ensure that the airline being privatised will not be controlled by foreigners. On the other hand, these cases are radically different from the privatising of other airlines in their institutional aspect. The collapse of the USSR led to a total shutdown of the independent air transport regime in the communist world. The air traffic control system, navigational and landing guidance facilities, computer reservation system, and standards for airworthiness certification were being modified to be compatible with Western standards, since the complete monopoly of air transport by a government body had ceased to exist. Vanishing too was the bureaucratic control of such fundamental economic factors as pricing, exchange rates, personnel costs, aircraft purchase and fuel price.

Based on this analysis Shibata's study concluded that the region's airline industries were in their infancy. Therefore, it was unlikely that their governments would pursue a liberalization policy in the aviation field since they could not afford to allow their national flag carriers to go bankrupt and disappear. One reason for this, as anywhere else, is national prestige. Another is that an airline is one of the few activities capable of earning hard currency. Hence, because there are so many factors affecting the prospects of these carriers, whether or not they will survive is a matter of speculation, and it remains to be seen whether privatisation, as practised in Eastern Europe and the former USSR, will lead to the improved managerial and economic performance that is needed.

In a more recent study Helterlin and Ramalho (2007) tried to establish whether the deregulation of air transportation in Europe had fostered entrepreneurial behaviour and innovation in the European airline industry over the past twenty years or so? They described the process of deregulation and how firms reacted to it, and explained the background to deregulation and entrepreneurship by identifying the direct and indirect influence of deregulation on the companies studied. Based on this investigation, their study looked at how future deregulation in Europe might foster further entrepreneurial behaviour and innovation, and in this context, addressed the relation between deregulation and entrepreneurship-

innovation in the European airline industry by using a positivist scientific ideal and a deductive approach, together with qualitative methods to collect empirical data that could match previously-chosen theories. With the removal of regulatory barriers, companies like SAS and Ryanair saw opportunities to do something new while having at the same time to adapt to the “doing something new” behaviour of other companies. Entrepreneurship and innovation were the answer to these changes and the weapon with which to fight for answers to others with this change.

The study findings showed that EU deregulation had altered the five competitive forces in the European airline industry, which in turn fostered entrepreneurship and innovation, as firms reacted by adapting to their changing circumstances. The reaction of Ryanair and SAS through entrepreneurial and innovative behaviour was different because of the differences in their business model. Thus the removal of barriers to new entrants and increased rivalry between firms were the main forces fostering entrepreneurship and innovation. It was also predicted that if further EU deregulation occurred (as was the trend) more opportunities for entrepreneurship and innovation would be generated.

5.1.3. The Economic Impact of Liberalisation and the Deregulation of Civil Aviation

The civil aviation sector has witnessed a number of changes since the deregulation of the US air industry in the 1980s and of the European industry in the 1990s. These changes include intensified competition in airfares as well as frequency of flights, reorganization of routes into hub-and-spoke networks, and the ongoing formation of strategic alliances among international carriers.

From an economic perspective, many scholars have investigated civil aviation industry reform in an attempt to work out the economic impact of liberalisation on this industry. The Washington DC-based consulting firm InterVistas-ga2 reported (2006) on the economic impact of air service liberalisation policies, providing extensive and significant evidence of the generally-accepted “conventional wisdom” that liberalisation of air services between countries generated significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities and individuals affected by such policies. Conversely, it was also evident that restrictive bilateral air services agreements between countries could stifle air travel, tourism and business, and consequently, economic growth and job creation.

The main findings of the report were that traffic growth, following liberalisation of air service

agreements between countries, typically averaged between 12 and 35 percent, significantly greater than during the years preceding liberalisation. In many situations, growth exceeded 50 percent, and in some cases reached almost 100 percent of the pre-liberalisation rates. Second, a simulation of the likely results of liberalizing 320 country-pair markets that were not currently in an Open Skies (deregulated) mode, indicated traffic growth, on average, of almost 63 percent, substantially higher than typical world traffic growth of around 6 to 8 percent. Liberalising only these 320 bilateral agreements out of the 2,000 in InterVistas-ga2's database would create 24.1 million full-time jobs and generate an additional US\$490 billion in GDP. This corresponded to an economy almost the size of Brazil's.

Third, the creation of the Single European Aviation Market in 1993 had led to an average annual growth rate in traffic between 1995 and 2004 that was almost double the growth rate between 1990 and 1994; this had generated about 1.4 million new jobs, while a fourth finding was that a simulation of full liberalisation of the US-UK market under a comprehensive First Step Air Service Agreement (ASA) between the US and the European Union would produce an increase in traffic of around 29 percent. Some of the increase would result from the impact of lower fares, while the rest would result from allowing any US city to have a non-stop service to London's Heathrow or Gatwick airports.

It was also found that the economic benefits of this liberalisation would be substantial. An additional 117,000 new jobs would be generated, and the incremental impact on GDP for both the US and the UK would be roughly US\$7.8 billion. Finally, an examination of 190 countries and 2,000 bilateral air service agreements suggested that there were still a number of countries that gave priority to protecting their flag carrier(s), rather than enhancing overall welfare and the broader public interest.

Yu-Chun Chang and Chia-Jui Hsu (2005) studied the impact of the relaxation of the rules of airline ownership in Air Services Agreements and national legislation, on the motivation of airlines to form alliances. The core question was whether, in the absence of airline ownership rules, carriers would prefer mergers rather than alliances. To answer this question the paper compared the development, patterns and fundamental differences between these two strategies, and suggested ways in which airlines could select the most appropriate strategy to meet their own operational objectives, once airline ownership rules have been relaxed.

Their major conclusion was that the most important thing for an airline was clarifying the corporate mission, in order to achieve its long-term objective of being either a global network

carrier or a niche player. A global airline would aim to provide a world-wide network of routes and destinations, either by linking its own widespread route network with alliance partners through their hubs, or by acquiring feeder carriers for their regional networks (as was the case with British Airways and Singapore Airlines). British Airways joined the One World global alliance for the global network, and because it was keen to obtain anti-trust immunity for the transatlantic alliance with American Airlines, it also purchased regional carrier Deutsche BA for access to the German market. Singapore Airlines, a member of the Star Alliance, also acquired 49 percent of Virgin Atlantic for trans-Atlantic routes, and 25 percent of Air New Zealand for Pacific routes. The option to ally or merge would depend on the carrier's objective.

In another account, Zhi H. Wang and Michael Evans (2002) similarly analysed the impact of market liberalization on the formation of airline alliances, noting that concerns had been raised about the slowness of airlines in the Asia-Pacific (AP) region to respond to the liberalisation of world airlines, compared with North America (NA) and the European Union (EU). In the absence of rigorous analysis of the impact of market liberalisation on the formation of airline alliances, the researchers set out to explore the evolving of strategic alliance activities and the critical factors that influenced the way such alliances were formed and developed.

The findings of their study showed that initiating regional and more liberalised bilateral or open skies agreements had removed some of the impediments to structural change in international aviation. There was a significant difference between the development of airlines' strategic alliances within different market conditions. Airlines in liberalised markets involved larger numbers and a broader scope of alliances than those in regulated markets. Essentially, there was a positive relationship between the development of alliances and the liberalisation of air transport markets. Importantly, results from a general examination of airline performance between different markets with different market conditions showed a significant difference in airline performance, and the airlines achieved better operating results in the more liberalised markets.

In the researcher's view, these findings indicate that market conditions are significant in the formation of strategic alliances, particularly for their dynamic features. Market liberalisation is also important for airline performance. Countries liberalising their air transport markets enable their airlines to forge greater numbers and integrative forms of alliance when building up global air-transport networks. Hence, based on the research findings, it has been suggested

that airline alliances are an important strategy, particularly for carriers from the AP region. Asian businesses have traditionally used joint activities. Airlines in the AP region have entered into a considerable number of joint activities and marketing alliances, including regional blocs, and these have already benefited the airlines in terms of performance.

Some scholars have studied different issues related to civil aviation sector liberalisation, taking competition as a focal point for analysis, . For example, Flores-Fillol (2006) studied a number of issues related to introducing competition in this dynamic sector. He looked initially at the strategic formation and the effects of airline alliances when two complementary alliances, following different paths, might be set up to serve a certain 'city-pair' market, and concluded that the such alliances were not always profitable even though joint pricing of interline trips eliminated a double marginalisation. Although this outcome appeared puzzling, it could be explained by a competitive environment and the fact that alliances hurt rivals. Alliances decrease a rival airline's interline airfare and travel volumes; while a rival's lower interline fare puts a downward pressure on its partner's interline fare. This effect increases with competition intensity and, when competition is very tough, alliances lead to very low interline fares for both partners and rivals, lowering allied profits and making alliances unprofitable.

Flores-Fillol then focused on building a simple duopoly model where carriers could compete in both fares and scheduling decisions. The main question was how scheduling competition affected airline interaction; while performing a welfare analysis led to the conclusion that there was an under-provision of frequencies and too many passengers were excluded from air travel. In this context it was found that before deregulation, carriers had faced constraints in fares and route structures, and competition was concentrated in scheduling decisions (flight frequency). Only in an unregulated framework did airline competition extended to fares. In spite of the importance of schedule competition, little attention had been devoted to this key aspect of airline operations.

Flores-Fillol's third area of investigation was airline competition and network structure. Here he applied the same duopoly model to study optimal network choices and analyse their welfare implications in an unregulated environment where carriers could organize their networks either as fully-connected (FC) or 'hub-and-spoke' (HS). The main conclusion was that in a framework where air-transport costs were sufficiently low, carriers adopted hubbing strategies, as had happened after the deregulation of the industry. As costs increase, economies of traffic density weaken and airlines' incentives to pool passengers from several

markets into the same plane disappear. Consequently, FC structures occur in equilibrium when costs are sufficiently high. In addition, asymmetric configurations, in which one carrier chooses a FC strategy and the other chooses a HS strategy, may arise without introducing any asymmetry (either in costs or in demand parameters). This result captures the actual coexistence of alternative network strategies in the airline industry. Finally, analysis of the social optimum revealed an under-provision of frequencies characterising FC network structures, confirming the author's earlier results. Interestingly, flight frequency can become excessive under HS network configurations.

Stéphanie Giaume (2006) focused on the question of how to make the Canadian airline industry more competitive, finding that the tax load weighing it down was an obstacle to traffic growth in Canada. If passengers became less willing to absorb these costs, there could be a migration to less costly destinations or airports. Passengers lured by the lower taxes added to the cost of a ticket might, for example, choose to transit through US airports or select a US carrier over a Canadian competitor. This burden also had negative effects on other sectors of the economy that depended heavily on air transport, such as tourism or foreign trade. Derived from this analysis the paper concluded that travelling by aeroplane was no longer a luxury, and that the financial health of Canadian air carriers benefited the entire economy. In assessing ways of improving the competitive position of the Canadian airline industry, the federal government needed to plan for lowering this tax load, along with its policy of more open markets.

Fageda (2006) focused on the Spanish airline market. With the aim of measuring conduct and cost parameters, his paper analysed behaviour in the monopoly and oligopoly strategic scenarios of Spanish airlines, using cost and demand information for a representative sample of routes to estimate demand and pricing equations. In other words, the paper examined airline competition through an empirical specification of a demand and pricing equation system, estimated for the Spanish airline market using a simultaneous procedure. The suitability of the Cournot⁹ assumption was tested in a competitive scenario characterized by an asymmetric oligopoly with capacity constraints, and the degree of density economies was analysed. Results showed that Spanish airlines behaved in a less competitive way than was implied by the Cournot solution. and that thin routes could be considered as natural

⁹ The work of the French philosopher and mathematician Antoine **Cournot** (1801–1877) is recognized today in econometrics and political economy. He is known particularly for his work in the field of oligopoly theory (called Cournot Competition), an economic model used to describe an industry structure in which companies compete on the amount of output they will produce, which they decide on independently of each other and at the same time. See http://en.wikipedia.org/wiki/Cournot_competition and related links.

monopolies, since evidence was found that the conduct of Spanish airlines in oligopoly routes was less competitive than predicted by a Cournot model. In addition, airport dominance surfaced as a relevant determinant of airline mark-ups, and the analysis also showed that density economies were substantial.

By focusing on competition barriers and the move towards an open skies and global civil aviation industry, Smith (2005) raised many questions concerning how the liberalisation of this inherently global industry might be moved forward, which he felt would be an important negotiating issue for both the US and the EU. He identified two major questions to be dealt with. Did the policy of restricting foreign ownership of airlines serve the public well? and how could capital start to be brought in so that it would advance rather than threaten public policy? He also asked what exactly was meant by the terms 'Open Skies' or 'open airways'.

Another study on the same topic by Schnell (2004) investigated the perception of route entry barriers by airline managers using a questionnaire-based approach. His starting point was that only perceived entry barriers prevented entry, and industrialists and scientists had to understand which entry difficulties were noticed by whom, and to what extent, in practice, such obstacles deterred entry. Although theoretical models and empirical studies had expanded knowledge of entry barriers, there was relatively little understanding overall about this issue. This was due to lack of data, disregard of any intra-firm perspective, and restrictive behavioural assumptions. Nevertheless, knowledge of entry barriers was of fundamental importance for policy and business strategies, since these market characteristics restricted airlines' room to manoeuvre. Hence, entry obstacles limited competition, while deregulation actually intended to intensify it.

Carolina Grünschloss (2005) focused on the cargo industry as a sub-sector of the aviation industry, having seen the cargo industry as a fast-paced business sector with great future potential for industrialized as well as developing nations. Investment in this industry was likely to pay off, if and when the market and its surroundings were carefully assessed, implying that when measuring this impact, local conditions would have to be taken into account on a case-by-case basis, according to the study's intentions and the agent's particular needs. Because of the growing importance of air cargo hubs, air freight and the impact of hub development would continue to be a field of interest for research and new business models in the global economy.

The impact of privatisation on industry wages, another important issue related to the privatisation of civil aviation, was investigated by Kinnamon (2002) who noted that despite the growing importance of privatisation in economic reform programmes, little was known about the empirical effects on wages. Using individual-level data from Mexico, Kinnamon estimated the effects of privatisation on industry wages in four instances: the commercial airlines, Teléfonos de México, Siderúrgica Mexicana, and the commercial banks. The major findings were that privatisation was associated with statistically-significant increases in industry wages in two cases and no change in two cases; on average, the private sector employed fewer skilled workers than the public sector; while the deregulation that had caused a loss of market power at deregulated firms might have caused industry wages to decrease.

Based on these findings, it was concluded that privatisation did not necessarily result in employment losses, declining wage, or both, and might in the long run help young and less-skilled workers. While the evidence on the short-run impact of privatisation on skill composition was ambiguous, privatisation might in the long run cause a reallocation of labour inputs towards younger and less-skilled workers since the private sector tends to employ a greater proportion of these workers than the public sector. This reallocation could increase labour-market opportunities for this group of workers, particularly in cases where privatisation did not lead to employment losses. Moreover, since privatisation could increase skill-constant wages, this group of workers might see its average wage increase due to privatisation. Overall, the findings suggested that adjustment costs might not have been as large as opponents of privatisation would claim, and that in some cases privatisation could even benefit workers.

Kitaeva (2002) investigated the relation between productivity measures and financial information evidence from the airline industry. Using published annual reports the study examined how technical efficiency and financial information were related, and illustrated how the effect of annual changes in productivity led to changes in financial information, while distinguishing between efficiency change and technological change helped in evaluating productivity improvements. Empirical evidence from the airline industry was based on data related to 35 airlines from 25 countries from 1991 to 1999.

The results of the analysis suggested that breaking down productivity change into technical change and efficiency change did provide supplementary information. The negative relationship between change in operating expenditures and technological change was established, and operating expenditures were found to be negatively related to the Malmquist

Total Factor Productivity (MTFP) index. The study did not reveal any reflection of productivity changes onto information on earnings or cash flow; thus, the priority of cash flow information as well as the reverse was not supported by this empirical evidence. According to demand, and, consequently, to revenue movements within the industry, the study results could be explained by a more clearly-defined (and less revenue-influenced) connection between costs and productivity measures as compared with productivity measures and earnings or cash flow. The timing of reaction for financial items on productivity changes was also investigated, and the assumed lag of one year did not provide any evidence on the relation of interest. Rather, the immediate reflection of productivity changes into financial information within the year was empirically supported.

Another economic account was that of Inglada et al. (2005), who studied the relationship between liberalisation and efficiency in international air transport by comparing the economic and technical efficiency of international air transport companies within the new liberalisation framework that characterised the period 1996–2000. The companies were located in countries whose exposure to the liberalisation process varied. In the US, the market had been completely liberalised since 1978, while the European market had reached completion in 1997; yet the most recent experience of opening up to competition was that of the Asian countries, whose clearest liberalisation agreements were struck at the end of the 1990s. Four air companies from these countries, Cathay Pacific (Hong Kong), SIA (Singapore), Korean Air (Korean Republic) and JAL (Japan), actually obtained the highest values for economic and technical efficiency, leaving the American and European countries far behind. The researchers estimated two stochastic frontiers, one for the cost function, the other for the production function. From these estimates, indexes were obtained for economic and technical efficiency respectively. The research suggested that for the Asian companies the benefits of increasing competition in terms of efficiency was to be large. Therefore, increasing competition provided benefits for the Asian airline industry, including a well-established reputation for quality enjoyed by some of their companies, their flexible labour market, and their Abacus computer reservation system (considerably more efficient than Amadeus, the European equivalent).

The demand side for civil aviation services was another important dimension studied by scholars such as Mason (2005), who examined the decline in yield in the airline industry. He justified this decline by identifying external shocks such as the terrorist attacks of 9/11/2001,

wars in Afghanistan and the Arabian Gulf, and the SARS epidemic.¹⁰ Analysing published sources and a survey of 264 travellers to examine the fall in yields, it was observed that the traffic mix of economy, business and first class passengers had also changed over a ten-year period as proportionally more travellers chose to use economy class products. Combined with a fall in yield by a third in business class during the same period, this had led to a significant fall in industry-wide yields. Behavioural shifts in business travel and leisure demand were also investigated. Business travellers had switched from business class products, since the difference between business class and leisure fares had increased significantly and because economy class and low-cost carrier products were increasingly viewed as acceptable for business traveller needs, particularly in the short-haul markets. Leisure travel had increased as low-cost carriers introduced low fares, generating new traffic and winning market share from scheduled and charter airline competitors alike.

By examining the American aircraft industry, Gholz (1997) developed a theory of the political economy of high technology industries. His starting point was that the traditional explanation for its industrial performance success, that stressed an implicit military industrial policy, was shown to be unsatisfactory in light of the experiences of Lockheed, Convair, and Douglas; even Boeing's experience, if examined at the level of particular projects, did not support the conventional wisdom. Instead, it was argued that economic regulation of the airline industry created an indirect, innovation-friendly demand-pull. The traditional problem of information asymmetry faced by industrial policies, which often resulted in their protectionist "capture" by the target sector, was solved by using the airlines as an agent for allocating indirect government support to the American aircraft manufacturers. In fact, during the early jet era, US policy-makers consciously rejected traditional, direct development support.

5.1.4. The Global Regulatory Environment of the Civil Aviation Industry

In addition to case-specific and economic accounts on the issue of civil aviation privatisation, other studies tried to deal with this topic from a wider global perspective by examining this sector's global regulatory environment. One such study by Decurtins (2007) suggested that a gradual and incremental expansion of GATS¹¹ coverage over air transport's sub-sector

¹⁰ SARS = Severe acute respiratory syndrome, a viral respiratory disease in humans that nearly became a pandemic between November 2002 and July 2003, following an outbreak in Hong Kong.

¹¹ GATS is the **General Agreement on Trade in Services**, a World Trade Organisation (WTO) treaty that came into force in January 1995 as a result of the Uruguay Round negotiations. It was created to extend the

industries would take place despite the stalemate that had occurred in the first Air Transport Review. To support this position it was argued that member states were influenced by independent variables, exogenous to negotiations in the WTO, such as the level of existing liberal agreements in the sector, geographic location, economic size and level of development, and the strength of individual corporations in the world economy. Changes in the market arena would eventually affect members' willingness to begin expanding GATS coverage of air transport in future reviews and would thus begin the gradual shift from a strictly bilateral regime to one that accepted multilateral trade rules to operate in tandem with bilateral rules. In particular, it argued that the sub-sectors not bound by or subjected to foreign ownership restrictions and not requiring traffic rights to operate internationally would be the first to be covered by the GATS.

The study concluded that some clarity could be given to what was or was not directly related to the exercise of traffic rights, through the multilateral negotiating forum. It was important to keep this in mind because of the political sensitivities surrounding the first and future reviews, a number of delegates having gone on record to state that their governments did not consider the Review as a negotiation, while others argued that the CTS (Council for Trade in Services) was not authorised to expand coverage.

From analysing this particular industry in the context of the 2000 Review Decurtins noted that sovereignty was clearly not under imminent threat, despite the increasing economic interdependence that was becoming institutionalised within the WTO. As she points out, developing a solid body of rules in a widely-accepted international legal regime that seeks to reduce and eventually remove mercantilist policies from the international economy of trade in goods and services, will eventually incorporate much, if not all, of international air transport. Whether this can or will benefit all participating states over the long term remains to be seen, although history and experience tells us that economic gains are produced through multilateral trade liberalisation.

multilateral trading system to the service sector in the same way that the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade. All WTO members are signatories to GATS. The Council for Trade in Services (CTS) is the body that oversees the functioning of GATS.

For further background and organisational details http://en.wikipedia.org/wiki/World_Trade_Organization; also http://en.wikipedia.org/wiki/General_Agreement_on_Trade_in_Services

5.2. Civil Aviation Policy and Privatisation: The UK Case Study

As has already been indicated, the privatisation of state-owned enterprises and previously state-managed and -operated infrastructure industries is seen in many countries, including the UK, as a means to reduce the pressures on the public budgets under the reform movement of NPM. This section includes the comparative case study of the privatisation of British Airways. As Grugulis and Wilkinson (2001:3) noted, “The story of British Airways is one of the most widely used inspirational accounts of changing culture. Throughout the 1980s and 1990s it was used to demonstrate the necessary compatibility of pleasure and profits”. As such, the BA reform experience has become “...everyone’s favourite story of changing corporate culture” (*Management Today*, 1993). In this section, the case of the BA reform and privatisation is investigated to show how this company turned from being one of the worst service providers to being one of the most respectable companies worldwide. Following a brief contextual history of the airline industry and the early developments of BA, the reform programme introduced by BA and its preparation for privatisation will be discussed, followed by an overview of the industry’s regulatory framework at both national and international levels.

5.2.1. The UK Airline Industry: A Brief Historical Background

The airline industry has quite a long history in the UK. The first company, Aircraft Transport and Travel (AT&T), which was established in 1919, started the first daily international scheduled air service between London and Paris. As reported by the Competition Commission (1987:27), “the world’s first daily international scheduled flight took place on 25 August 1919, when a British aeroplane flew from Hounslow to Le Bourget. The company responsible was privately-owned, as were three other airlines which soon joined it in operating cross-Channel services.” In 1924 a group of airline companies (Instone, Handley Page, Daimler Airways and British Air Marine) merged to form Imperial Airways. The newly-established company soon added new routes to Australia and Africa, in addition to its main role as a mail carrier.

The origins of British Airways dated back to 1935 when a group of privately-owned companies merged to form British Airways Ltd. In 1939 the government decided to nationalise both Imperial Airways and British Airways, based on some concerns about the efficiency of Imperial Airways. A new entity emerged from this Act: the British Overseas

Airways Corporation (BOAC). BOAC became responsible for providing long-haul services while other companies, such as South American Airways and British European Airways (BEA), were responsible for providing flights to South America and continental European and domestic flights (*The Times*, 2 May 1969). Both companies were making occasional losses, on the basis of which the 1969 Edwards Report proposed that ownership of both state airlines should be vested in a National Air Holdings Board, with the aim of developing a common strategy for state-owned aviation interests.

In 1972, BOAC and BEA were combined under the newly-formed British Airways Board, with the separate airlines coming together as British Airways in 1974.¹² Commenting on the merger between the two companies, Vine remarked that

Although the two companies' strengths appeared to complement one another the merger was hardly an unqualified success as two companies with very different traditions and cultures were never fully integrated into a coherent whole. The end result was a company with a 'bureaucratic and militaristic' culture, in public ownership, and which by the late 1970s was experiencing some severe problems (2008: 1).

Because of the economic recession in the mid-1970s and the rising prices of fuel, British Airways was forced to reduce some of its services. At the time the company was one of the largest airlines worldwide, but nevertheless suffered from low productivity and over-staffing. In an attempt to solve these problems the company envisaged expanding its operations as a way forward. However, the continuing recession with its negative side effects meant the company was unable to apply this strategy; plans for the privatisation of the company were first announced in 1979.

5.2.2. BA Reform and the Privatisation Process

As Lord Lucas of Chilworth reported in 1983, "The Government's intention of moving British Airways into the private sector was announced by the Secretary of State for Trade in July 1979" (<http://hansard.millbanksystems.com/lords/1983/dec/12/british-airways-privatisation>), and legislation to achieve this was passed in the Civil Aviation Act 1980, which enabled the British government to transfer BA's assets and liabilities to a new company named British Airways Limited (Parker, 2009). The original plan had been to proceed directly

¹² For more information British Airways, see Encyclopaedia: British Airways, at http://www.experiencefestival.com/a/British_Airways/id/1938712)

following issuance of the Act. However, due to losses and the decline in the airline's profits in 1979-80, this plan was delayed. Abromeit (1988: 74) remarked that, "British Airways... one of the likeliest candidates from the start, for a number of reasons – including its losses as well as the Laker affair – had to be put on the waiting list for nearly seven years." The loss-making issue is noted by Grugulis and Wilkinson (2001: 10):

At the end of the 1970s and the start of the 1980s BA was performing disastrously against almost every indicator. An old fleet made for uncomfortable journeys and contributed significantly to the airline's record for unpunctuality; its productivity was considerably below that of its main overseas competitors; it was beset by industrial disputes; and it was recording substantial financial losses (£140 million or some £200 a minute in 1981).

Parker (2009: 190) also reported that "in November 1980 the airline recorded a loss of £2 million and by early 1981 revenues were forecasted to be some £400 million below that which BA had originally budgeted."

At the same time an anti-trust law suit had been mounted against BA and other airline companies that were accused of behaving unfairly in order to push Laker Airways out of the market. The company's economic and financial conditions made an immediate sale and flotation of its shares nearly impossible. Another important factor that interfered with the decision to delay the BA privatisation was the sale of the giant telecommunications company, British Telecom (BT), at the same time that BA expected to be sold. Decisions-makers saw that there should be no distraction of any kind of that might interfere with the selling process (see Parker 2009), and in fact, British Airways was unusual in the length of time it took from the Government's decision to privatise for privatisation actually to occur. As reported by *Management Today* (1993) this lengthy delay from 1980-1987 gave the management team plenty of time to reshape the company in preparation for its sale.

5.2.3. Preparing for Privatisation: From Loss-Making to Profitability

In February 1981 BA began to be prepared for privatisation by the appointment of Sir John King (later Lord King of Wartnaby) as the company's Chairman. As noted by Thackray (1998), King's main task was to bring the loss-making and heavily indebted BA back into profitability. Parker (2009) notes that the privatisation of BA had not been in the Conservatives' election manifesto in 1979. However, immediately after the elections the

Secretary of State for Trade, John Nott, expressed his intention to sell some of BA's shares to private investors, including employees. Because of the company's ambitious plans at that time, BA became an attractive investment option, and many voices supported the privatisation of the company, based on a great many arguments. For some, BA was primarily a commercial company; therefore it would be better if run by the private sector rather than as a public sector company. Others supported privatisation on the grounds that it would enable other airlines to compete fairly with BA; it was not fair to compete with a company backed by the government. Privatisation was also welcomed because it restricted future public borrowing by BA and the sale of shares would contribute to the Treasury.

Some opposed this argument on the grounds that there was no clear-cut association between ownership and performance. For example, Kay and Thompson (1986: 22) suggested that many studies had concluded that "British Airways is not an efficient airline either by the standards of other United Kingdom-based operators or relative to other national flag carriers." However, they also emphasised that there was no causal relationship between public ownership and BA's poor performance, a point reinforced by Ashworth and Forsyth (1984) who indicated that, from a comparative perspective, there was no evidence that public ownership equalled poor performance, and gave as an example Air Canada, a publicly-owned company but one of the world's most efficient airlines. They found that poor performance can be due to the working environment within which a firm operates rather than to the structure of ownership.

Without going into the details of this debate, it was clear that the battle had been won by those who favoured BA privatisation. Following his appointment as Chairman of BA, King embarked on an ambitious plan to restructure and reform British Airways in preparation for the company's privatisation. His plan was twofold; to downsize the company and to create profit-making centres. As noted by Shibata (1994) the downsizing plan was initially introduced under tags such as the "survival plan" and the "retrenchment programme" in September 1981. According to this scheme,

...the number of personnel was to be brought down from 52,300 to 43,000 by March 1983. A special severance scheme was introduced, offering extra payments to those who applied for voluntary redundancy. Some 12,800 applied, and the number of employees decreased to 44,500 as of February 1982. After a major organisational restructuring in May, the management announced a plan to cut further, i.e., down to 35,000, and officially notified this intention to union leaders in September. It does not seem that further cutting was

successful: as of March 1983, the company still had 37,500 [staff] (Ibid: 2).

The second element of the reform programme was to restructure the company in order to create profit-making centres. Guided by his previous experience in the private sector as a Chairman for Babcock and Wilcox and by the principles of Management by Objectives (MBO) which played a major role in turning BA from a loss-making to a profit-making company (see Parker, 2009; Shibata, 1994), King established different divisions, each with its own independent budget, aims, and objectives, and eight profit centres were established, based on geographic regions and businesses. In addition to the new divisions and to avoid any kind of duplication of work, shared functions, such as coordinating flight operations, computer services, and maintenance work, were organized to be performed centrally by separate departments. As is the case with private companies, each of these divisions was expected to hit its targets and make profits as planned (see Shibata, 1994).

The structural reform also extended to BA's Board of Directors. Nine of the fourteen existing members of the BA Board were removed by King and replaced by experienced personnel from the private sector. The new members brought with them new experiences and skills in areas such as marketing and customer satisfaction which were missing in the public sector (see Parker 2009). At the human resources level, the reform programme aimed at changing BA's organisational culture, and altering the values and the beliefs of its employees, particularly in relation to the way in which they perceived their roles and the way that they treated their customers. According to Vine (2008: 2), it was becoming increasingly appreciated within BA "...that it needed to 're-connect with customers', and this required a different orientation from staff. A renewed focus on employee involvement followed and led to a number of initiatives directed at fostering a more dynamic, customer-focused and service-driven culture." Grugulis and Wilkinson (2001: 11) also note that Colin Marshall, BA's new chief executive, placed the company's new training agenda at the heart of these organisational initiatives, and the 'Putting People First' programme was launched in December 1983: "Originally intended for staff who had direct contact with customers it was, in fact, attended by all 40,000 employees by 1986 and it aimed to revolutionise their attitudes." In this context the following practices were emphasised (see Figure 5.1).

Figure 5.1: The Four-factor Menu of Practices used in British Airways in 1984 – 1985

THE MENU OF PRACTICES	
FACTOR I	FACTOR II
CLARITY AND HELPFULNESS	PROMOTING ACHIEVEMENT
Establishing clear, specific objectives for subordinates	Emphasising and demonstrating commitment to achieving goals
Helping subordinates to understand how their jobs contribute to the overall performance of the organisation	Giving subordinates feedback on how they are doing
Clearly defining standards of excellence required for job performance	Communicating your views to others honestly and directly about their performance
Providing help, training and guidance for subordinates	Recognising people more often than criticising them
Giving subordinates a clear-cut decision when they need one	Recognising subordinates for innovation and calculated risk taking
FACTOR III	FACTOR IV
INFLUENCING THROUGH PERSONAL EXCELLENCE AND TEAMWORKING	CARE AND TRUST
Knowing and being able to explain to others the mission of the organisation and how it relates to their jobs	Behaving in a way that leads others to trust you
Communicating high personal standards informally through appearance and dedication	Building warm, friendly relationships
Noticing and showing appreciation for extra effort	Paying close attention to what people are saying
Sharing power in the interest of achieving overall organisation objectives	Responding non-defensively when others disagree with your views
Willing to make tough decisions in implementing corporate strategy	Making sure that there is a frank and open exchange at work group meetings

Source: Georgiades & Macdonnell (1998: 174), cited in Grugulis and Wilkinson (2001: 14)

In addition to these training and educational programmes for its employees, the changes in style implemented at the managerial level enabled BA to appear as an organisation that exemplified the customer service ethic more completely than most other national and international airlines.

The Competition Commission (1987: 28) duly commented on this, noting that:

Responsiveness to customers' needs and expectations has been instilled in staff through training programmes, which have been concerned not only with face-to-face relationships with customers but also with the airline's procedures for dealing with the public. These procedures have been improved, in some cases because of suggestions from employees made as a result of efforts to involve them more in the running of the airline. Staff training has been complemented by a marketing campaign intended to create a new image of BA as a company giving an efficient, friendly, high quality service offering value for money.

5.2.4. The Decision to Privatise

Ashworth and Forsyth (1984) offered several theoretical options about the decision to privatise BA. Even so, the debate was concerned mainly with how many shares were to be sold to private investors. The general trend was in favour of selling up to 49 percent of the company shares to private investors and distributing some of these shares to the employees. This option was welcomed for the following reasons:

1. It would guarantee that the national flag carrier remained under state and not private control, since the government would continue to control 51 percent of the shares;
2. This option would support government's plans to widen the base for public ownership;
3. It would give the private sector the chance to improve the company's performance;
4. It would reduce opposition from the union which was expected to be ferocious in resisting a privatisation proposal that was likely to support private takeover and control of the company and denationalisation of its assets;

5. This option would allow BA to have access to private capital markets and reduce the company's public borrowing; this was consistent with government policy to reduce the Public Sector Borrowing Requirement (PSBR). In this regard, Rees (1986) argued that "according to 'supply side' economics, reductions in public expenditure and borrowing reduce inflationary pressure, stimulate private investment because of less 'crowding out', and increase the potential GDP or reduce the natural rate of unemployment, if accompanied by lower inflation." This is an important point and is one that recurs in some of the other literature concerning reasons for privatisation and giving employees shares in the company.

In April 1984, the assets and liabilities of the statutory corporation were vested in British Airways PLC, and in January 1987 shares were offered for sale to the public. BA's first annual report since privatisation showed that at 21 May 1987 it had 420,526 shareholders of whom 98 percent, owning 13-65 per cent of the equity, had 1,000 shares each or less (see Competition Commission Report, 1987:28).

With plans for BA's privatisation progressing, the Civil Aviation Authority (CAA), the UK air traffic regulator, was very concerned about the competitive advantages of the newly-formed private company. According to the 1980 Civil Aviation Act, one of the main responsibilities of the CAA was to ensure that UK airline companies were competing with other operators in an effective way to provide air transport services on international routes. With a private BA in place along with all the prerogatives that it would inherit from the

previous entity, it would be difficult for other companies to compete with it. The CAA therefore recommended that “the privatisation of British Airways should be preceded by the establishment of a route network sufficient to establish British Caledonian as an effective competitor” (Kay and Thompson, 1986: 30). Notwithstanding, BA succeeded in persuading the government to refuse the CAA’s proposals and to compensate British Caledonian with exclusive rights on profitable routes to the Gulf.

5.2.5. The Results of the Reform Programme and Privatisation

King’s reform programme paid off, and the results of his various measures started to show in BA’s performance. The Competition Commission (1987: 28) summarised the outcomes of the reform programme as follows:

- Staff numbers were reduced through early retirement, redeployment and voluntary redundancies. Steps had already been taken to achieve this: in September 1981 there was 50,816 staff employed in airline activities, whereas in mid-1979 there had been 58,200. During the financial year ending 31 March 1984 there were on average 36,096; numbers have since risen (to an average of 39,498 during the financial year ending 31 March 1987) but productivity has also increased.
- The fleet was modernised, by the acquisition of new, generally larger, aircraft and the accelerated disposal of old. At the same time utilisation of the fleet was improved following a review of maintenance procedures.
- Control systems and terminal facilities, in the United Kingdom and abroad, were improved.

In addition to these reforms, the profitability of the company had improved by 1983 and losses has declined (see Table 5.1)

Table 5.1: BA: Group Summarised Profit and Loss Accounts 1982-87

	<i>£ million</i>				
	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>
Turnover	2,497	2,514	2,943	3,149	3,263
Operating expenditure	(2,312)	(2,246)	(2,651)	(2,951)	(3,090)
Operating surplus	185	268	292	198	173
Other income*	19	26	12	36	19
Finance charges	(130)	(109)	(113)	(39)	(30)
Profit on ordinary activities before taxation	74	185	191	195	162
Taxation and minority interests	(10)	(2)	(5)	(2)	(14)
Profit for the year before extraordinary items	64	183	186	193	148
Extraordinary items	26	33	(12)	(12)	4
Profit for the year after extraordinary items	90	216	174	181	152
Dividends	—	—	—	—	(30)
Retained profit	90	216	174	181	122

Source: BA.

* Mainly interest receivable and profits on disposals, although in 1984-85 these were less an exceptional item in respect of Laker antitrust and associated class actions.

¹ A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to a lessee. It is in many ways analogous to a hire purchase agreement. An operating lease is a lease other than a finance lease.

Source: Competition Commission, *British Airways plc and British Caledonian Group plc: a Report on the Proposed Merger* (1987:30)

As Table 5.1 shows, the company returned to profitability in 1983 and continued to make profits in the following years until 1987. The same performance improvements continued during the 1990s (see Table 5.2). Doyle (1999) commented on this, noting that:

In the 80s BA had been transformed from a disastrous loss-making state enterprise - the British Rail of the sky - into the world's largest and most profitable international airline. It was a triumph for management, showing that Britain could produce world-class companies that could beat the best of the competition. Its success was the result of the process and strategy that management introduced. The process focused on creating a vision that would inspire the BA staff and gain their enthusiastic commitment.

Table 5.2: Airline Earnings 1997 (in US\$ m, exchange rate 31March 1998)

	Revenue	% change over 1996	Net income	% change over 1996	Cargo revenue	% change over 1996
United Airlines	17,378.0	6.2	949.0	78.0	892.0	15.4
American Airlines	16,903.0	4.3	985.0	(3.1)	687.0	0.7
Delta Air Lines	13,946.0	7.7	934.0	276.6	587.0	12.0
Lufthansa	12,443.0	10.7	432.8	45.0	NA	NA
Northwest Airlines	10,225.8	3.5	596.5	11.3	789.4	5.8
US Airways	8,513.8	4.6	1,052.2	474.2	181.5	11.5
Continental	7,213.0	13.4	385.0	20.7	553.0	13.1
Swissair	6,929.0	28.5	212.7	165.2	NA	NA
Air Canada	5,572.0	14.2	427.0	186.6	387.0	11.5
SAS	4,592.0	9.8	258.2	18.4	275.5	NA
Southwest Airlines	3,816.8	12.1	317.8	53.3	94.8	18.4
TWA	3,328.0	(6.4)	(110.8)	61.1	127.0	(17.2)
Canadian Airlines	3,075.5	(0.7)	5.4	102.9	242.6	6.8
Sabena	1,888.6	16.0	(65.9)	71.6	NA	NA
America West	1,875.0	7.8	75.0	781.5	51.7	11.1
Alaska Airlines	1,739.4	9.2	72.4	90.5	94.1	0.2
China Southern	1,548.7	12.6	137.7	57.2	108.7	15.1
Tower Air	461.5	10.5	(3.9)	81.3	13.8	(1.8)
Hawaiin Airlines	404.2	5.1	(1.0)	33.3	21.3	5.7
Atlas Air	401.0	27.0	23.4	(38.1)	401.0	27.0
World Airways	309.4	(0.5)	11.5	181.7	NA	NA
Lan Chile	269.4	27.7	23.1	49.6	84.3	15.7
Kitty Hawk	249.8	68.6	17.9	63.8	249.8	68.6
EVA Airways	NA	NA	24.0	71.4	NA	NA

Source: *Air Cargo World*, May 1998, p. 94

Source: cited in Dana and Vignali (1991: 279)

As Table 5.2. shows, BA had by 1996 become one of the most profitable companies worldwide. As Vine comments (2008: 3), “With the notable exception of KLM and Singapore Airlines, few other national airlines were as consistently profitable as BA at this time, and to a large degree, since.” Added to the improvement at the financial level, the image of the company itself improved dramatically. According to the *Financial Times* (July 1997) BA had been voted by graduates as the ‘most desired company’ to work for. Another report by the *Financial Times* in (March 2000) indicated that BA was one of the most respected and admired companies in Europe.

5.2.6. *The Reform Programme in Balance*

The story of BA's success during the 1980s and 1990s has been critically examined by scholars. They have confirmed that this success can be traced back to a number of favourable conditions that helped BA at the beginning of the privatisation era to grow and to flourish. For example, Vine (2008: 3) comments that:

...the profit performance and the consistent 'good news' stories coming from the management and (in many cases) the academic community, were the product of a unique set of circumstances. BA had benefited from a particularly favourable financial position at privatisation, secured a number of 'first mover' effects from adopting a specific formula for customer service that stole them a march on the competition in a market that was for much of the period relatively buoyant. This combination of factors unravelled in the early 1990s under the pressure of recession and latterly de-regulation of the European airline industry. Furthermore, other airlines found it relatively easy to copy BA's focus on customer service, and like BA, increasingly came to focus this on particular market segments – business, first class and long haul operations.

Grugulis and Wilkinson (2002) have also noted that the success or failure of any managerial intervention depends to a large extent on the context in which such interventions take place. Focusing on the 'Putting People First' initiative, they take the view that

BA's programme of culture change was not an expression of mutual trust and reciprocal emotional obligations between the company's employees and its management. Rather, it was an alternative control mechanism and should be understood as such. The way that this form of control mechanism is implemented and the consequences that it has differ from other methods of personal, technical or bureaucratic control; but management by culture is not automatically either better or worse than other forms of regulation, and may inspire varied responses (2002: 191).

By the end of the 1990s a combination of factors including fierce global competition and the changing scene in the regulatory environment, especially at the EU level, had pushed BA to reconsider its business model and to move from focusing on first class and business class passenger to consider other competitive options with other national flag carriers and airline companies. Like other airlines BA suffered badly from the 9/11 attacks in the US. As a consequence, the company was forced to cut down its employees; it announced 1,800 job

losses, followed by a further 5,200, with a message to the unions that further cuts were likely (Vine, 2008: 5).

5.2.7. UK Civil Aviation Policy: The Regulatory Framework

As noted by the Competition Commission (1987) the airline industry has been subject to governmental regulation at both national and international levels since the early days of civil aviation. This section shows how the regulatory framework developed. At the national level, the role played by the CAA in regulating the industry is explained, as is the regulation of the industry at the international level in terms of the bilateral agreements that arrange the rights and obligations of each country.

5.2.7.1. The Role of the CAA

In 1967 the President of the Board of Trade formed a committee, headed by Sir Ronald Edwards, to review the economic and financial situation and the future of the British civil air transport industry (Butcher, 2010). The committee recommended that since economic, technological and operational regulations of civil aviation were interconnected they therefore need to be performed by a single specialised body. On this recommendation the Civil Aviation Authority (CAA) was created in 1972 as the UK's specialist aviation regulator (see Figure 5.2).

The Civil Aviation Act 1982, section 4(1) identified the statutory remit of the newly established regulator as follows:

It shall be the duty of the CAA to perform the functions conferred on it otherwise than by this section in the manner which it considers is best calculated:

- (a) to secure that British airlines provide air transport services which satisfy all substantial categories of public demand (so far as British airlines may reasonably be expected to provide such services) at the lowest charges consistent with a high standard of safety in operating the services and an economic return to efficient operators on the sums invested in providing the services and with securing the sound development of the civil air transport industry of the United Kingdom; and
- (b) to further the reasonable interests of users of air transport services.

Figure 5.2: The CAA: The UK'S Independent Aviation Regulator

Main functions:	
<ul style="list-style-type: none">• safety regulation of civil aviation in the UK• determining policy for the use of airspace• economic regulation of designated airports and en route air traffic services• licensing of airlines in relation to their finances• licensing of air travel organisers• provision of independent policy advice on aviation to Government	
The CAA regulates approximately:	
50,000	Active professional and private pilots
12,400	Licensed engineers
2,350	Air traffic controllers
206	Air Operator Certificate holders
141	Licensed aerodromes
950	Organisations involved in design, production and maintenance of aircraft
2,400	ATOL holders
150	Operating licences (airlines)
19,000	Registered aircraft
The CAA employs:	
Over 900 (FTE) staff including about:	
70	Professional pilots
3	Test pilots
31	Air traffic controllers
180	Qualified engineers
10	Doctors
5	Nurses
7	Economists
11	Qualified accountants
7	Lawyers
10	Technical researchers

Source: Department for Transport (2008) 'Report of the strategic review of the CAA', p.6.

In this respect, the statutory powers and functions of CAA have evolved under UK and European legislation and it now carries out a broad range of regulatory functions, including

- Civil aviation safety regulation relating to airworthiness, aerodromes, air traffic services, flight operations, personnel licensing (pilots, engineers and air traffic controllers);
- Aircraft design, production and maintenance organisations;
- Advising and assisting the Secretary of State on all civil aviation matters;
- Determining policy for the use of UK airspace so as to meet the needs of all users, having regard to national security, economic and environmental factors, while maintaining a high standard of safety;

- Economic regulation of the designated airports (Heathrow, Gatwick and Stansted) and of the provision of air traffic services by NATS En-Route plc (NERL) and licensing and financial fitness of airlines; and consumer protection, such as licensing of air travel organisers” (the ATOL system) (see UK Department for Transport, 2009: 16).

The CAA also plays an advisory role for the Government on aviation issues, related to consumer interests, conducts economic and scientific research, produces statistical data and provides specialist services (<http://www.caa.co.uk/default.aspx?catid=286>).

The legislative and regulatory framework of CAA includes many regulations and standards made by the International Civil Aviation Organization, and European and UK legislations. At the UK level, The Civil Aviation Act 1982, The Airports Act 1986, The Transport Act 2000, and many other secondary legislation represent the regulatory environment of CAA (see Figure 5.3).

Figure 5.3: Main UK primary legislation defining the CAA’s role

<p>The Civil Aviation Act 1982 gives the CAA a role in</p> <ul style="list-style-type: none"> • licensing air transport • licensing the provision of accommodation in aircraft (air travel organisers’ licensing) • licensing and operating aerodromes² • providing air navigation services² and • providing assistance and information to the Secretary of State. <p>Many of the CAA's functions and duties, especially for safety, are prescribed in secondary legislation made as Air Navigation Orders under section 60 of the Civil Aviation Act 1982</p> <p>The Airports Act 1986 Part IV sets out the CAA’s role for the economic regulation of airports</p> <p>The Transport Act 2000 Part 1 sets out the CAA’s role in regulating air traffic services (other than safety) and the CAA’s air navigation functions</p> <p>The Civil Aviation Act 2006 section 8 gives the CAA responsibility for the health of people on board aircraft.</p>

Source: Department for Transport (2008) ‘Report of the strategic review of the CAA’, p14.

At the regional level the CAA is bound by a number of European regulations as reflected in Figure 5.4.

Figure 5.4: Main European Regulations with a bearing on the CAA's role

EC Regulation 216/2008 sets common safety rules for civil aviation and establishes the European Aviation Safety Agency. UK legislation designates the CAA as the UK National Aviation Authority for the purposes of this regulation.

Four EC Regulations establish Single European Sky – the European Community's programme to increase airspace capacity and reduce delays. UK legislation designates the CAA as the UK National Supervisory Authority.

EC Regulations 2407/92, 2408/92 and 2409/92 (soon to be consolidated and revised) created the single market in aviation in Europe, establishing common rules in the areas of airline licensing, market access and fares. The CAA was designated as the UK competent authority for implementing most of this legislation.

EC Regulation 261/2004 provides for compensation and assistance in the event that air passengers are denied boarding, or have their flights cancelled or delayed. EC Regulation 1170/2006 establishes rights for disabled people and persons of reduced mobility when travelling by air. The CAA has enforcement powers for both regulations under UK legislation.

Source Department for Transport (2008) 'Report of the strategic review of the CAA', p. 15

At the global and regional levels CAA is compelled to abide by whatever regulations and standards are developed by the international aviation organisation and the EU. To give an example, in the regulating of aircraft noise the CAA is working according to the standards and legislations (see Figure 5.5).

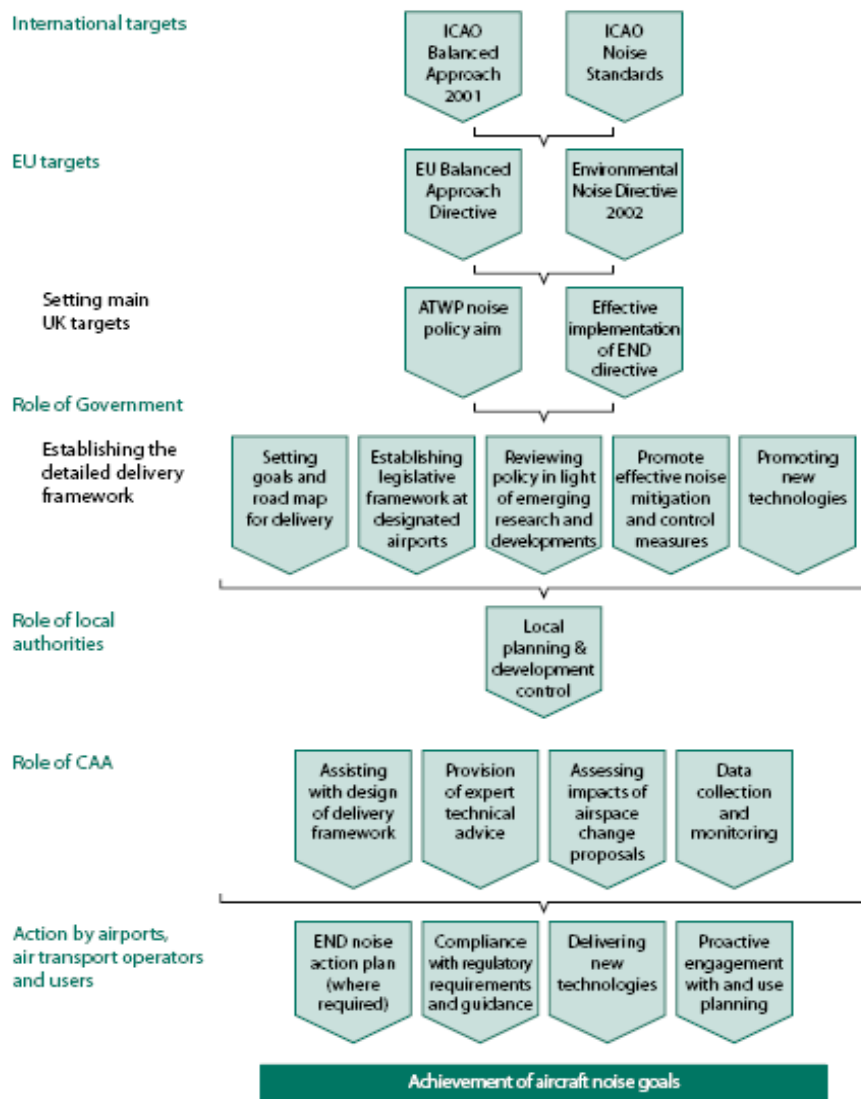
Added to these regulatory legislations and rules, the bilateral air services agreements (ASAs) that exist between the UK and other countries represent another important part of the civil aviation regulatory framework. These agreements, as mentioned by the Competition Commission Report (1987: 5)

...state the number of airlines from each country [that] operate on each route, restrict the share capacity or frequency to be provided by each country and [lay down] procedures for government approval of fares. They may also require the airlines to enter into agreements for the pooling of revenue, the co-ordination of frequencies or the agreement of fares.

At the present time, the overall regulatory framework of the industry is undergoing reconsideration, in an attempt to modernise the current regulations and make them more responsive to the demands of a new century. The Department of Transport has addressed this issue (2009:7) by commenting that:

Since it was established in 1972, the CAA has maintained its reputation as a world class regulator and adapted to reflect changes in the aviation sector. But it has to work within a legislative framework which is now almost three decades old, in the face of a rapidly evolving industry and a world facing increasing economic, environmental and social challenges. The need to address this is compelling.

Figure 5.5: Aircraft noise high level policy framework



Source: Department for Transport (2009), *Regulating Air Transport: Consultation on Proposals to Update the Regulatory Framework for Aviation: 223*

In more concrete terms, the Department of Transport’s report (2009: 8-9) identified the following reasons as motivations for reform:

- The need to cope with developments such as the rise of the low-cost airlines and the digital revolution, which have given customers choices and control over their flight arrangements.
- The need to cope with the rapid growth in passenger numbers and increasingly busy airports and airspace. This in turn calls for the most efficient use of limited capacity by the CAA which needs to balance the requirements of all airspace users and uphold high safety standards.
- The need to cope with future changes in the aviation sector and to be more responsive to the needs of the public, nationally and internationally, plus the wider environmental impact of aviation.

Responding to these demands, the Department of Transport suggested modernising the CAA's regulatory framework to enable the Authority to carry out its regulatory activities in a manner that would be fully consistent with protecting the public interest in aviation: by focusing on areas where the public could otherwise be vulnerable; safeguarding the interests of consumers and the environment; and maintaining safety, which is of paramount importance. "We want to see evolutionary change, improving and modernising what's already there to reflect changes in the industry and in the approach to regulation" (Ibid).

To this end, in 2007 the Department of Transport commissioned Sir Joseph Pilling to carry out a strategic review of the CAA. The report presented in 2008 referred to the CAA as a "highly successful organisation" and a "high quality regulator". It also highlighted the importance of having an independent, specialist regulatory agency responsible for such a vital transportation sector. At the same time the report indicated that it was important to reform the regulatory governance framework of the Authority and to modernise its role and functions. In particular, the report emphasized the important task of the CAA in protecting public interests.

Based on the recommendations of this report the government suggested the reform and modernisation of the CAA based on three main pillars: safety, consumers, and the environment, and identified several objectives including: pursuing the reasonable interests of consumers; securing a high standard of safety; and seeking environmental improvements in aviation where possible and appropriate when discharging its regulatory functions. (Department of Transport, 2009: 9).

These reforms were expected to revitalize the CAA and enable it to carry out its responsibilities in successfully managing the civil aviation sector in a fast changing world.

5.3. Civil Aviation Policy and Privatisation: The Kenyan Case Study

On 6 and 7 October 1988 a new policy named the “Yamoussoukro Declaration” was formulated by the African ministers responsible for civil aviation. The broad aim of this policy was to develop a new framework for air transport at the continental level. As noted by Abeyratne (1998) and Oladele (2005) the Yamoussoukro Declaration (YD) was considered a main pillar for the civil aviation sectors in Africa. Ensuring flexibility in the granting of traffic rights, encouraging joint use of air transport facilities, encouraging cooperation and ultimate mergers among African carriers and encouraging further financing of the air transport sector were among the Declaration’s main objectives. This policy was the impetus for the privatisation and liberalisation of the civil aviation sectors in many African countries, including Kenya.

Kenya took the lead in Africa on the airline privatisation front by selling 77 percent of its state-owned airlines to private investors. Many doubts were raised regarding the privatisation process, its future, and its potential beneficiaries. Measured by many criteria, the Kenyan experience with airline privatisation is considered to have been a success. In this section the privatisation process of Kenya airways will be examined to find out how the government came to this decision and how did they proceed in selling their national flag carrier. The lessons to be learned for other countries will be highlighted in order to give some policy directions on how to proceed with airline privatisation in the Saudi Arabia.

5.3.1. Kenya Airways: Historical Background

The history of Kenya airways began in 1946, the year in which the East African Airways Corporation (known as EAA) was set up by Kenya, Tanganyika, Uganda and Zanzibar (still ruled at that time by the British Empire). When Kenya joined the East African Community, formed in 1967, ownership of EAA was jointly shared by the governments of Kenya, Tanzania, and Uganda. The East African Community collapsed in 1976 because of ideological differences and economic conflict between member states (see Debrah and Toroitich, 2005). Idi Amin (the Ugandan dictator) was murdering large numbers of fellow Ugandans and threatening his neighbours (by launching attacks on Tanzania and claiming large areas of Kenya). Tanzania and Kenya were trying to ensure their own protection (Kenya

was also promised military aid from the UK, should it prove necessary). The breakdown of the East African Community and the consequent suspension of its jointly-owned infrastructure, including East African Airways resulted in the liquidation of the EAA. A new entity, Kenya Airways, was incorporated on 22 January 1977; owned entirely by the Kenyan government, it took over some of the staff from the previous EAA (see Massey 2008: 7-9).

In 1986, the government of Kenya indicated its intention of divesting from corporations that could be run better by the private sector by deciding to take the first move toward the privatisation of Kenya Airways. This was outlined in Sessional Paper No.1 for 1986 on 'Economic Management for Renewed Growth', where paragraph 2.5 stressed that "government will rely less on instruments of direct control and increasingly on competitive elements in the economy". The main reasons behind this move towards privatising the company were summarised by Debrah and Toroitich (2005) as follows:

- At the operational level, Kenya Airways had since its inception suffered from lack of resources and equipment. Its fleet consisted of only seven aircraft and it lacked competent employees with technical expertise. As a result, a company with the largest market share of East and Central African regional routes and a fair share of international routes from Nairobi was losing customers mainly as a result of unsatisfactory flight services and constant late arrival and departure times.
- At the financial level, the company had had no financial base since its creation. Also, the lack of resources and the losses made in the years that followed the company's establishment, meant that its financial resources had deteriorated dramatically. At the beginning of the 1990s the company had millions of US dollars' worth of debt which the government, as the debt grantor, had to pay, and by 1992 the company was almost totally bankrupt. As the *Daily Nation* reported in 2001, "in 1992, Kenya Airways had accumulated losses of Kenyan shillings (KSh) 2.9 billion, and had a negative net worth of KSh 1.6 billion. Moreover, it had defaulted on debts amounting to KSh 45 billion to external lenders and KSh 1.6 billion to the government.
- At the managerial level, the company had suffered from various unsound policies and practices, especially political appointments and a high level of turnover. Between 1977 and 1995 the company had had ten different government-appointed chief executives, none of whom had lasted long enough to carry out any meaningful changes or reform programmes. Moreover, because the board of directors consisted largely of

political appointees with no specific experience in business management, the airline lacked clear strategic direction. With such managerial problems in place, technical incompetence, poor management (and above all endemic corruption) became a feature of Kenya Airways (see Massey, 2009, 2010).

- At the human resources level the company suffered from over-staffing. As noted by Debrah and Toroitich, when Kenya Airways was set up, for ‘humanitarian reasons’ it absorbed over 2,000 former Kenyan employees from the defunct East African Airways: “This level of staffing was much higher than the optimum level of staffing Kenya Airways required for its operations. For political reasons, Kenya Airways could not get rid of the surplus employees, and this became one of the airline’s chief problems” (2005:2)

In response to these problems and in an attempt to discover the reasons behind the poor performance of Kenya Airways, the Kenyan Vice President, Professor George Saitoti appointed a ‘probe’ committee, headed by Isaac Omolo Okero, in May 1990, with several specific tasks (Massey, 2010: 203-204):

- to evaluate the qualifications, experience and appropriateness of the staff of Kenya Airways and to recommend optimum staffing levels;
- to look into the financial management and capital sources of the airline and recommend improvements in general revenue generation;
- to examine the airline’s management and operations and recommend improvements to enable it to operate at optimum level;
- to examine the fleet of aircraft and recommend the proper level of equipment and type of aircraft;

Based on the committee’s investigation it was found that Kenya Airways could not become a viable company unless its state ownership was dramatically reformed. Therefore the committee recommended that significant steps should be taken towards the commercialisation of the Kenyan airline, with the aim of making the company more responsive, more accountable, and more economically efficient (Debrah and Toroitich, 2005).

5.3.2. Kenya Airways: the Commercialisation Phase

Driven by the company's poor performance on the financial, managerial, and operational levels, together with the results and recommendations of the probe committee, the Kenyan government dismissed the airline's board of directors and the chief executive, and in 1991 appointed a new board of directors headed by Mr Philip Ndegwa. The mandate of the new board of directors was to prepare the company for privatisation and the commercialisation of its activities. One of the very first conclusions reached by the new board of directors was that in order to turn the company from loss-making to profit-making, all its activities including route and fare structures, fleet acquisition decisions, hiring and promotion practices, and financial systems had to be depoliticised and run on a commercial basis (Oyieke, 2002).

In 1992 the new board of directors commissioned an independent consulting firm, connected to British Airways and involved in its privatisation, to report on how Kenya Airways could be made more profitable and more efficient. The firm's report highlighted the following areas for improvement (Debrah and Toroitich, 2005: 214):

- The airline's management skills, organization, and culture were not suited to a commercial, profit-oriented enterprise;
- Operational performance was neither measured nor controlled;
- Financial control was very weak, with late and inaccurate reporting and poor accountability;
- Existing computer systems did not adequately support the business;
- Marketing and revenue generation were major areas of weakness;
- Customer service standards were low, with limited measurement and control of quality;
- Productivity was not routinely measured and appeared to be low;
- In every function (particularly at middle and lower levels), there existed untapped sources of expertise and enthusiasm;
- Technical skills were often poorly utilized

In the light of these results and the recommendations made by the consulting company, the new managerial team brought about several changes and took some important initiatives to prepare the company for privatisation. The International Finance Corporation (IFC) reported that, "under its leadership the company underwent a process of restructuring and

commercialization: routes, fares and fleets were rationalized, management was overhauled and the entire staff was put through training” (2008: 2). In addition, the new board of directors took a number of initiatives (Oyieke, 2002):

- Outsiders were brought in as Managing Director and Chief Financial Officer. As reported by Debrah and Toroitich (2005: 216), “The board appointed a new high-calibre management team of former Speedwing Consulting employees, headed by Brian Davies, who had been the lead consultant for Speedwing Consulting”. Massey (2008) notes that the appointment of Brian Davies was due to the fact that neither Ndegwa nor the senior administrative staff had wide knowledge of the airline industry.
- Middle level managerial jobs were redefined and over-all employment was reduced. As part of the commercialisation process, “staff reduction was achieved through voluntary redundancy (severance) and early retirement programs. About 50% of the workforce opted for these programs, bringing the workforce down from 4,000 in 1991 to 2,000 in 1996”.
- Capital expenditures were reviewed and reduced;
- A new programme of employee training was initiated, emphasising customer service and total quality management (Ibid).

In addition, the new board of directors of Kenya Airways embarked on a new programme aimed at significant operational and financial restructuring to bring the airline company back in credit. This financial restructuring package was a necessary step towards making the company attractive for private investors. Following four years of operational restructuring, an agreement was concluded in 1995 with the creditors of Kenya Airways. The conditions of the agreement were favourable, which meant that after its conclusion the process of privatisation could proceed smoothly. As Oyieke (2002) noted, “by June 1996 Kenya Airways had a strategic partner with a major ownership stake, additional foreign and domestic portfolio investors, and over 100,000 individual domestic shareholders. The share of state ownership was reduced to 23%”.

5.3.3. Kenya Airways: the Privatisation Process

In July 1992, a policy paper on public enterprise reform and privatisation in Kenya was issued by the Office of the Vice-President and the Ministry of Finance, and a comprehensive reform programme was outlined, including five major aims: to enhance the role of the private sector

in the economy; to reduce the demands of public enterprises on the Exchequer; to reduce the role and rationalise the operations of public enterprises; to improve the regulatory environment; and to broaden the base of ownership and enhance capital market development (Oyieke, 2002). Kenya Airways was among the companies selected for the first phase of privatisation.

In 1994 the Kenya Airways board of directors sought advice from the World Bank, or more specifically from the International Finance Corporation (IFC), on how to best proceed with the privatisation of the company (Debrah and Toroitich, 2005). The IFC duly conducted a strategic review and produced an option report, which identified the objectives of the privatisation process as:

- Eliminating the airline's past reliance, and drain, on the Kenyan Treasury, while ensuring that future capital expenditures for expansion of service or re-fleeting will be drawn entirely from private sources acting on commercial interests;
- Ensuring that the airline continues to serve the public and especially Kenya's important tourism industry with reliable and good quality service;
- Contributing to the general broadening of the base of asset ownership in the country (Oyieke, 2002: 5)

Having been identified, the board of directors and the government agreed that these privatisation elements would include three main steps (Ibid: 12):

- (a) IFC would produce an Action Plan emphasising the initial stage of work and directed towards securing the equity participation of a strong airline industry partner on sensible terms. When this plan had been approved, its primary intentions and guiding principles would be announced to the public.
- (b) IFC would then begin the preparation of an Informational Memorandum, designed to elicit proposals, covering specified points, and in a format to enable valid comparisons, from interested prospective partners. At the same time legal and financial audits would be conducted, and their conclusions incorporated into the Information Memorandum. IFC would also produce a Valuation Report to the board of Directors indicating the range of values for the company; this would inform the negotiation process to follow.
- (c) An Invitation to Negotiate would then be published and interested investors would be enabled to perform their initial due diligence investigation of Kenya Airways as an investment proposition. Appropriate data on the company would be compiled and made

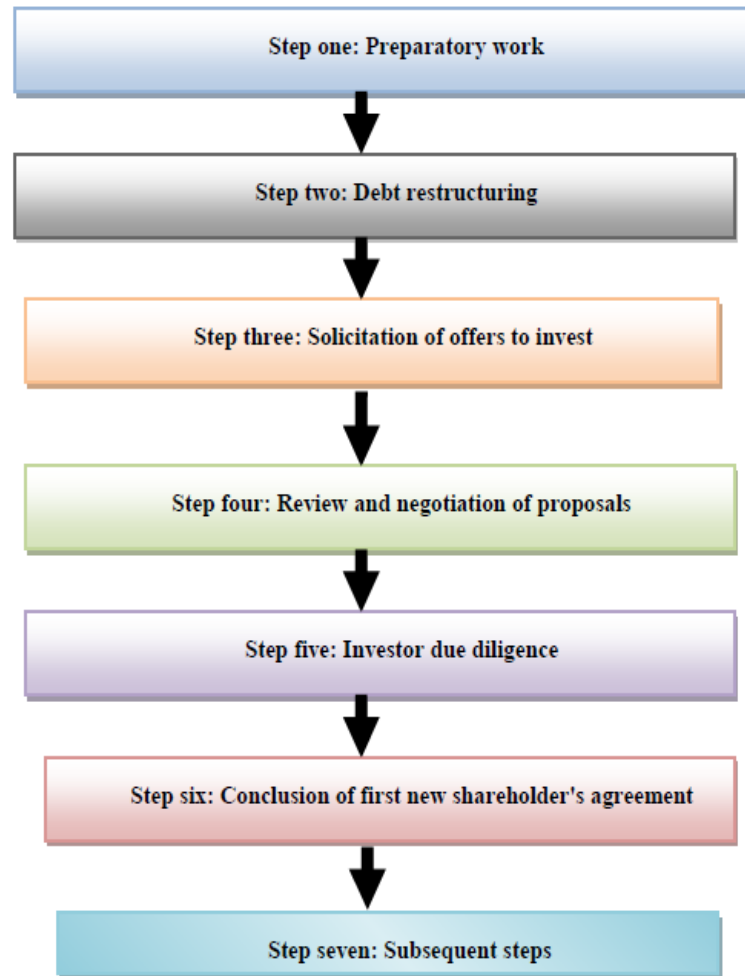
available equally to each serious prospect. Proposals for participation in the airline would be reviewed and evaluated, and preliminary negotiations conducted with the most attractive candidates. Final negotiations leading to comprehensive definitive partnership agreements would culminate in the selection and announcement of the private partner for Kenya Airways.

Based on the outline sketched above, the privatisation action plan proceeded as illustrated in Figure 5.6. As Figure 5.6. indicates, the seven-step action plan drawn up by the IFC included all the necessary stages. Preparatory work would ensure that everything required for the introduction of strategic investors was concluded, such as continued business improvements; legal and financial audits of the Company to identify any substantive legal or financial issues; pre-marketing efforts designed to raise investor awareness; preparation of the Information Memorandum describing the Company and the opportunities it presented to potential investors; and preparation of the Valuation Report, providing a range of values for the Company and its assets.

Debt restructuring is a necessary step that must be taken before the privatisation of a company. As Fatokun (2005: 47) notes, “African airlines will not progress unless there is financial restructuring to reduce past debts combined with an injection of new equity capital.” Hence, for Kenya Airways to continue working on a commercial basis the company needed to be relieved of its debts and a government plan for this needed to be in place. Oyieke (2002: 31) identifies the major steps in this regard as including: formal communication of the implementation details of the approved conversion of debt to equity; formal notice from the government and the company to relevant lenders of the decision in principle; discussions and agreement with lenders regarding the terms of government’s assumption of part of Kenya Airways’ debt; and signing of the debt assumption agreements by government and lender.

In this regard Versi (1995: 2) reported that in July 1994, the government had agreed “to take over responsibility for the airline’s external debt arrears and in October, it converted \$33m in debt owed to it into equity. As a result, long term debt was reduced from \$177m to \$49m and net worth increased to \$33m.”

Figure 5.6: Kenya Airways Privatisation Action Plan



With these arrangements in place the company was ready to move to step four, in which the company had worked on the initial sale of shares. Prospective investors had been approached and negotiation processes had begun. The IFC played an important role in this stage, reporting “a total of 154 airlines, resulting in 4 major international airlines showing serious interest: British Airways, KLM, Lufthansa, and South African Airways, but only KLM and South African Airways submitted business plans and financial offers” (IFC 2008: 2). After evaluating the submitted proposals the Kenyan government decided to choose KLM as a strategic partner for the privatisation process.

KLM Royal Dutch Airlines purchased 26 percent of the equity and the Kenyan treasury received over US\$70 million from the sale. Over 113,000 Kenyans were able to buy 22 percent of the shares in the airline (with the vast majority purchasing the equivalent of about US\$200-worth). Kenyan financial institutions bought 12 percent, international financial

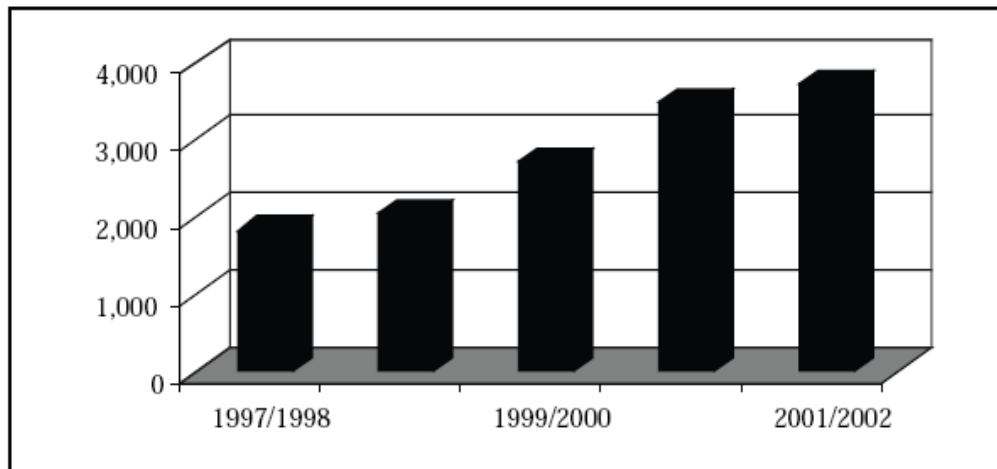
investors 14 percent, and employees of the airline acquired 3 percent (Ibid: 1; see also Fatokun, 2005).

The reasons behind the choice of KLM, as mentioned in the report, were as follows:

- KLM's record as a pioneer in the development of airline alliances and in the creation of a global network of cooperative services;
- KLM's flight connections to Kenya since 1969;
- And KLM's valuation of the airline at US\$100 million, as opposed to South African Airways' valuation of US\$89 million.

Added to this, the presence of KLM as a strategic and leading partner was expected to impact on the process of share selling. After its privatisation in 1996, Kenya Airways was able to generate a sustainable operating profit (Lufthansa Consulting 2005: 2), and as Figure 5.7 indicates, the company's revenues steadily increased during 1997-2002.

Figure 5.7: Revenue Passenger Kilometres (millions)



Source: Irandu (2008: 79)

According to Irandu (2008: 78),

The number of passengers carried by Kenya Airways increased from 806,000 in 1997/1998 to 1,540,000 in 2001/2002. This represents an increase of about 91%. The amount of cargo carried by Kenya Airways increased from 12,115 tons in 1997/1998 financial year to about 23,000 tons, representing an increase of about 90%. The revenue passenger kilometer (RPK) carried by Kenya Airways also increased from 1,832 million in 1997/1998 to 3,725 million in the 2001/2002 financial year.

As *African Business* (May 1996) reported, “the presence of KLM – one of the world’s largest and most profitable carriers – as a major shareholder in Kenya Airways, is expected to serve as a significant boost to the current share issue, particularly in the eyes of foreign investors”. Commenting on the alliance between Kenya Airways and KLM, Massey also notes that, in the initial years, the KLM tie-in was successful, “...with the company assisting in modernizing a range of technical aspects and providing the expertise to establish Nairobi as a hub airport, an essential pre-requisite to delivering substantial profits. These profits began to grow with each year” (2008: 24).

The chosen partner duly conducted the due diligence analyses and concluded the agreement with the Kenyan government (steps five and six). An agreement was then concluded between KLM and the Kenyan government that determined the corporate governance and other managerial issues related to the steering of Kenya airways (Fatokun, 2005)

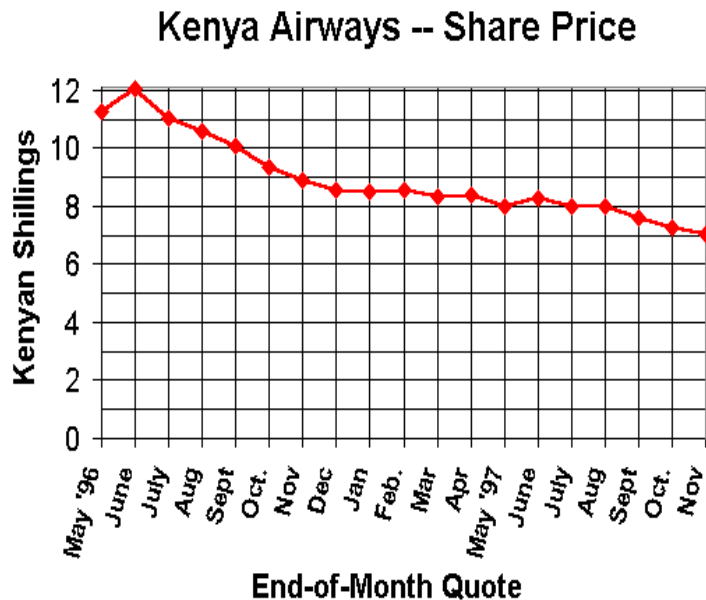
With the fulfilment of these arrangements the company was ready for the Initial Public Offering (IPO) of the Kenyan Airline shares, which attracted so many investors that the company was over-subscribed. Debrah and Toroitich (2005: 217) commented on this:

Following the agreement with KLM, the government sold the bulk of its shares on the Nairobi Stock Exchange and retained a minority stake of 22% in Kenya Airways. Trading in the new company’s stock began on the Nairobi Exchange on June 3, 1996. Some 52% of the shares are held by local and institutional investors, including employees of Kenya Airways, who hold shares under the employee share ownership plan (ESOP). The public purse was replenished by U.S.\$70 million as a result of the airline’s flotation. The airline now has in excess of 113,000 shareholders, most of them in East Africa.

With the IPO oversubscribed in aggregate by 94%, the IFC devised an allocation policy that favoured smaller investors and airline employees. The sequencing of first getting the strategic investor on board was crucial to building public confidence in the transaction and the future of the airline (IFC, 2008:1). In this respect the Kenya Airways board came up with the following criteria for allocating shares: staff applications for 4.6 million shares were met in full; the application of the Kenya Airways Employee Share Ownership Plan (ESOP) for 4.7 million shares was also met in full; the application of the Kenya Airways Employee Provident Fund for 4.2 million shares was fully met; all applicants for 1000 shares or fewer received their applications in full; and all other applicants who applied for over 1000 shares received an equal pro-rata allocation with a minimum allocation of 1000 shares (Oyieke, 2002: 12).

The IPO closed on 19 April 1996 with a total of 235 million shares (51% of the company) offered at KShs 11.25 per share (Fatokun, 2005: 83). As reported by Oyieke (2002: 33) on the first day of trading in Kenya Airways shares on the Nairobi Stock Exchange (NSE), prices ranged from KSh 11.95 per share to KSh 15 per share, and closed at the end of the day at KSh 12.75. A total of 298,000 Kenya Airways shares were trading on the first day of trading, amounting to 67% of activity (by number of shares) on the NSE. Over the first week as a whole, 2.6 million Kenya Airways shares were traded, and accounted for 52% of the transactions on the NSE. The price of Kenya Airways shares at the end of the week fluctuated between KSh 13.5 and KSh 14.0, but the share price had fallen from KShs 13.25 and KShs 13.90 in early June 1996, to KShs. 8.5 at the end of January 1997 (see Figure 5.8).

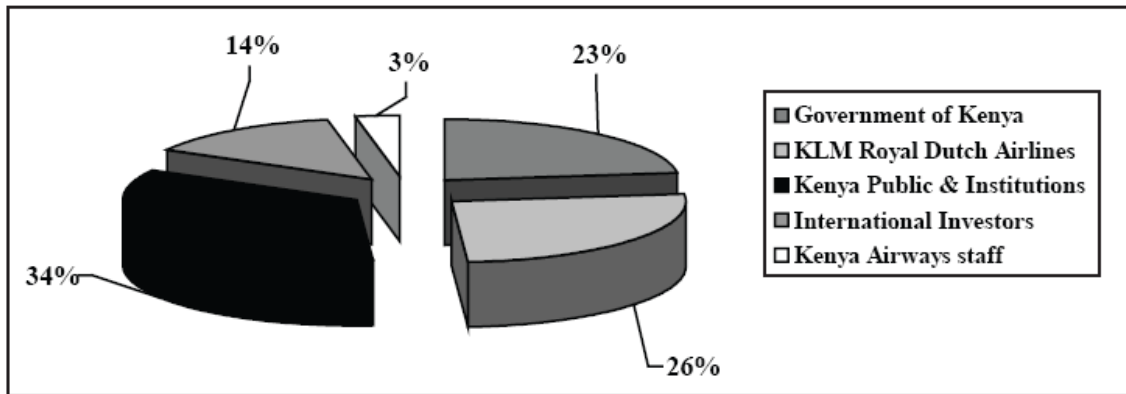
Figure 5.8: Kenya Airways Share Price



Source: Oyieke (2002: 33)

With the transfer of Kenya Airways from government to private ownership, the structure of the shareholders also changed. The current structure is reflected in Figure 5.9, which shows that 3 percent of the company’s shares were reserved for employees; KLM, as the strategic investor, held 26 percent of Kenya Airways; while 12 percent of shares were allocated to domestic institutional investors and another 14 percent was allocated to international institutional investors in the IPO. The Kenyan general public acquired 22 percent of Kenya Airways, with over 113,000 Kenyans investing, and the Kenyan government retained a 23 percent share of the company (Figure 5.9).

Figure 5.9: Kenya Airways shareholding structure



Source: Irandu (2008: 79)

Table 5.3 provides a summary of the company's shareholders number of shares held and the percentage of issued share capital as reported by the company at 31st March 2009.

Table 5.3: Summary of Shareholders as at 31st March 2009

Category	Number of Shareholders	Number of Shares Held	% of issued Share Capital
1 Kenyan Individual Investors	75,531	142,818,605	30.94
2 Kenya Institutional Investors	2,897	171,723,932	37.20
3 East African Individual Investors	38	143,382	0.03
4 East African Institutional Investors	5	583,748	0.13
5 Foreign Individual Investors	167	6,295,275	1.36
6 Foreign Institutional Investors	12	140,050,541	30.34
Total	78,650	461,615,483	100.00

Source: Kenya Airways *Annual Report 2008-2009*, p 51.

The discussion thus far has focused on one side of the story, i.e., the privatisation process of Kenya Airways. The other, equally important, side is how the privatised company is regulated. What is the regulatory framework? Who are the main regulatory institutions, and what are their roles and responsibilities? These questions are discussed in the next section.

5.3.4. The Regulatory Framework

Following the privatisation of Kenya Airways, the Kenyan government made commitments to maintain the existing regulatory structure of the Kenyan airline market for at least five years in an attempt to provide the newly-privatised company with some sort of protection against foreign competition but at the same time avoiding giving monopoly status to Kenya Airways. In this regard the government confirmed that Kenyan Airways would remain the designated national airline and flag carrier and that it would also maintain Kenya Airways' single carrier status under existing and future bilateral agreements for a period of at least five years. The government undertook not to withdraw Kenya Airways' existing route licenses and to continue its policy of not permitting charter flights to and from Jomo Kenyatta International Airport (JKIA) for a period of at least five years (Oyieke, 2002).

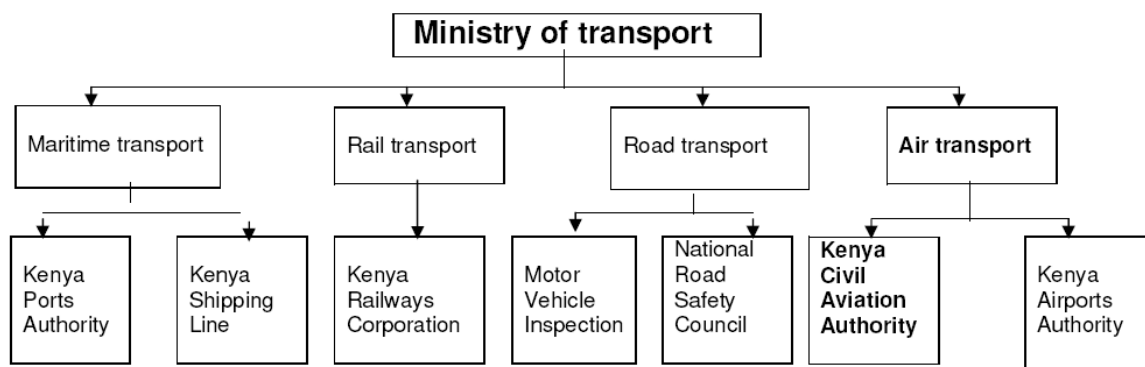
By doing this, the Kenyan government chose to follow a gradual approach to liberalisation instead of adopting radical approaches that might change according to the international agreements that arrange these issues. The Kenyan approach protected Kenya Airway from competition but at the same time did not grant it a monopoly over the provision of aviation services.

5.3.4.1. The regulatory structure

Until the collapse of the East African Community of Kenya, Tanzania and Uganda in 1977, responsibility for managing air transport at the national levels was assigned to the East African High Commission. Responding to the collapse of the EAC, the Kenyan government instituted two regulatory bodies to carry out the tasks previously performed by the High Commission. One was the Kenya Civil Aviation Authority (KCAA), the other was the Kenya Airports Authority (KAA). Both regulatory bodies are also responsible for the East Africa School of Aviation (EASA).

As indicated in Figure 5.10, air transport comes under the umbrella of the Ministry of Transport, and as regulators the KCAA and KAA are responsible for managing the sector and monitoring the performance of the private companies, including Kenya Airlines. The KCAA was established in October 2002 as a successor to the Directorate of Civil Aviation (DCA) and the Civil Aviation Board (CAB) the previous sector regulators (Figure 5.10).

Figure 5.10: Organogram Ministry of Transport Kenya



Source: Fatokun (2005: 80)

The KCAA’s mission according to its website, includes the development, regulation, and management of an efficient and effective civil aviation system in Kenya. Adopting core values including customer satisfaction, commitment to safety and security, fairness and equity, commitment to staff, creativity and innovativeness, the KCAA sees itself presenting a model of excellence in global civil aviation standards and practices. This is reflected in the words of Mr C. Wako, Chairman of the Board of Directors of KCAA:

Due to the increasing role of the aviation industry and the changes taking place worldwide, KCAA is looking ahead to ensure that the Kenyan airspace is secure enough to meet the challenges of air transport in the future. In this regards, KCAA is implementing a 5 year Strategic Plan, a Master Plan for Kenya’s airspace while at the same time ensuring that aviation safety and security are maintained. With increased traffic passing through our airspace we are continuously upgrading our facilities and systems to cater for the increased air traffic and also ensure efficient and orderly flow (<http://www.kcaa.or.ke>).

As stated by the Civil Aviation Act 2002 sect.3, KCAA was established as a body corporate that enjoys the power to conclude agreements and contracts and to take legal action against any other body. The core objective of the authority as stated in section 3A of the Act is to “plan, develop, manage, regulate and operate a safe, economical, and efficient civil aviation system in Kenya in accordance with the provisions of this Act”. To achieve this, the KCAA was authorised to perform three main functions: (1) regulate the Kenyan aviation industry; (2) provide air navigation services within Kenya’s Flight Information region (FIR); and (3) offer training for aviation personnel (<http://www.kcaa.or.ke>).

5.3.4.2. Kenya Airports Authority

The establishment of the Kenya Airports Authority (KAA) as a regulatory authority in charge of running the civilian airports in Kenya preceded the creation of KCAA. KAA was established in 1991 as an autonomous body by a parliamentary act that gave the Authority the right of ownership and management of the air services infrastructure (see Table 5.4).

Table 5.4: Air transport infrastructure Kenya

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Airports with unpaved runways		211	211
Functional airports with paved runway	9	9	9
International airports	3	3	3
Airport which runway is over 3,047m	N/A	4	4
Airports which runway between 2,438 and 3,047m	N/A	1	1

The KAA works as a facilitative and coordinating body of the airports system in Kenya, and its mandate covers the following areas: administration, control and management of aerodromes; providing and maintaining services necessary for aircraft operations, in addition to fire-fighting equipment and services; constructing, running and upholding aerodromes and other related services including those established on an agency basis at the request of any government department; providing facilities for passengers and approving the establishing of private airstrips and controlling their operation (<http://www.kenyaairports.co.ke>). These roles had previously been performed by the Aerodromes Department under the supervision of the Ministry of Transport and Communication.

As stated in Chapter 395 of the KAA Act, and summarised on the authority's website the mission of the KAA is to “develop and run internationally renowned airport facilities in Kenya, intent on offering our customers safe, secure and efficient airport services and a consistently comfortable airport experience.” The means to this end required highly motivated, effective human resources and KAA was thought to offer the best careers in airport operations and management in the region. For shareholders, it aims to offer class-leading returns on their invested capital. The Authority states that it intends to become “the unchallenged airport system hub for the region, with an effectively integrated chain of key airports. We aspire to generate robust and consistent profitability through our activities and to

be an exemplar of good management practice and efficiency in Kenya” (<http://www.kenyaairports.co.ke>).

5.4. Civil Aviation Policy and Privatisation: The Case of the Cooperation Council for the Arab States of the Gulf (GCC)

The purpose of this section is to highlight the experience of the Cooperation Council for the Arab Gulf States (or the Gulf Cooperation Council = GCC) with liberalisation and privatisation of the civil aviation sectors in several of the member states. This discussion is important for putting the Saudi case in context. The GCC was established on 21 Rajab 1401 AH / 25 May 1981 CE, and includes six member countries: the United Arab Emirates (UAE), the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar, and the State of Kuwait (www.gcc-sg.org). These countries have similar social, political, economic, and religious characteristics, and such similarities have encouraged them, as member states, to adopt policies aimed at promoting more integration and more cooperation among them.

During the 1970s the GCC countries adopted ambitious developmental plans that aimed, among other things, to build state infrastructures and push economic development. Developing human resources and improving living standards were also among the main economic goals of the GCC countries during this period. Many factors affected the ability of the GCC countries to achieve the rapid social transformation that they were hoping for. The main obstacles, according to the Australian government’s Department of Foreign Affairs and Trade (2005) included the lack of trained and skilled human resources, in addition to heavy reliance on oil revenues as the main source of national income.

Al-Sadoun (2009) notes that, as in many other countries during the 1980s, privatisation was widely adopted in the GCC countries. The economic recession from 1982 to 1986, from which the GCC countries suffered following the decline in oil prices, along with its continuing repercussions until the 1990s, pushed the GCC countries to adopt more market-based approaches in managing their economies. Among other things these approaches included encouraging more participation and involvement by the private sector in the production of goods and services, and delivery processes, as well as encouraging competition between private companies on the one hand and between the private and the public sectors on the other. This strategy was regarded as an effective way of dealing with the decline of state

revenues caused by declining oil prices. Many GCC countries tried to create an enabling environment to attract foreign direct investment. They also searched for better ways to control national capital and to reduce their reliance on the foreign labour markets (see Al-Omar, 1996).

Focusing on the privatisation of civil aviation sectors in the GCC countries in order to provide the context for the detailed case study of the civil aviation privatisation in the Kingdom of Saudi Arabia, this section considers efforts made by the governments of some GCC countries to encourage a more effective role for the private sector in this vital service. The intention is not to embark on a detailed discussion and analysis of each case but to present an overview of each case to highlight the major steps taken by the GCC countries.

5.4.1. Civil Aviation in the State of Kuwait

In 1932 a British Handley Page aircraft of Imperial Airways landed for the first time in Kuwait, to inaugurate commercial air transport services in the country. As reported by Keith (1957), Kuwait National Airways was organized in late 1953, with ten Arab members in its board of directors. By 1954 a regular commercial aviation service was established to other parts of the Gulf region including Iraq, and to other Arab countries such Syria and Lebanon (see Figure 5.11).

Figure 5.11: Routes and Weekly Frequencies of Kuwait Airways (September 1956)

KUWAIT NATIONAL AIRWAYS:	
Kuwait to:	Bahrein—2
	Abadan—5
	Jerusalem—2
	Damascus—3
	Beirut—6
	Cairo—1
	Basra

Source: Keith (1957)

In May 1954, Kuwait National Airways established a regular commercial route between Kuwait and Basra with three flights a week. At the same time a second route was commissioned to Beirut (Al-Shammari, 2008).

Madzikanda and Njoku (2008) have noted that fluctuations in oil prices, in addition to the Kuwaiti government's determination to reduce its dependence on oil revenues worked as accelerators for Kuwait's intended programme of privatisation. To achieve its goals the

Kuwait Investment Authority (KIA) started a three-step programme in 1992 for the liberalisation and privatisation of different economic sectors (see Al-Shammari, 2008). The first step focused on creating new opportunities for private investments, in order to push private capital into the national economic sectors. To this end “US\$ 2.9 billion worth of assets held in local companies have been sold” (Ibid: 163). In steps two and three the Kuwaiti government called for the privatisation either partially or in full of various economic sectors including civil aviation, oil, and many state-owned companies.

Figure 5.12: Commercial Aviation in Arab States (1954-55)

Country and Name of Airline	Ownership	Management	Fleet	Annual Revenue Passenger Miles	Number of A. Employees B. Pilots
Kuwait: <i>Kuwait National Airways</i>	? All Arab Board of Directors.	BOAC and Kuwaiti	3 DC-3s (1954) 1 Hermes (1956)	Not Available	A. 50 B. 6 (1955)

Source: Keith (1957: 129)

In general many advantages were expected from liberalising economic sectors and privatising state-owned enterprises. Alotaibi (2009) has referred to the positive impact of privatisation on the quality of service provision and the ability of private companies to apply new materials and technical methods. Motivated by such forces the Kuwaiti government liberalised and commercialised their air transport sector.

As noted by Engineer Al-Zamel, Deputy Director General for Aviation Safety and Air Transport Affairs in the Kuwaiti Directorate-General of Civil Aviation (DGCA) in 2008,

the latest development in the Kuwaiti air transport industry is the establishment of six private airlines. The low-cost carrier Jazeera Airways made its start in October 2005. Since then two air taxi companies have gone into operation. One air cargo carrier is due to take off at the end of 2008, as is the passenger airline Kuwait National Airways, which will be launched at the beginning of 2009 (*International Transport Journal*: 34; www.kuwait-irport.com.kw/ic/PDF/nabel.pdf)

In October 2007, the CEO and managing director of Kuwait Airways, Barrak Abdulmohsen al-Sabeeh, indicated the importance of focusing on the quality of services provided by the company and the need to begin the Kuwait Airways privatisation process so as to be able to compete with other airlines in the region. According to his view, “Kuwait Airways with its existing processes will not move forward without privatisation. In this type of industry time is very important... [the company is] ...handicapped in taking decisions” (Kaminski-Morrow, 2007).

In compliance with economic liberalisation policies and in response to increasing demands by Kuwaiti investors to access the air transport market, the Kuwait government in accordance with Law No. 6 of 2008 took the decision (No. 10/2010) on 3 March 2010 regarding the privatisation of Kuwait Airways, (*Al-Qabas* newspaper, 14/07/2010). The decision was then postponed until October 2010, as declared by Mohamed Al Busairi, Minister of Transportation and Minister of State for National Assembly Affairs and Government Spokesman (*Al-Seyaasah* newspaper, 14/7/2010).

According to Al Busairi, the reason for the postponement was that it was better for the company to finish the summer season and to give it a chance to respond to employees who might want to be transferred, retire, or continue to work with the company after privatisation. Al-Shammari points out (2008: 163) that “Since the Kuwait Government is by far the largest employer of Kuwaiti citizens (nearly 92% of Kuwaiti nationals), there is a general concern that privatisation will threaten employment of Kuwaiti workers.”¹³ According to Wadi and Kareem (2010) the most serious challenge facing the committee responsible for the privatisation process would be “transferring the KAC employees, who do not want to work for KAC once it becomes a shareholding company. The employees will need to be moved to the public sector without affecting their financial privileges according to the law.”

With these concerns in mind the Kuwaiti Government started to take concrete action towards privatisation. A foundation committee for the privatisation of Kuwait Airways Corporation (KAC) was formed by the Kuwait Investment Authority (KIA), which worked on transferring the assets of KAC and its subsidiaries to KIA as an initial step towards transferring the company to a shareholding company. Currently, the fleet of Kuwait airways consists of 20 aircraft (Table 5.5).

¹³ Madzikanda and Njoku (2008) have reported that 84 percent of female and 69 percent of male employees rejected privatisation due to its impact on job security.

With privatisation and liberalisation of the market proceeding, many advantages including higher profitability and better services to customers were being reported, and more were expected to follow with the full privatisation of Kuwait Airways in 2011.

Table 5.5: Kuwait Airways Fleet

Aircraft	Total
Airbus A300-600R	5
Airbus A310-300	3
Airbus A320-200	3
Airbus A340-300	4
Airbus A340-500	2
Boeing 747-400M	1
Boeing 777-200ER	2
Total	20

Source: www.kuwaitairways.com

5.4.1.1. Regulatory Framework of Kuwait's Civil Aviation Sector

The Directorate General of Civil Aviation (DGCA) is in charge of regulating and managing the civil aviation sector in Kuwait. DGCA was created in 1975 to replace what had been known as the Civil Aviation Department. A new head of DGCA was appointed with the rank of Undersecretary. In 1980 DGCA started a new programme to modernise the infrastructure of the civil aviation sector that included: enhancing facilities for airlines and passengers at Mugwa Airport; inaugurating the western passenger terminal (Terminal 2), which increased annual passenger capacity to five million; modernising the cargo terminal to offer 24 hour operations; and modernising nav aids, radar, ILS and communications systems to enable as many as possible to function on-line (Directorate General of Civil Aviation, www.dgca.gov.kw). Decree Law No 31 was also issued in 1987 to regulate the air transport market in the State of Kuwait.

The civil aviation law authorised the DGCA to regulate as well as run the sector, including: the right to manage and operate Kuwait International Airport and to supervise of all the services and facilities related to air transport traffic in the airport, in addition to all air transport affairs, such as responsibility for concluding international conventions and agreements in the civil aviation field; the right to provide all necessary services for international air navigation, including telecommunications and meteorology; the right to supervise construction and the maintenance of associated facilities serving the international civil aviation movement; the right to organize the air transport market in the State of Kuwait, as well as all air traffic within Kuwaiti airspace; the right to supervise all governmental authorities and private bodies functioning at Kuwait International Airport and to oversee civil aviation safety matters including registration, certification, and the operation and maintenance of civil aircraft.

5.4.2. Civil Aviation in the United Arab Emirates

The United Arab Emirates (UAE) has one of the most competitive air transport markets in the entire region. With four national airlines across the different emirates (Emirates based in Dubai, Etihad Airways in Abu Dhabi, Air Arabia in Sharjah, and RAK Airways based in Ras Al Khaimah), this market was responsible for 57 percent of international air transport capacity in 2007. The UAE's two largest airlines (Emirates and Etihad) were responsible for 39 percent and 13 percent respectively of international seat capacity operated in UAE in 2007, while the low cost carriers Air Arabia and RAK Airways correspondingly accounted for 5 percent and 0.24 percent during the same period (Ibid: 13) (see Table 5.6).

Emirates was established in 1985 as a result of the cutting back of Gulf Air's services to Dubai. The company received US\$10 million from the government as a starting capital; however, it was expected to operate independently without any government subsidies. The company forms a part of the Emirates Group which consists of airport services provider DNATA (the Dubai National Air Transport Association) and Emirates Airlines. Emirates Airlines' performance has improved over time and the newly emerging airline was able to serve eleven destinations (the The-Emirates-Group-Company). Overall, the company was a success in all respects at the financial and operational levels (see Table 5.7).

Table 5.6: Seat Capacity Market Share of Major Airlines in UAE 2007

Airline	Seat Market Share (International)
Emirates	39%
Etihad Airways	13%
Air Arabia	5%
Qatar Airways	3%
Indian Airlines	2%
Gulf Air	2%
Pakistan International Airlines	2%
Saudi Arabian Airlines	2%
Iran Aseman Airlines	2%
Oman Air	1%
British Airways	1%
Other Airlines	27%
Total	100%

Source: InterVISTAS-EU (2009: 13)

Table 5.7: Emirates Financial and Operational Performance

Year Ended	Passengers Flown (thousand)	Cargo carried (thousand)	Turnover (AEDm)	Expenditure (AEDm)	Net Profit(+)/Loss(-) (AEDm)
31 March 1997	▲3,114.3	▲159.4	▲1,198.7	▲1,097.1	▲(+101.623
31 March 1998	▲3,683.4	▲200.1	▲4,089.1	▲3,826.7	▲(+262.413
31 March 1999	▲4,252.7	▲214.2	▲4,442.9	▲4,130.2	▲(+312.959
31 March 2000	▲4,775.4	▲269.9	▲5,113.8	▲4,812.9	▼(+300.900
31 March 2001	▲5,718.8	▲335.2	▲6,417.3	▲5,970.7	▲(+421.825
31 March 2002	▲6,765.1	▲400.6	▲7,274.6	▲6,783.7	▲(+468.231
31 March 2003	▲8,502.8	▲525.2	▲9,709.7	▲8,749.6	▲(+906.747
31 March 2004	▲10,441.3	▲659.8	▲13,286.3	▲11,602.1	▲(+1,573.511
31 March 2005	▲12,528.7	▲838.4	▲18,130.9	▲15,628.3	▲(+2,407.385
31 March 2006	▲14,497.5	▲1,018.5	▲23,050.9	▲20,489.6	▲(+2,474.999
31 March 2007	▲17,544.1	▲1,155.9	▲29,839.6	▲26,675.9	▲(+3,096.416
31 March 2008	▲21,229.2	▲1,282.1	▲40,196.6	▲35,121.7	▲(+5,020.424
31 March 2009	▲22,730.9	▲1,408.3	▲43,266.3	▲43,143.4	▼(+981.676
31 March 2010	▲27,454.5	▲1,580.6	▲43,455.8	▼39,890.4	▲(+3,538.000

Source: Emirates Airlines Company Report 2009-2010

Table 5.7 shows that the company has remained steadily profitable since 1997, with no losses. With a fleet consisting of 145 aircraft it has managed to retain its competitive advantages in relation to other service providers (see Table 5.8). Based on published figures from the International Air Transport Association (IATA), Emirates Airlines came in at seventh place among the world's largest airlines in terms of international passengers carried, and was in fourth place in terms of scheduled international passenger-kilometres flown.

Table 5.8: The Emirates Fleet

Aircraft	Total
Airbus A330-200	29
Airbus A340-300	8
Airbus A340-500	10
Airbus A350-900	—
Airbus A350-1000	—
Airbus A380-800	15
Boeing 777-200	3
Boeing 777-200ER	6
Boeing 777-200LR	10
Boeing 777-300	12
Boeing 777-300ER	53
Total	145

Source: www.emirates.com

Etihad Airways is the second largest airlines in the UAE. The company was established and started operation in November 2003 according to an Amiri (Royal) Decree (Etihad Airways Factsheet, 2010). By 2009 and using a fleet of 54 aircraft (see Table 5.9) Etihad Airways had flown more than 17 million passengers to more than 50 destinations across the Middle East, Africa, Australia, Europe, North America and Asia (www.etihadairways.com). The total revenue of the company from airfares and pricing, cargo revenue, and ancillary revenue has reached US \$2.3 billion in 2009 (Etihad Airways Factsheet, 2010: 27).

In addition to its core activity as a passenger transporter, Etihad Airways has a cargo division flying under the name of Etihad Crystal Cargo. Thanks to its expanding international route network and aircraft fleet the company provides various cargo services. Its mission is “ to become the leading and most profitable Middle East airline offering consistently high

standards of air cargo services through our excellent customer service, connectivity, transparency, and technology” (www.etihadcrystalcargo.com).

Table 5.9: Etihad Airways Fleet

Aircraft	Fleet	Engine
Airbus A319	2	IAE V2500
Airbus A320	13	IAE V2500 and CFM 56-5A
Airbus A330-200	16	Rolls-Royce Trent 700
Airbus A330-300	2	Rolls-Royce Trent 700
Airbus A340-500	4	Rolls-Royce Trent 500
Airbus A340-600	7	Rolls-Royce Trent 500
Boeing 777-300	6	GE90
Airbus A300-600F (Freighter)	2	Pratt & Whitney 4158
MD11F (Freighter)	2	Pratt & Whitney 4462

Source: Etihad Airways Factsheet, (2010: 6)

Both airlines are success stories and according to Abdul Wahab Teffaha, Secretary General of the Arab Air Carriers Organisation (AACO), this success can be attributed to “the undeniable foresight of the country’s leaders, who identified the importance of air transport in their plans to create a modernised global country.” As a result, he added “we have witnessed a mass investment into airlines and airports in each emirate, together with the type of generous open-sky policies that were destined to bolster the speed of development and enhance the UAE’s accessibility from anywhere in the world” (UAE Aviation Report 2010).

The UAE Aviation Report 2010 has also highlighted other success factors including: the geographic location between East and West, North and South; investments in infrastructure; the introduction into airline fleets of super long-haul aircraft with the ability to connect any two points in the world with a maximum of one stop; the open skies agreements; the ‘customer-centric’ business models used by locally-based airlines; the world-class incentives to establish a business and operate in the country; and finally the country’s (and particularly Dubai’s) emergence as a global financial centre.

5.4.2.1. Regulatory framework of the UAE’s civil aviation sector

The General Civil Aviation Authority (GCAA) acts as a regulatory agency for the civil aviation sector in the UAE. GCAA was created in 1996 by Federal Cabinet Decree (Law 4)

and was given the power to regulate and manage different issues related to the civil aviation market. Special focus was placed on issues related to safety and security, in addition to the role of GCAA in strengthening the aviation industry within the UAE and its upper airspace. The regulatory duties of the GCAA cover different areas. As reported on GCAA's official website,

The GCAA, which is the sole authority for the control and regulation of civil aviation in the UAE, is responsible for the provision of en-route air navigation services and all aspects of flight safety. In late 2009, the GCAA opened its new Air Navigation Centre, The Sheikh Zayed Centre, which is considered the largest and busiest air traffic management facility in the Middle East as well as one of the world's most technically advanced centres in terms of its design (General Civil Aviation Authority, www.gcaa.gov.ae).

On 10 June 1991 the Civil Aviation Law of the United Arab Emirates was issued to provide a general framework for the sectors' regulations. The provisions of the law cover different areas including: the Civil Aviation in the territory of the UAE; the Civil Aircraft registered in the UAE, wherever they may be, subject to the laws of any foreign state in which they may be operating; the civil airports in the UAE, including all technical activities such as air traffic control and the installation, operation and maintenance of communication equipment, radio equipment, navigation aids, meteorology and Air transport in general. Another law was issued in January 1996 to establish the General Civil Aviation Authority (GCAA) as the General Authority for the carrying out of Civil Aviation Law in the United Arab Emirates (General Civil Aviation Authority, www.gcaa.gov.ae).

The regulatory powers of GCAA are derived from civil aviation law and include the power to promulgate different types of rules and regulations. On the one hand GCAA is responsible for issuing the general policy for civil aviation and for proposing laws and regulations plus the rules related to overflight of the territory of the state, landing and departing from its airports, and the conditions of carriage of passengers, cargo and mail. The authority is also responsible for promulgating the rules that ensure protection of aerial navigation lights and signals, in addition to forming the necessary committees, in coordination with the local authorities, to implement such policies and rules. GCAA represents the State in international negotiations and is in charge of proposing the conclusion of bilateral agreements in the area of civil aviation and aerial meteorology.

GCAA also has the authority to determine certain issues, such as aerial navigation routes to be followed on entry, departure or overflight by those aircraft, areas over which flying is prohibited, restricted or dangerous, the condition for the registration of aircraft in the State, and the documents that should be carried on board aircraft. It also oversees the conduct of aerial navigation aircraft registered in the State, and inspects their compliance with the requirements for appointment of aircraft crew members as well as issuing the necessary licences and related documents. Added to all this, GCAA has the power to supervise the maintenance and repair of aircraft and to ensure enforcement of accepted international regulations and standards at airports of the state (General Civil Aviation Authority, www.gcaa.gov.ae).

5.4.3. Civil Aviation in the Kingdom of Bahrain

Air transportation and activities started in the Kingdom of Bahrain in the late 1940s, when an English entrepreneur named Freddie Bosworth started an air taxi service to Doha and Dhahran from Bahrain. In 1950 Bosworth registered a new private shareholding company under the name of Gulf Air. Today *Ṭayarān al-Khalīj* or Gulf Air, is the main national carrier for the Kingdom of Bahrain. The company flies to 45 international destinations in 28 countries across Africa, Asia and Europe from its hub at Bahrain International Airport (www.gulfair.com).

Gulf Air has a large active fleet consisting of 34 aircraft (see Table 5.10). It includes Boeing 737, Boeing 747, Boeing 757, Boeing 767, Boeing 777 and the Lockheed L-1011 TriStar aircraft. In December 2010 Gulf Air received two brand new Airbus A320 aircraft, to increase the number of new aircraft in the airline's fleet to 14 (www.aaco.org).

The Chief Executive Officer commented on the arrival of the two new aircraft by saying that

The arrival of these two aircraft successfully completes the first phase of our fleet renewal programme as per schedule. Now more than 40% of our fleet is brand new, demonstrating our dynamic fleet-renewal plan, which is a core component of the company's new strategy to create a commercially sustainable business with a strong product offering. Besides, having a new, more efficient fleet means we can deliver a better service to our customers and at the same time we can lower our cost (Ibid).

Table 5.10: Gulf Air Fleet

Aircraft	Active	Stored	Written off	History	On order	Total
Airbus A319	2					2
Airbus A320	12	6	2	18		38
Airbus A320-200	12	6	2	18		
Airbus A321	2					2
Airbus A321-200	2					
Airbus A330	10			8		18
Airbus A330-200	10			8		
Airbus A340	4	5		13		22
Airbus A340-300	4	5		13		
Boeing 737			1	13		14
Boeing 737-200			1	13		
Boeing 737 Next Gen				2		2
Boeing 737-800				2		
Boeing 747				3		3
Boeing 747-200				3		
Boeing 757				1		1
Boeing 757-200				1		
Boeing 767		2		24		26
Boeing 767-200				1		
Boeing 767-300		2		23		
Boeing 777				3		3
Boeing 777-300				3		
Embraer 170/175	2					2
Embraer 170	2					
Embraer 190/195	2					2
Embraer 190	2					
Lockheed L-1011 TriStar		1		17		18
Total	34					

Source: airfleets.net

With this fleet in operation the company considers itself as the airline with the biggest network in the Middle East (see Figure 5.13).

Figure 5.13: Gulf Air's Network



Source: www.anna.aero

As reported by the business website LinkedIn, “The airline aims to become the carrier of choice”. In order to achieve this goal Gulf Air provides its customers and passengers with high quality products and services (www.linkedin.com). Despite such an ambitious aim the *Daily Star* has reported that the state-owned company has struggled for years to compete with other carriers and airlines.

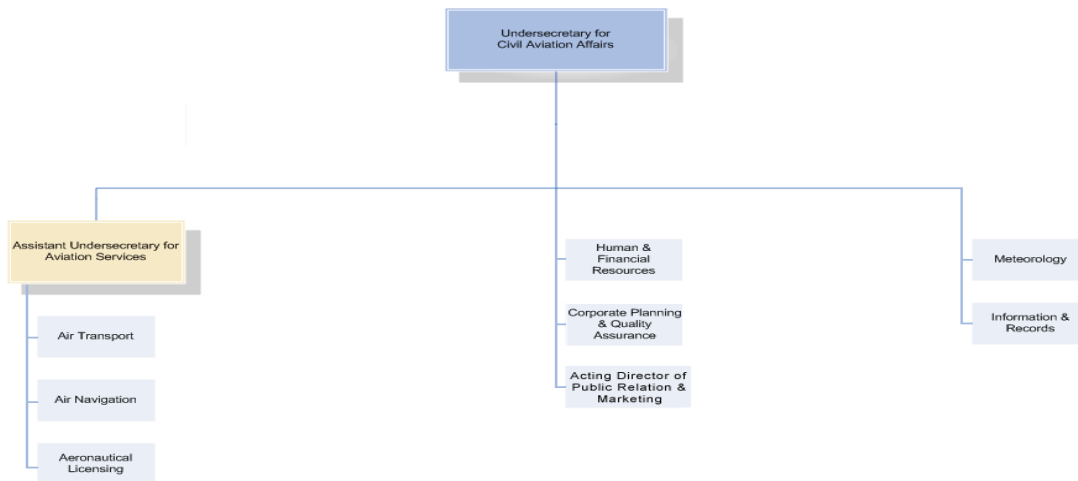
Gulf Air has always been subsidised by government and recently the airline has received more than US\$1 billion. As reported by mybahrain.net the measure aims to “emphasize the state’s commitment to the government-owned carrier, which has been through new management and loss of money for years now, as it struggles to compete in the Middle East aviation market” (www.mybahrain.net). This move by the Bahraini Government indicates the importance of the airlines for the national economy, a matter that has been reflected in parliamentary discussions on the future of Gulf Airways. The relevant committee has emphasised that it is important to support Gulf Airways by all means because of the significant role of the company as a national flag carrier for the Kingdom (www.alwasatnews.com).

As a result of increasing losses the company is undergoing a process of restructuring for the time being with plans to privatise it in the near future. In this context the chief executive of Gulf Air Mr Samer Majali has emphasised that there is no intention of privatising the company at the current stage. A point of equilibrium between revenues and expenses needs to be reached first, before any privatisation of Gulf Air can be started. He has also indicated that the budget allocated by the company for the first quarter of 2010 had proceeded as planned. Therefore there was great satisfaction in the company that they could now move ahead as planned with privatisation (news.atsdp.com).

5.4.3.1. Regulatory framework of Bahrain’s civil aviation sector

The regulatory authority in charge of all air transport activities within the Kingdom of Bahrain is known as Civil Aviation Affairs (CAA). Its mission is to ensure excellence in regulatory safety systems and to provide high quality aviation services in an environmentally responsible manner. This mission was translated into the vision of providing a world class role model in aviation (Civil Aviation Affairs, www.caa.gov.bh). The CAA’s organisational chart includes three subdivisions (Figure 5.13a).

Figure 5.13a: Organisational Chart of Bahrain’s CAA



Source: Civil Aviation Affairs, www.caa.gov.bh

As Figure 5.13a. shows, the CAA is in charge of regulatory matters concerning air transport activities within Bahrain as well as meteorological services and the Flight Information Region (FIR). In relation to air transport its responsibilities include covering operating permits, permission for overflights and landing, schedule clearance, carriage of dangerous goods, airworthiness and flight operations. Added to this CAA is also responsible for licensing airlines, and travel and cargo agents to enable the marketing and sale of air transport products and services, and ensuring compliance with international air safety and security standards, regulations and recommendations. Regarding the meteorological services, CAA provides different services including weather reports and other meteorological services on a 24-hour basis.

5.4.4. Civil Aviation in the Sultanate of Oman

Oman Air is the national flag carrier of the Sultanate of Oman’s civil Aviation sector. The company was established in 1993, although the beginning of civil aviation services and air transportation goes back to the 1970s. A company called Oman International Services (OIS) started civil aircraft handling services in 1970 at the old Beit Al Falaj airport, but after the partial completion of Seeb International Airport, and in an attempt to improve its services the OIS moved to the new location in 1972. Completion of the construction of Seeb International Airport resulted in an expansion of aviation activities in Oman, and in 1981 a new joint stock company was established under the name of Oman Aviation Services (OAS), which also

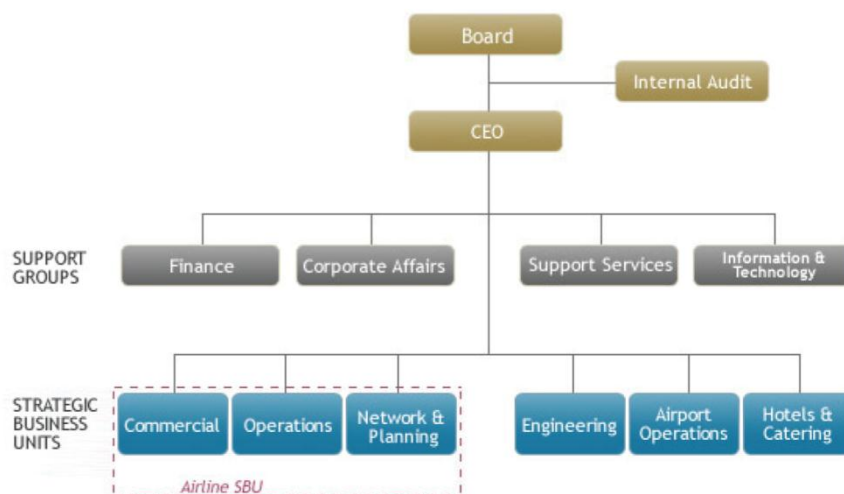
purchased several aircraft from Gulf Air and began local jet air services, along with Gulf Air, to Salalah.

Oman Air was founded in 1993 and since then has witnessed rapid growth, having committed itself to exceeding the expectations of its customers and stakeholders by building a “First Choice Airline”. The company states that its mission is to provide “... a safe, reliable and seamless flying experience, enhanced by warm and friendly customer services, without compromising on quality and profitability. As the national carrier we are committed to support the local community and to promote in-bound tourism to the Sultanate” (www.omanair.com).

Today the company stands at the forefront of the aviation industry with a long list of achievements. For example, it introduced the brand new Boeing NG 737 aircraft series for the first time in the Gulf, and it also provides high-quality services and excellent performance in relation to safety records, as well as excellent on-time performance (with an OTP that exceeds 95 percent).

The majority of the company is in the hands of the Omani government, which owns 99.825 percent (factsheet, www.omanair.com). A major recapitalisation of the company was undertaken in 2007 when the Omani Government pulled out Gulf Air and increased its shares in the airline from 33 to 80 percent (*Flight International*, 2007). Oman Air is run by a Board of Directors (as shown in Figure 5.14):

Figure 5.14: Oman Air’s Organisational Structure



Source: www.omanair.com

Corporate governance is divided into four levels: the Board, the CEO, the support groups (finance, corporate affairs, support services and information and technology); and the strategic business units; these include airline supporting units (commercial, operation, network and planning) and other units such as engineering, airport operation, and hotels and catering.

Oman Air operates a modern and fuel-efficient fleet of 23 aircraft with aesthetically designed interiors (see Figure 5.15).

Figure 5.15: The Oman Air Fleet

Aircraft	Total
<u>Airbus A330-200</u>	3
<u>Airbus A330-300</u>	3
<u>ATR 42-500</u>	2
<u>Boeing 737-700</u>	2
<u>Boeing 737-800</u>	13
<u>Boeing 787-8</u>	—
<u>Embraer 175</u>	—
Total	23

Source: www.ch-aviation

Using avant-garde in-flight service equipment, together with investment in new technology, careful planning and product innovation have improved safety and boosted the company’s overall performance. At the present time Oman Air operates direct international flights from Muscat to major Gulf destinations such as Abu Dhabi, Bahrain, Doha, Dubai, Al-Ain, Ras Al-Khaima, Jeddah, Dammam, Kuwait and Riyadh.

5.4.4.1. Regulatory framework of Oman’s civil aviation sector

The civil aviation sector in Oman is regulated by the Directorate General of Civil Aviation and Meteorology, known also as the Civil Aviation Authority. The civil aviation law issued by Royal Decree No (93/2004) provides the legal and regulatory framework for the civil aviation sector. The provisions of the law cover different areas, including issues related to civil airports and civil aircraft in the territory of the Sultanate; and civil aircraft registered in

the Sultanate (Civil Aviation Law 2004, Article 2). According to Article (4) of the Civil Aviation Law 2004, which identifies the powers and duties of the CAA, the regulator has the right to supervise civil aviation with the purpose of regulating and developing it. To achieve this goal the regulator has the power to carry out different regulatory functions. In general terms the CAA is responsible for “the safety regulation of the civil aviation industry, for the development of policy on the sustainable use of Oman airspace and for ensuring the provision of necessary supporting infrastructure for air navigation” (Oman Civil Aviation Affairs Publication CAAP 001, 2011: 5).

The regulator has the power to construct civilian airports, determine their type, operate and run them, and grant licences to run, operate and invest in them. It also has the power to construct, operate and manage navigation aids and meteorological and air traffic services in the Sultanate. Any party entrusted with running and operating civilian airports in the Sultanate comes under the supervision of the CAA. The authority has the right to coordinate with the relevant parties and/or service providers to ensure the safe operation of airports and aircraft. With regard to flying operations, the authority is empowered to verify the financial and technical capabilities of the air carrier or operator and to issue the necessary rules and instructions for regulating civil aviation according to national and international standards. Concerning meteorological information the CAA is responsible for various issues, such as establishing, operating and maintaining weather stations for the service and safety of air navigation, in order to prepare daily weather forecast for all airports in the Sultanate at internationally-agreed times, and to prepare climate data to help plan flight operations (Civil Aviation Law 2004, article 4).

The CAA also has a number of functions relating to the issue of licences, certificates and approvals. In this respect it has the right to issue, renew and revoke the licences of air traffic controllers and air traffic control instructors, according to executive regulation. It also has the right to issue and validate flight authorisations and technical licences associated with civil aviation works and services, according to executive regulation, and to issue and validate all aircraft, engines, instruments and maintenance licences. Generally speaking, the authority has the right in all cases to withdraw or revoke or suspend any permit after issue.

5.4.5. Civil Aviation in the State of Qatar

Qatar Airways Company QCSC, known for short as Qatar Airways is the national flag carrier of the State of Qatar. The company was established on 22 November 1993 and operated its first flight in January 1994. The company started as a private airline owned by members of the ruling family, but was re-launched in 1997 under a new management team with a new ownership structure, whereby the government of Qatar owns 50 percent of the company and the other 50 percent of the shares are owned by private investors.

Since its beginnings in 1993 the company, Qatar Airways, has improved dramatically and at the present time is one of the fastest-growing airlines in the region, operating one of the youngest fleets in the world. The company's CEO, Mr Akbar Al Bakr has commented on the airline's phenomenal expansion period, that has seen an average of 35 percent growth year-on-year for the past decade; "Along the way, the airline has garnered many awards and accolades, becoming one of only six airlines worldwide to have been awarded a 5-star rating by Skytrax, an independent aviation industry monitor" (CEO's message at www.qatarairways.com).

The future vision of the company, as Mr Al Bakr reflects, is for Qatar Airways "to become known globally as the best airline in the world". To this end he has emphasised the company's commitment to providing its customers with high-quality services and to improve its performance to meet and exceed customer expectations.

Compared to other airlines at the regional and global levels, Qatar Airways flies one of the youngest and most efficient aircraft fleets (see Table 5.11). The company expects its fleet to be 4½ years old in five years time and to become less than 5 years old in 10 years time. As Table 5.11 shows, the fleet consists of 90 aircraft and the airline aims to be operating a fleet of 110 aircraft by 2013.

The company's expansion plan is worth mentioning. In addition to the current operating fleet, Qatar Airways has ordered new aircraft at a total cost of US\$30 billion (Table 5.12). In 2007, the airline ordered 80 Airbus A350s, together with 60 Boeing 787s and 32 Boeing 777s. It also ordered five of the twin-deck Airbus A380 'super jumbos' for delivery from 2012, while other orders have been placed for new-generation Boeing 777s, Boeing 787s, Airbus A320/321s, Airbus A350s, and Airbus A380s.

Table 5.11: Qatar Airways Fleet

Aircraft	Active	Stored	Written off	History	On order	Total
Airbus A300	3		1	7		11
Airbus A300-600	3		1	7		
Airbus A310				3		3
Airbus A310-200				2		
Airbus A310-300				1		
Airbus A319	2				1	3
Airbus A320	17			5		22
Airbus A320-200	17			5		
Airbus A321	12					12
Airbus A321-200	12					
Airbus A330	29			2		31
Airbus A330-200	16			2		
Airbus A330-300	13					
Airbus A340	4					4
Airbus A340-600	4					
Boeing 737				1		1
Boeing 737-200				1		
Boeing 747				3		3
Boeing 747-SP				1		
Boeing 747-SR				2		
Boeing 757				1		1
Boeing 757-200				1		
Boeing 767				1		1
Boeing 767-200				1		
Boeing 777	23					23
Boeing 777-200	8					
Boeing 777-300	13					
Boeing 777-Freighter	2					
Total	90					

Source: airfleets.net

Table 5.12: Qatar Airways: Aircraft on order 2011-13

Aircraft	Orders	Options	Passengers (First/Business/Economy)	Entry into service
Boeing 787-8	30	30	TBD	2011
Airbus A380-800	5	2	TBD	2012
Airbus A350-800	20	–	TBD	2014
Airbus A350-900	40	–	TBD	2013
Airbus A350-1000	20	–	TBD	2015
Total	117	32		

Source: www.qatarairways.com

5.4.5.1. Regulatory framework of Qatar's civil aviation sector

The civil aviation regulator in Qatar – the Qatar Civil Aviation Authority (QCAA) – was created by Law No. 16 for 2001 to promote civil aviation and weather forecasts in terms of efficiency, accuracy and security. As stated by the law, “The sole objectives of the CAA shall be to advance and promote the Civil Aviation and Meteorology sector to the best standards, ability, capability, efficiency, accuracy and to ensure Civil Aviation safety in a way that will help social development objectives” (Law No. 16 for 2001, article 4: 3-4). To achieve this goal, five departments were created, including: Air Navigation; Air Safety; Air Transportation and Airport Affairs; Meteorology; and Joint Services (Qatar Civil Aviation Authority, www.caa.gov.qa).

The Civil Aviation Law No. 16 for 2001 gave the CAA a wide range of regulatory powers and authorities in 26 different areas of civil aviation regulations. In policy making and regulation the CAA has powers to set up general policies for State Civil Aviation and the necessary plans to achieve its objectives; to set up regulations and control provisions for flying over the State's territory; to propose laws and bylaws organising the activities of air travel offices, agencies of air organizations and supervise the implementing of such laws; and propose laws and bylaws pertaining to matters of Civil Aviation and meteorology. In the operational area, the CAA is responsible for defining sectors where overflying is prohibited, restricted or dangerous, and conditions under which aircraft registration certificates of airworthiness are issued; defining work validation among aircraft crews and issuing licences or other documents according to international standards in addition to documents that an operational aircraft should carry, examination, testing and issuing of documents for aircraft registered in the State; carrying out Air Traffic Control duties and maintenance of navigation equipment; investigating air accidents and supervising aircraft repair and maintenance; importing equipment, machinery, devices, vehicles and spare parts required to operate Doha International Airport, and imposing and collecting aircraft landing, departure and transit fees (Law No. 16 of 2001, article 4: 3-4).

In the area of meteorological services CAA is responsible for providing up-to-date meteorological information to operators and other interested parties. Here the CAA has the right to manage, maintain and modernise all meteorological stations; organize and implement meteorological observations; provide meteorological services to agencies responsible for aviation traffic; coordinate and cooperate with agencies whose activities are connected to

meteorology; develop ways and methods of collecting meteorological data and analyse such data in order to improve weather forecasts; and to prepare and publish weather and meteorological data (Law No. 16 of 2001, article 4: 3-4). The CAA has also powers in the area of enforcing international agreements and standards, as well as representing the State of Qatar in negotiations at the regional and international levels.

5.5. Conclusion

In this chapter the process of civil aviation liberalisation and privatisation was examined by focusing on a number of case studies including the UK, Kenya, and a number of GCC countries: Kuwait, Qatar, Oman, Bahrain, and the UAE. Although there are some unique elements in each, there are also many similarities between the case studies. First, and as was the case with many other infrastructure industries, civil aviation was owned and managed by the state in all of the cases studied. At different historical points and for different reasons, governments decided that this sector would work more efficiently under private ownership.

The reasons for privatisation varied from one case to another. In all the cases studied, governments were driven by operational, financial, and managerial drives. At the operational level, the poor performance of the civil aviation sectors and the poor quality of services provided was a major concern. Furthermore, the losses made by publicly-owned airlines provided the basis for a strong argument to be presented in favour of privatisation and private ownership.

At the financial level, the limited funds available to finance investments in civil aviation and the increasing pressures on public budgets were strong drivers for the privatisation decision. Having access to private capital markets has been viewed as one of the major benefits that national airlines can gain from privatisation. At the managerial level, poor management skills and the lack of expertise in crucial areas, such as marketing and customer relations, have also motivated privatisation decisions.

As has been indicated in earlier chapters, the relationship between ownership and performance is not clear-cut. Therefore, those who oppose privatisation, particularly in the UK case study, have referred to other examples, such as Canadian Airlines, as cases where public ownership could be associated with high and efficient levels of performance. However, at the time of privatisation the general trend was for private, not public ownership. This occurred in the experience of other countries such as Kenya.

At the procedural level, the process of liberalisation and privatisation in the countries studied went through similar phases. With the UK taking the lead in privatising BA, many elements of the UK experience were replicated in the experience of Kenya and the GCC countries. In all cases, the loss-making airlines had gone through a 'commercialisation phase', in which governments tried to restructure their airlines by changing the management and employing new managerial techniques borrowed from the private sector. The aim was to improve the profitability of these companies, and turn them from loss-making enterprises to profit-making centres. This phase is normally followed by the decision to privatise in terms of selling the companies' shares to private investors. The decision to liberalise the sector is normally associated with the creation of a regulatory framework in which regulatory agencies are responsible for managing the transition period, and for organising competition in the liberalised markets.

It should be acknowledged that the state of development in the countries studied has had an effect on the transparency and other aspects of the process. For instance, because of the differences in macro social, political, economic and legal conditions among the studied cases it is not realistic to expect the same level of openness and participation in the decision-making process in each case. In addition, the time-gap between the UK experience and that of the other cases studied enabled the latter to watch and learn from the liberalisation of the UK's civil aviation sector and the privatisation of BA. Another important element to be taken into consideration is that the GCC countries have only recently joined the liberalisation process. They therefore have relatively immature markets and many regulatory issues to resolve during the transitional stage of the market.

There are many lessons to be learnt from studying the experience of these cases. The first is that liberalisation and privatisation processes are heavily affected by the surrounding political, social and economic environment. For example, lack of good governance and the spread of corruption in the case of the Kenyan Airways privatisation had a negative influence on the whole process. Thus it is important to improve the overall governance environment, and to make sure that there are sufficient mechanisms in the process to allow for accountability and acceptable levels of transparency. Another lesson to be learnt from the experience of the countries studied is the importance of restructuring the airline before privatisation and to improve the financial position of the incumbent, in order to secure a swift and smooth transition to the private sector. Without such a restructuring, the success of the whole process

may be endangered since private investors will not wish to invest in losing companies. This was quite obvious in all the cases studied.

Another important lesson is that the process of liberalisation and privatisation must be associated with a regulatory framework that can organise the transfer of public ownership to the private sector, as well as managing the sector and organising the entrance of the private investors. The aim is to ensure that customers' interests are protected, and that private companies do not exploit their powerful positions to increase their profits at the expense of the consumers. Another important task for the regulators includes their role as proxies for the market mechanisms. They need to organise competition, while making sure that the new entrants are well protected against the previous incumbent which enjoys a powerful market position.

Building on the experiences discussed in this chapter, and based on the theoretical framework set out in the first few chapters of the thesis, the empirical section focuses on the Saudi case study, with the aim of illustrating the similarities between the privatisation and liberalisation process in the Kingdom and the experience of other countries, as well as the difficulties this process has created for decision-makers and new entrants.

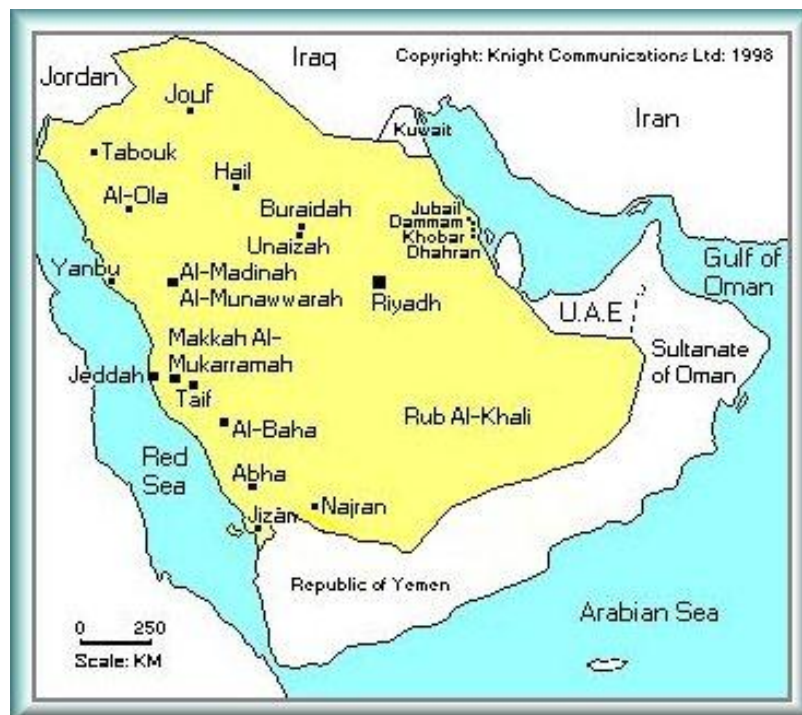
Chapter 6:

The Kingdom of Saudi Arabia: Political, Economic, and Legal Contexts of the case study

6.1. Introduction

This chapter is intended to provide background information about the Kingdom of Saudi Arabia, before studying and analysing the liberalisation and privatisation of the civil aviation sector in the following chapter. This contextualization is important to understand the issues that will be discussed in the wider picture of the overall transformation of the Kingdom of Saudi Arabia. In other words, to understand the recent transformation in the KSA, it is important to understand the country in its socio-economic, legal, and political contexts. Focus will be on the privatisation programme in order to highlight the main issues and underline the core changes in other economic sectors before discussion of the Saudi civil aviation sector.

The Kingdom of Saudi Arabia or in Arabic, al-Mamlakah al-Arabīyah as-Suūdīyah, is one of the leading countries in the Gulf region. With approximately 2,149,690 km² (830,000 square miles), it is the second largest country in the Arab world after Algeria and the largest in Western Asia.



It has a very important geo-strategic location, since it takes up most of the Gulf area and has borders with many neighbouring countries. On the north and northeast the Kingdom has

boundaries with Jordan (744 km) and Iraq (Iraq 814 km); on the east it borders Kuwait (222 km) and Qatar (60 km). The United Arab Emirates (457 km) and Oman (676 km) border the Kingdom on the southeast, while Yemen (1,458 km) is to the south. On the west, the Kingdom has a long Red Sea coastline and on the northeast its coastline is along the Arabian Gulf.

At the economic level, the Kingdom has the second-largest oil reserves in the world and it is the second-largest exporter of oil worldwide. Oil exports represent 90 percent of the Kingdom's overall exports, and oil revenues account for 75 percent of GDP ("Saudi Arabia", *CIA World Factbook*, 2011). At the regional level, KSA has the largest economy in the Arab world. The Saudi economy accounts for about 30 percent of the region's total output, but only 7.5 percent of total population. Akoum notes that "with market capitalization of nearly U.S. \$519 billion by the end of 2007, the Saudi stock market (Tadawul) [was] by far the largest in the region—39% of total market capitalization—and one of the largest in the emerging markets" (Akoum, 2009: 427). In addition, the Saudi Ministry of Economy and Planning reports on its official website that "Saudi Arabia holds a 25% share of the total Arab GDP and is the world's 25th exporter/importer, with a foreign trade of US \$78 billion. In all these years, the Kingdom has displayed remarkable political and economic stability" (Ministry of Economy and Planning, www.mep.gov.sa).

6.2. The Political System of the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia was founded in 1932 by King Abdul-Aziz bin Saud, as an Arab and Islamic monarchy. The Qur'an and the Sunnah of the Prophet make up its constitution (Ministry of Economy and Planning, www.mep.gov.sa). Three main components form the pillars of the Saudi political system: the King, the Council of Ministers, and the Consultative Assembly or Majlis Ash-shura. Before discussing these institutions, we need first to have an overview of the constitution that governs them.

6.2.1. The Constitution of Saudi Arabia

Saudi Arabia is founded and run according to a Basic Law that constitutes the country's constitution. The Basic Law identifies the main governing bodies in the country and their functions. Therefore, it works like a constitutional document which sets out the power, rights, and obligations of the system of governance. The Basic Law is divided into nine chapters and

eighty-three provisions. According to the first article of the Basic Law, the Qur'an and traditions of the Prophet (Sunnah) are the constitution. The law emphasises this again in Article 7 by stating that “The regime derives its power from the Holy Qur'an and the Prophet's Sunnah, which rule over this and all other State Laws.” (Saudi Arabia: Basic Law of Government, www.mideastinfo.com)

Based on this general principle, the Basic Law organises the governing process in the Kingdom and sets rights and obligations for rulers and citizens. On the one hand, Saudi citizens are required to obey the ruler, as long as his decisions are consistent with the teachings of Islam and ‘Shari‘ah’. In this regard, Article 6 of the Basic Law states that “Citizens shall pledge allegiance to the King on the basis of the Book of God and the Prophet's Sunnah, as well as on the principle of ‘hearing is obeying’, both in prosperity and adversity, in situations pleasant and unpleasant” (Saudi Arabia: Basic Law of Government, www.mideastinfo.com). On the other hand, the ruler is expected to consult with his people before taking his decisions. This principle is set out in Article 8 which states that “The system of government in the Kingdom of Saudi Arabia is established on the foundation of justice, ‘Shura’ and equality in compliance with the Islamic Shari‘ah (the revealed law of Islam).”

The Basic Law also laid the foundations of the country's economic system. Generally speaking, the Law has given the state property rights for all economic and natural resources. The State also has the right to decide on how these resources will be used and developed. Article 14 of the Basic Law states

All God-given resources of the country, both under and above ground, or in territorial waters, or within terrestrial and maritime limits to which the State jurisdiction extends, as well as the revenues accruing therefrom shall be owned by the State as specified by the law. Likewise the law shall specify the means to be employed for the utilization, protection and development of these resources in a manner conducive to the promotion of the State's interest, security and economy.

The Law also acknowledges private property in Article 18 and guarantees state protection of this property: “The State shall guarantee the freedom and inviolability of private property. Private property shall not be expropriated unless in the public interest and the confiscate is fairly compensated.” It is also mentioned in this regard, that public property will also be protected by the State and that “no concession shall be awarded for the exploitation of the country's natural resources but those admitted by law” (Article 16, 17).

6.2.2. The Saudi Monarchy

Since its inception, the Kingdom has been a hereditary monarchy, where the King represents the Head of Government and State and the Chairman of the Council of Ministers. According to the Basic Law, Article 5C, the King has the right to name the Crown Prince and to relieve him of his duties by Royal Order. The Crown Prince will replace the King if he dies and is expected to devote his time to serving the King and to perform any task assigned to him by the King. He will also replace the King in his absence for any other reason, such as travelling. As per Article 66 of the Basic Law, “In the event of his travelling abroad, the King shall issue a Royal Order deputizing the Crown Prince to run the affairs of the State and look after the interests of the people as stated in the Royal Order.”

The duties and rights of the King are identified by the Basic Law as follows: to work as the Supreme Commander of the armed forces and to appoint military officers and to terminate their service in accordance with the law (article 60); to declare a state of emergency and general mobilization, as well as war (article 61); to protect the country from any threats and to take whatever legal actions are needed to deal with these threats (article 62); to receive Kings and Heads of State (article 63); to appoint representatives to other countries (Ibid); to accept accreditation of the representatives of other countries to the Kingdom (Ibid); to award medals (article 64); to delegate parts of his authority to the Crown Prince (article 65); and to call the Council of Ministers and Majlis Ash-Shura to hold a joint meeting to which he may invite whomsoever he wishes for a discussion of whatsoever issues he may like to raise (article 69). The King is obliged to undertake his duties according to the Shari'ah: “The King shall undertake to rule according to the rulings of Islam and shall supervise the application of Shari'ah, the regulations, and the State's general policy as well as the protection and defence of the country” (Article 55 of the Basic Law).

In 1986, the title of the King was changed from ‘His Majesty’ to the ‘Custodian of the Two Holy Mosques’. The King’s new title shows the jurisdiction over the mosques of Masjid al Haram in Mecca and Masjid al-Nabawi in Medina. Succession rules state that the Kingship of Saudi Arabia is primarily claimed by the sons of King Abdul-Aziz bin Saud. According to the Basic Law Article 5B, “The dynastic right shall be confined to the sons of the Founder, King Abdul Aziz bin Abdul Rahman Al Saud (Ibn Saud), and the sons of sons. The most eligible among them shall be invited, through the process of “bai'ah”, to rule in accordance with the Book of God and the Prophet’s Sunnah” (the Basic Law article 5B).

Succession remains an internal family matter and the Royal Family seeks to maintain unanimity in public. The successors are usually sons of the King Abd al-Aziz, while the oldest brother becomes the new King and the second eldest becomes Crown Prince. The following table shows the kings who have ruled Saudi Arabia since its inception in 1932:

Table 6.1: Kings of Saudi Arabia

Name of the King	Ruled from-to
Abdul-Aziz (Ibn Saud)	1932-1953
Saud bin Abdul-Aziz Al Saud	1953-1969
Faisal bin Abdul-Aziz Al Saud	1965-1975
Khalid bin Abdul-Aziz Al Saud	1975-1982
Fahd bin Abdul-Aziz Al Saud	1982-2005
Abdullah bin Abdul-Aziz Al Saud	2005-now

As the table shows, King Abdallah bin Abd al-Aziz Al Saud has been the Head of State and the Prime Minister since August 2005. A council was formed in 2006 that included the Saudi Princes, for the purpose of selecting future Saudi kings. The King’s powers are restricted by Islamic law, which means that any decisions he makes cannot contradict the Shari‘ah. Nonetheless, the Kingdom has the Basic Law consisting of 83 articles that form the basis on which the Kingdom has operated since its foundation. As noted by Matthes et al. (2007), the King’s most difficult duty in any area of conflict between religious and power interests is to maintain consensus among the royal family, the Ulama and other powerful segments of the society. Added to this, the King needs to renew the agreement with the tribes due to the tribal structure of the Saudi state.

6.2.3. The Saudi Council of Ministers

The Council of Ministers was established by King Abdul Aziz Ibn Abdul Rahman Al-Saud in 1953 (www.saudinf.com/main/c541k.htm). The Council consists of “the King who is the Prime Minister, the Crown Prince who is Deputy Prime Minister, the Second Deputy Prime Minister and Cabinet ministers” (Saudi Arabia Council of Ministers, Saudi Arabia online, www.saudia-online.com). In addition, the Council includes a small number of advisers and heads of major autonomous organizations. Such a composition reflects the distribution of power within the senior ranks of the royal family and Saudi Arabia’s technocrats. The Council

of Ministers represents the highest executive body and has all the authority to undertake and supervise all executive and managerial issues.

The major role of the Council of Ministers is to draw up the general guidelines of public policies of the Kingdom in areas such as internal and external affairs, finance, economy, education and defence and to supervise their implementation. As the Law of the Council of Ministers states:

While deferring to provisions of the Basic Law of Governance and the Shura Council Law, the cabinet shall draw up the internal, external, financial, economic, educational and defence policies, as well as general affairs of the State and shall supervise their implementation. It shall also review the resolutions of the Shura Council. It has the executive power and is the final authority in financial and administrative affairs of all ministries and other government institutions (Law of Council of Ministers Article 19).

As such, Ministers have the right to discuss laws, treaties, international agreements and ‘concessions’ before their ratification by the King, and to propose draft laws or regulations related to the work of their ministries. They also vote on draft laws and regulations in accordance with the by-laws of the Council. After the approval of the Prime Minister, Ministers have the right to propose any issue for discussion within the Council. Article 24 of the Law of the Council of Ministers states that the executive duties of the Council cover a wide range of activities, which include monitoring the enforcement of laws and the creation of public institutions. The Council of Ministers is also required to supervise the implementation of the developmental plans, as well as establishing committees to oversee the performance of public organisations and to correct any wrongdoings. Oversight committees have the right to investigate any case and to report back to the Council, which looks at the findings of their investigations.

According to the above-mentioned provisions, the Council works as a regulatory body, while the King is the Prime Minister. All members of the Council, as well as deputy ministers and officials of the excellent-grade category, are appointed by royal decree; they are expected to be well-known for righteousness and capability, and by birth and descent are Saudi nationals. They also are expected to be exemplary and to show good conduct and reputation. The King has also the right to dismiss ministers and to reform the Council of Ministers. The Basic Law of Governance states in Article 57c that “The King shall have the right to dissolve and reform the Council of Ministers.”

The Council of Ministers meets once a week and its meetings are headed by the King himself, or by any of his deputies. Any decision taken by the Council of Ministers needs to be ratified by the King and is expected to be fully consistent with the Shari'a law. In this respect, all ministers are accountable for their decisions and responsible before the King for their ministry's activities.

The Saudi Council of Ministers, with the above-mentioned composition and functions, is of considerable practical importance and its composition reflects the distribution of power within the senior ranks of the royal family and Saudi Arabia's technocrats. The Cabinet is a large body with more than twenty members, including six ministers of State, which is headed by the King. The Cabinet also includes, and is supported by, a wide range of technocrats who head well-organized and relatively modern ministries.

The Saudi Council of Ministers depends on a large body of administrative and specialised ministries and executive agencies. Some are covered in this chapter while others will be covered in more detail in Chapter Seven. The current Saudi Government is composed of 22 ministries with specialised duties in different policy areas. There are a number of public authorities, such as the civil aviation authority, which have been established as a result of the complexity of the decision-making processes and the need for specialised opinion on technical issues. These public authorities report directly to the head of the Saudi Council of Ministers in order to guarantee its impartiality and objectivity. A number of specialised councils and higher commissions are also helping the Council in achieving its goals. One of these councils is the Supreme Economic Council, which plays an important role in the privatisation processes. Other agencies are responsible for achieving public accountability, such as the recently established authority for fighting corruption (for more details see Khashky 2007)

6.2.4. The Consultative Assembly (Majlis Ash-shura)

At the beginning of the 1990s, King Fahd initiated a reform process and reorganised his Cabinet. One element of this was the creation of a Council of Saudi citizens (Majlis Ash-shura). Shura as an Islamic principle has a long tradition in the KSA. As reported on Majlis Ash-shura's official website, Shura can be dated back to 1924 when the late King Abdul-Aziz came to Mecca and decided to establish an Islamic Shura state. The Qur'an speaks about Shura in Chapter 24, and the Chapter itself is called Ash-shura. Allah asked his Prophet Mohammed to consult with his followers before talking any decisions. The authentic Sunnah

of the Prophet shows many applications of this principle. Article 2 of Majlis Ash-shura Law emphasises the close link between the role of Majlis Ash-shura and the Shari‘a, by stating that “The Majlis Al-Shoura shall be established on the Qur’anic injunction calling on Muslims to hold fast by the Rope of God, and on strict adherence to the sources of Islamic Legislation. The Members of the Majlis shall be keen to uphold the general good and to preserve the unity of the community as well as the entity of the State and the interests of the Nation.”

Based on the Shura principle, the primary function of Majlis Ash-shura, as stated in its website, is “to advise the King on issues of importance to the nation”. The members are selected and appointed by the King for a four-year renewable term. Article 13 states:

The Majlis term shall be four Hijira calendar years beginning as of the date set in the Royal Order by which the Majlis was established. The new Majlis shall be set up at least two months before the expiration of the term of its predecessor. If the term ends before a new Majlis is formed, the old Majlis shall continue to discharge its duties until a new Majlis has been set up. When a new Majlis is established, its new members shall account, at least, for one half of the total number of members.

Qualifications and good education are preconditions for membership of the Majlis Ash-shura, the composition of which should reflect the wide spectrum of Saudi society. Originally, the Majlis Ash-shura was composed of 150 members, including the Speaker of the Consultative Council. All members are appointed by the Monarch for a four-year term. As per Article three of the Law, “The Majlis shall consist of a Chairman and sixty well-educated and qualified members to be selected by the King. The rights and duties of the members and all their affairs shall be determined by a Royal Decree”. All members must be 30 years old or more, Saudi nationals by birth and descent, and of proven integrity and efficiency (Article 4).

In 1997, a Royal Decree was issued by King Fahd to increase the membership of the Majlis Ash-shura to 90 members (see Majlis Ash-shura website). Four years later in 2001, the number of members was increased to 150 and the role of its committees expanded, covering issues such as finance, five-year plans, Islamic and social affairs, and education. The Chairman, the Secretary-General, and members of the Majlis take the following oath before they start their duties “I swear by Almighty God that I will be loyal to my Religion, then to my King and country; shall not divulge any secrets of the State; will uphold its interests and laws; and will perform my duties in good faith, honesty, sincerity and fairness” (Article 11).

The Majlis's responsibilities, according to the Law, include examining plans for economic and social development, questioning Cabinet members, examining annual plans submitted by each ministry, and proposing new laws or amendments. In this regard Article 15 states that:

The Majlis may express its opinion on the general policies of the State referred to by the Prime Minister. It may in particular: (a) discuss and express its opinion of the general economic and social development plan; (b) study laws, regulations, treaties, international agreements and concessions, and offer its comments thereon; (c) interpret laws; and discuss and make suggestions concerning the annual reports submitted by various ministries and other government bodies.

Since 2002, the Majlis has also had the right to ask any members of the Cabinet or Council of Ministers to appear and answer questions. In spite of this wide range of duties, at the beginning the Majlis Ash-shura worked purely as an advisory body and there was no open debate by Western standards. It still does not play a direct role in shaping security and defence policy and reviewing the draft budget, but it does review the Development Plans.

The duties of the Chairman, the Vice-Chairman, and the Secretary-General are determined by the Majlis's internal by-law, issued by a Royal Order. The Majlis internal by-law also organizes the manner in which sessions are run, as well as the way the Majlis and its committees perform their duties. The methods of voting, the rules of debate, rejoinder and other order and discipline matters, which enable the Majlis to perform its duties in a manner beneficial for the Kingdom and its people, are regulated by internal Majlis by-laws (Article 29).

It is noteworthy in this regard that, King Abdullah announced in his visit to the Majlis in 2011 that starting from the next parliamentary session there would be a share for women in Majlis Ash-shura and they would also be allowed to nominate themselves in local elections (see Al-Iqtisadiyya online, 25/9/2011).

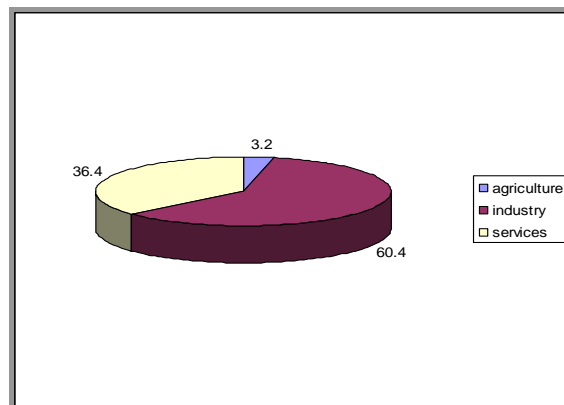
6.3. The Economy of Saudi Arabia

The Saudi economy is mainly oil-based and with strong government controls over major economic activities. The country has the largest proven oil reserves in the world and is the largest exporter of oil (see also OECD, www.oecd.org). As reported by the Ministry of Petroleum and Mineral Resources on its official website "the Kingdom owns one quarter of the world reserves, 13 percent of world production, more than 20 percent of petroleum sales

in international markets and a refining capacity of more than 3.5 million barrels per day.” In this respect, Akoum (2009: 427) has reported that Saudi Arabia is the world’s biggest oil exporter, “...with the highest proven reserves of nearly 263 billion barrels, and a production of about 9.7 million barrels per day. The oil sector’s value, constituted one-third of the country’s gross domestic product (GDP), 75% of budget revenues, and 90% of export revenues.”

The contribution of the different economic sectors to the GDP differs from one sector to another (see Figure 6.1).

Figure 6.1: GDP Composition by Sector



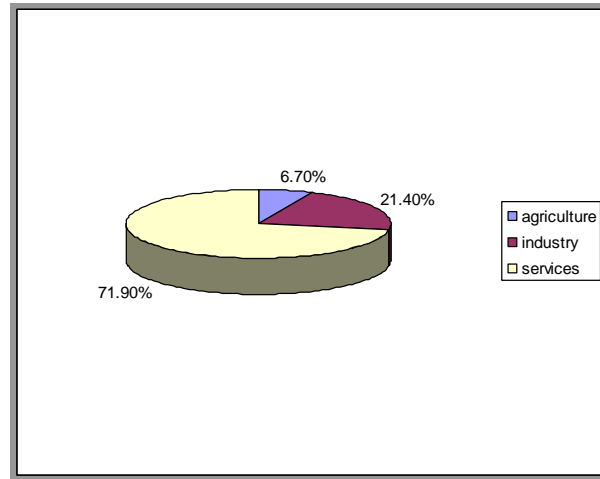
Source: Based on the data from the *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>

As Figure 6.1 shows, the major contribution comes from the industrial sector (60.4 percent) followed by the services sector (36.4 percent) and then the agriculture sector (3.2 percent). With regard to the labour force, the *World Factbook* has estimated that the working labour force in the Kingdom amounts to 6.922 million. Most of these work for the service sector (see Figure 6.2).

Generally speaking, Saudi Arabia has long had a liberal policy on the use of foreign labour. Workers from other countries form the bulk of the private-sector workforce, and approximately 5.5 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors. However, as the Saudi population is rapidly increasing, the major concern for policy-makers now is to create more jobs for young Saudis and to reduce the high level of unemployment among Saudis that reached 11.6 percent in 2009. As reported by the Ministry of Economy and Planning’s Millennium Development Goals (2011: 19), the national economy achieved an average annual real growth rate of 3.4

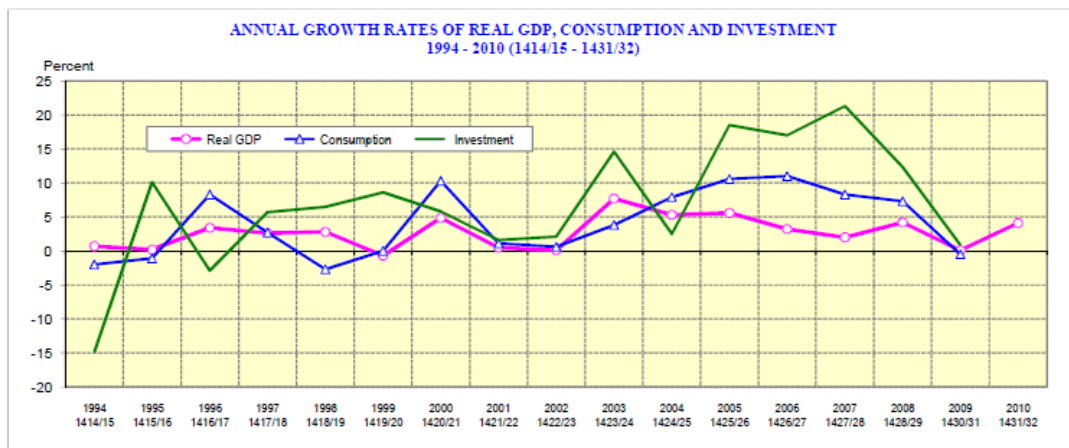
percent, with per capita income reaching around SR61,875(*) (\$16,500) by the end of 2010 (see Figure 6.3).

Figure 6.2: Labour force - by occupation



Source: Based on data from the *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>

Figure 6.3: Annual growth rates of real GDP



Source: Central Department of Statistics and Information

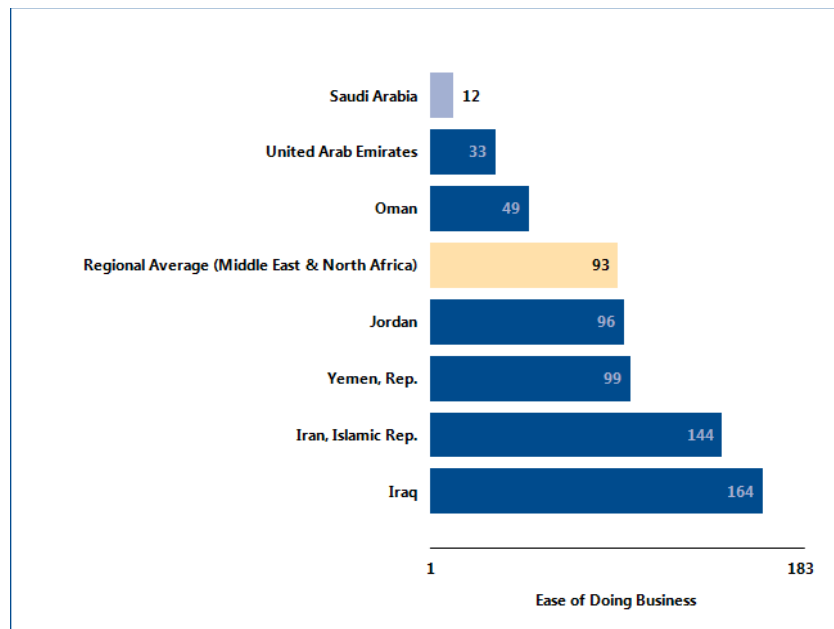
Moreover, diversification of the economic base increased, with the share of non-oil sectors constituting some 75.7 percent of total real GDP in 2010, despite the remarkable growth of the oil sector in recent years. Moreover, the Saudi economy has witnessed more integration into the global economy. The ratio of foreign trade in commodities to GDP reached 80 percent at the beginning of the first year of the Ninth Plan (2010). Added to this, the non-oil exports share in total exports has increased from around 8.5 percent in 2000 to 14.3 percent in

2010. Customer reliance on domestic products has increased as the imports have declined, which reflects the improved competitiveness of Saudi products.

As a result of the economic reform in the Kingdom, Saudi Arabia was reported for the fifth consecutive year by the World Bank in 2010 as “the best place to do business in the entire Middle East and the Arab World”. The report has also rated the Kingdom of Saudi Arabia as “the 13th most economically competitive country in the world”. The Governor of the Saudi Arabian General Investment Authority (SAGIA) commented on this progress by saying that “Under His Majesty’s [The Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz] leadership, Saudi Arabia has set a goal for the Kingdom to become one of the top 10 most competitive countries in the world by 2010. Government ministries, private companies, investors, and the Saudi public have collaborated extensively to strive towards this vision” (Reuters, 2009).

In 2012 the Kingdom of Saudi Arabia was ranked twelfth by the World Bank with regard to the ease of doing business (Figure 6.4).

Figure 6.4: Rank of Countries regarding Ease of doing Business



Source: The World Bank Doing Business Report (2012:7)

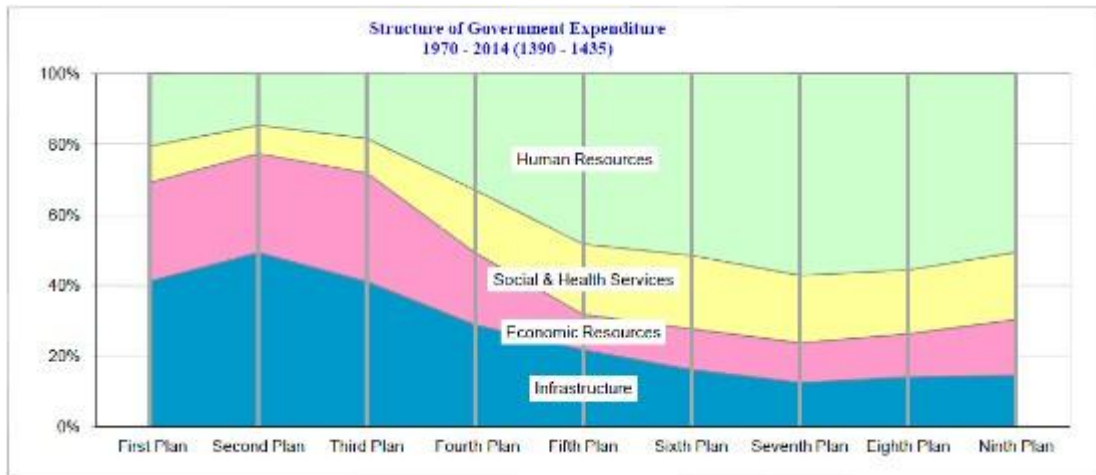
As the figure shows, the Kingdom of Saudi Arabia has the best score in the region compared to other countries, such as the UAE which is ranked 33 and Oman which is ranked 49. Added to this, the report also indicated that the Kingdom has performed well according to the rest of

the indicators used to measure ‘ease of doing business’ and to compare economic and regulatory reform in 183 countries. For example, Saudi Arabia is ranked first in registering property, 4th in dealing with construction permits, 10th in starting a business and paying taxes, 17th in protecting investors, and 18th in getting electricity and trading across borders.

6.4. Privatisation in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia builds its developmental plans on long-range planning every five years and allocates the budget for each sector, such as human resources, economic resources and infrastructure, as well as social and health services based on these plans (see Figure 6.5).

Figure 6.5: Five-year Planning in the Kingdom of Saudi Arabia



Source: <http://www.mep.gov.sa>

As indicated in Figure 6.5, the first five year plan (1970-1975) was formed at the beginning of the 1970s, and the intention to integrate the private sector and to increase its participation in the Saudi economy was deliberate from the very early days. The Ministry of Economy and Planning played an important role in preparing these plans, working in coordination with the rest of the public organisations to make sure that policy goals were achieved (see Ministry of Economy and Planning, www.mep.gov.sa). Integrating the private sector to achieve these goals was a strategic choice made by the Saudi policy makers. The policies of the first plan were clear about calling for adopting the free economy system in which there are no constraints that would obstruct freedom of work and the movement of capital to and from the Kingdom.

The second development plan stressed the need to provide incentives for setting up private sector activities. To achieve this, the fifth objective of the plan stipulated that economic freedom should be maintained and more production of goods and distribution operations should be undertaken by the private sector. The plan also included important incentives such as: granting subsidies to provide production requirements so as to encourage use of improved agricultural technologies. The Saudi Industrial Development Fund (SIDF) was established to provide soft loans to the industrial private sector and new industrial cities were established in Jeddah, Riyadh and Dammam.

The third development plan focused on introducing structural changes into the national economy, as well as expanding the role of the private sector in realizing the plan's key objectives. Accordingly, the third development plan initiated a set of policies to support and help the private sector. The foremost of these policies was to give priority to Saudi contractors, implement the necessary procedures to protect and encourage national industries, exempt imported equipment and primary materials for industrial projects from custom duties, provide utility services and fuel at subsidized prices, and extend subsidies for training Saudi manpower.

As mentioned by Al-Sarhan and Presley (2001: 115), "Privatisation was identified as a policy objective for the first time in the Fourth Development Plan 1985-90." The plan included major modifications related to defining the scope of activities of both the public and private sectors, and emphasised expansion of the scope of private-sector activities to enable the sector to contribute to the realisation of the plan's strategic objectives: while diversifying the economic base, raising performance rates, and improving economic proficiency. The plan embraced a set of policies that supported the private sector and included: expanding private sector influence to acquire, operate and maintain state-owned projects (privatisation), provided that this would lower production costs and enhance economic efficiency; calling upon banks to increase credit facilities for private productive projects, rather than concentrating on finance imports; and encouraging the establishment of more joint-stock companies so that the greatest possible number of citizens could benefit from investment activities. The plan also included various initiatives that required the joint efforts of the public and private sectors (Ministry of Economy and Planning, www.mep.gov.sa).

In the fifth development plan, the State-Owned Enterprises (SOE) recommended for privatisation were categorised into four groups, based on the scope of potential privatisation.

The first group included strategic enterprises which would not be privatised and would remain in the government realm; the second included enterprises that would be transferred totally to either private ownership or private management. Group three included companies and activities where joint-venture ownership and management between the Saudi government and the private sector would be encouraged. The last group included public services, which could be given to the private sector based on contracting-out agreements or where other possible ways of privatisation could be implemented (Ministry of Economy and Planning, www.mep.gov.sa).

The sixth development plan expanded the role of the private sector, as it linked its major role of diversifying and broadening the economic base to its role of upgrading the level of the technology in use, transfer of advanced technical know-how, and contribution to the provision of new job opportunities for national labour, as well as enhancing the capability of the national economy to adapt to international and regional variables. The plan proposed a series of investment opportunities, which enjoyed attractive comparative and competitive advantages. Such opportunities encompassed petrochemical industries, extraction and manufacture of mineral ores, replacement of imported products by local products, and investments in the various privatisation programmes. The plan continued to encourage private sector participation in the services sector, with emphasis on communications, health services, and education.

The seventh development plan paid particular attention to the importance of attracting foreign investments and removing obstacles in the way of such investments by introducing significant regulatory amendments. To this end, the Supreme Economic Council and the Saudi Arabian General Investment Authority (SAGIA) were established, the investment law was enacted, regulations pertaining to ownership of real estate by foreigners was issued, and practical measures were initiated to accelerate implementation of privatisation policies.

Since these development plans had, from an early stage, provided the private sector with opportunities to undertake economic tasks in a wide range of activities they had made an effective contribution to its development, by enhancing its role in the national economy, expanding its capabilities, and improving its economic efficiency (both in investment and production).

As a result of the progress in the privatisation processes, the private sector has become capable of mobilising capital for financing projects and using advanced management

techniques and technologies in its operations. A Saudi economic analyst noted that: “King Abdullah is committed to building a 21st-century economy which at its core has the developing of Saudi human capital whilst raising expenditures at a healthy pace, reducing the debt burden and encouraging private sector participation” (Hanware and Ghafour, 2011, <http://arabnews.com/economy/article554176.ece>). The same orientation is reported by the Saudi Ministry of Foreign Affairs which said on its website: “Privatisation is a key element of the Kingdom’s economic liberalization and a host of sectors are being opened to the private sector. Telecommunications, electricity, airlines, postal services, railways, port services and water utilities are some of the potential areas for investment” (Saudi Ministry of Foreign Affairs, <http://www.mofa.gov.sa>).

In 1997, the Council of Ministers issued Decision No. 60, which stressed the importance of the private sector for achieving the country’s developmental goals. The Council of Ministers assigned the Supreme Economic Council to supervise and monitor the implementation of the Privatisation Programme, and another of its tasks was to coordinate with government agencies in order to determine which public projects were to be privatised. A major assignment, however, was to work on and then issue an overall strategy for privatisation in the country. As noted by Akoum (2009: 427), the Privatisation Strategy “is touted by government as key to empowering the business community in the largest economy in the Middle East and North African region.”

The main aim of the Privatisation Strategy, issued through Resolution No. (1/23) (2002) of the Supreme Economic Council, was “to ensure a continued increase in the share of the private sector and to expand its participation in the national economy by adopting the best available modality, including transferring certain types of economic activity to the private sector; enhancing the participation of the private sector in economic development; and enabling it to carry out its investment and financing role in accordance with the national development plan” (The Privatisation Strategy: 2). In other words, the Privatisation Strategy aimed at facilitating the participation of foreign investment in the ownership of the facilities and activities targeted for privatisation, according to the relevant regulatory controls. On the other hand, the Strategy also aimed at developing the financial markets so as to create more channels through which to invest savings.

Moreover, the Privatisation Strategy stressed the necessity of commitment to an equitable treatment of the manpower whose services would perhaps become superfluous for the actual

needs of the activities following privatisation. The Strategy also worked towards establishing an autonomous regulatory body to address the social, regulatory, and supervisory issues needed to safeguard consumer interests, as reflected in the provision, quality and cost of services. The Strategy also called for the evaluation of infrastructure projects and public facilities to determine the feasibility of privatising such projects while continuing to maintain the government's role with regard to the provision of some essential services to citizens.

The Privatisation Strategy highlighted the importance of accelerating the process of reviewing all regulations and procedures related to private sector activity, to ensure a proper environment through endeavours to streamline procedures, overcome constraints, and encourage the participation of the largest segment of citizens in the ownership of privatised facilities. Such participation would be possible through public conscription and the adoption of transparent implementation procedures of all privatisation processes, in addition to concentrating on the promotional role of the media. In this respect, the Ministry of Foreign Affairs reported on its website that “The Kingdom is drastically revising its business-related laws to increase transparency and strengthen the country's global competitiveness. The laws currently under revision include: the Capital Markets Law, Companies Law, Agency Law, Insurance Law, Mining Law, and the Labour Law. Several laws are currently under revision with the aim of pushing forward the process of economic liberalisation” (Saudi Ministry of Foreign Affairs, <http://www.mofa.gov.sa>).

The Privatisation Strategy defined privatisation as “the process of transferring the ownership or management of public enterprises, projects, and services to the private sector, relying on market mechanisms and competition, through a number of methods, including contracts for managing, operating, leasing, financing, or selling all or part of the government assets to the private sector” (Saudi Ministry of Foreign Affairs, <http://www.mofa.gov.sa>). What can be understood from this definition is that privatisation, as realised by the Saudi policy makers, not only implied the divesting or transfer of ownership of state-owned assets, but also extended to cover other forms of private-sector participation, such as the transfer of management (see Akoum, 2009). This understanding of the meaning of privatisation is consistent with the wide definition adopted in the thesis, as previously discussed in the theoretical framework of the study.

In this regard, the Privatisation Strategy established the framework of the policies through which the objectives outlined above were to be realised. This took into account the integration

and non-duplication of these policies, which aimed at privatising targeted projects and public-service facilities. It also allowed competition in such projects and facilities, as well as moves towards expanding the volume of direct investments; additionally it permitted the running of partly or wholly privatised projects and facilities on a commercial basis.

The Supreme Economic Council identified the main objectives of the privatisation process as being to:

- (a) increase the participation of the private sector in activities related to economic and social development;
- (b) continue the policy of enabling the private sector to carry out many economic and social functions, provided that this would result in real benefits in terms of reduced cost, good performance, and employment of citizens;
- (c) enhance the efficiency of competitiveness of the national economy to face regional and international challenges;
- (d) encourage private-sector investment and its effective participation in the national economy, as well as increasing its share of GDP in a manner that would realise growth in the national economy;
- (e) broaden the participation of citizens in ownership of productive assets;
- (f) encourage national and foreign capital to invest inside the Kingdom;
- (g) increase job opportunities and optimal employment of national labour, and continue to realise an equitable increase in per capita income;
- (h) provide affordable and timely services for citizens and investors;
- (i) rationalise public expenditure and alleviate the burden on the state budget, through allowing the private sector to finance some services which it can operate and maintain; and
- (j) increase government revenues through the returns generated from participation in the activity to be privatised, and the financial returns accruing from granting concessions and the revenues generated from privatisation of part of the government's shares in some projects (see the Supreme Economic Council, <http://www.sec.gov.sa>).

The Privatisation Strategy established a series of implementation policies, as well as the necessary mechanisms to realize economic efficiency (see Table 6.2).

Foremost of these policies and mechanisms was the suspending of any additional government investments in public projects that were approved for privatising. Expectations of this

approach would be limited to essential investments and to funding of maintenance requirements. The Privatisation Strategy further stressed the need to review the financial, regulatory and operational status of the infrastructure projects in order to rehabilitate those earmarked for privatisation and prepare them for sale by putting them out to competitive tender, while establishing the necessary procedures to ensure that the government would gain the appropriate returns from the sale of privatised public projects and facilities, whenever that was possible.

Table 6.2: Saudi Privatisation Objectives and Policies

Objective	Policies
Improve the capacity of the national economy and enhance its competitive ability to meet regional and international competition.	<ul style="list-style-type: none"> • Subject projects to market forces. • Develop the capital and labor markets.
Encourage private-sector investment and effective participation in the national economy.	<ul style="list-style-type: none"> • Privatize public projects, enterprises, and services that are appropriate for private-sector participation. • Ensure that privatization results in increased direct investments that are self-sustainable. • Manage privatized projects on a commercial basis. • Accelerate the review of all regulations and procedures to encourage private-sector activities.
Expand the ownership of productive assets by Saudi citizens.	<ul style="list-style-type: none"> • Encourage citizens to participate through public subscription, whenever possible. • Use clear and transparent privatization procedures. • Promote privatization objectives and benefits.
Encourage investments of domestic and foreign capital	<ul style="list-style-type: none"> • Facilitate foreign investment ownership. • Develop financial markets.
Increase employment opportunities and optimize the use of the national workforce.	<ul style="list-style-type: none"> • Establish new direct investments to assimilate the national workforce. • Enhance training and skills of the national workforce, and increase rates of Saudization. • Provide fair treatment for redundant staff in privatized activities.
Provide services to citizens and investors in a timely and cost-efficient manner.	<ul style="list-style-type: none"> • Establish an independent regulatory agency to deal with the social and regulatory issues related to consumer protection. • Establish methods for determining the fees for services to ensure continuous provision of services.
Rationalize public expenditure and reduce the burden on the government budget.	<ul style="list-style-type: none"> • Consider transferring the management to the private sector, while preserving the government's role in providing certain necessary services. • Suspend any additional government investments for projects, after agreeing to privatize them, except for costs of preparation for selling them.
Increase government revenues from privatization returns.	<ul style="list-style-type: none"> • Make projects to be privatized open to competition. • Ensure that the government obtains continued income from privatized projects, when possible. • Ensure that the government obtains appropriate returns from the sale of public enterprises.

Source: Akoum (2009: 430)

Akoum (2009) suggests that the wide definition of privatisation adopted by the Saudi policy makers allowed for the application of different methods of privatisation, such as contracts for managing, operating, financing, or selling parts or all of the public sector's assets to the private sector. The Privatisation Strategy had identified most precisely the following methods of privatising publicly-owned assets (Privatisation Strategy, <http://www.sec.gov.sa>):

- Management contracts: “responsibility for managing, operating, and developing an entity is transferred to a contractor or investor from the private sector for a period of time and an amount of money to be agreed upon.”

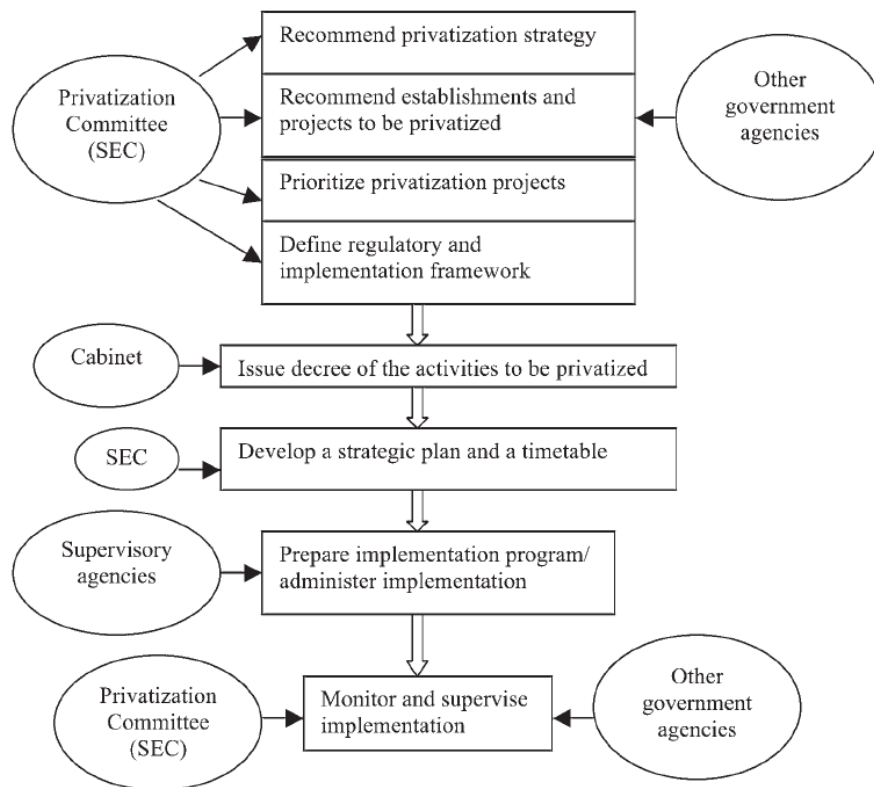
- Leasing contracts: “agreements between the government and the private sector, whereby the latter provides the government enterprise with administrative and technical expertise for a specific period of time, in exchange for an agreed-upon financial remuneration.”
- Financing contracts: “the investor assumes responsibility for providing the capital, operating, and investment expenditures, unlike the lessee. This method is generally considered better than leasing contracts, but implementation is more complicated owing to the large amount of financing needed for expansionary obligations.”
- Sale contracts: these may include direct sale to the private sector through public subscription (suitable for enterprises characterised by stability, continuity of activities, a sound financial position, and commercial feasibility, or enterprises that can become commercially feasible in the short-run); or sale to a principal investor (where the government sells the enterprise to a principal investor capable of providing the required financing, management efficiency and technology for production and marketing development).

The implementation process went through five stages as indicated in Figure 6.6. The first stage included collaboration between the privatisation committee and other government agencies to prepare the Privatisation Strategy and to recommend projects and establish the start of the privatisation process. The first stage also included setting the priorities for implementing the Privatisation Programme, as well as defining and identifying the main elements of the regulatory and legal framework of the programme. The work of the Privatisation Committee was referred to the Saudi Cabinet for a resolution to be issued that would identify which projects were to be privatised and how. The issuing of Resolution 219 for 11 November 2002 by the Council of Ministers initiated stage two of the programme. In stage three, a strategic plan and timetable were developed by the Privatisation Committee, followed in stage four by a preparation process for the implementation of the programme by the supervisory bodies. Finally the implementation stage would be supervised by the Privatisation Committee and other governmental agencies.

In 2002 the Council of Ministers approved the privatisation of 20 state-owned utilities, economic activities and services, which included projects and activities in water and sewerage; desalination; telecommunications; air transport and related services; railways; road management; airport services; postal services; grain mills and flour mills; seaport services;

industrial-city services; government shares in stock companies such as the Saudi Electricity Company, the Saudi Basic Industries Corporation (SABIC), the banks, the Saudi Arabian Mining Company, and the Saudi Telecommunications Company (STC); the government share in domestic refineries and in the per capita of joint Arab and Islamic Investment Companies; government hotels; sports clubs; municipal services; education services; social services; agricultural services; health services (see WTO, 2005).

Figure 6.6: Saudi Privatisation Model: Administrative and Implementation Procedures



Source: Akoum (2009: 430)

Through privatisation of telecommunications, power generation, desalination, and many other activities that offer promising investment opportunities, the government has created an appropriate investment climate, conducive to enhancing the economic and social development role of the private sector. The organised role of private institutions played by organisations such as the Saudi Chamber of Commerce and Industry has become very obvious. This organisation works under the supervision of the Ministry of Commerce and Industry, and plays a vital role in organising the activities of the private sector and promoting the joint economic interests of its constituent institutions. The national committees, which work within

the Chamber of Commerce, contribute to studying many important issues related to the private sector. They also study and analyse the regulations, decisions and measures issued by government policies, to help implement them, or else to propose amendments designed to protect the interests of the sector (saudia-online.com).

The performance of private businesses in the Kingdom of Saudi Arabia is flourishing as a result of the above-mentioned measures. In 2009, the *Middle East Business Intelligence* (MEED) reported that “Saudi Arabian companies dominate this year’s MEED 100, with companies listed on the Tadawul accounting for 29 out of the region’s 100 biggest publicly quoted companies ranked by market capitalisation. Just three of the 20 companies that have dropped out of the top 100 over the past year are listed on the Saudi stock exchange” (MEED, 2009). The overall participation of the private sector in the Saudi economy has increased, when measured by the number of people employed by the private companies (see Table 6.3)

Table 6.3: Private Sector Participation in the Saudi economy

Items	Unit	2001 (1421/22)	2002 (1422/23)	2003 (1423/24)	2004 (1424/25)	2005 (1425/26)	2006 (1426/27)	2007 (1427/28)	2008 (1428/29)	2009 ^P (1430/31)
1.3 Employment by Sectors *										
Total Employment	(1000)	6,167.0	6,264.8	6,610.5	7,180.6	7,371.5	7,523.0	7,744.4	8,017.3	8,148.0
Government Sector	"	958.5	945.5	978.1	1,012.4	1026.1	1,022.3	1,124.8	1,177.1	1,215.0
Private Sector	"	5,208.5	5,319.3	5,632.4	6,168.2	6345.4	6,500.7	6,619.6	6,840.2	6,933.0
Saudis	"	2,886.9	2,943.5	3,124.6	3,298.2	3,367.2	3,431.6	3,600.8	3,756.7	3,838.0
Non-Saudis	"	3,280.1	3,321.3	3,485.9	3,882.4	4,004.3	4,091.4	4,143.6	4,260.6	4,310.0

Source: KSA Econ in Figures 2011 English.xlsx 11/10/2011

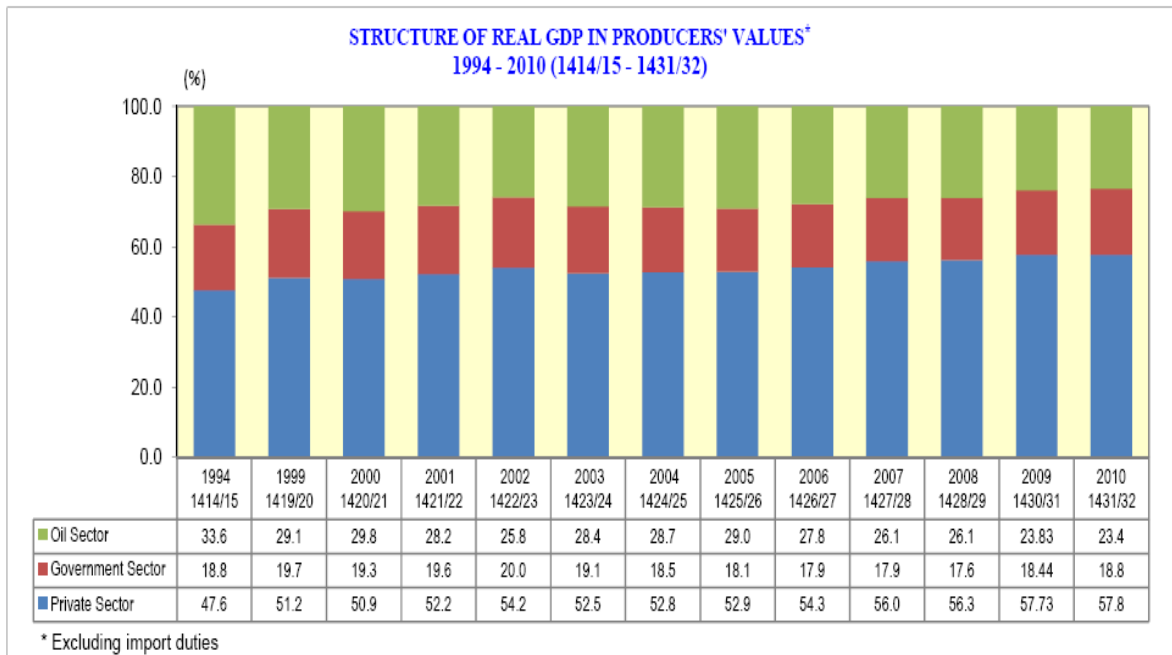
According to Table 6.3, the number of private-sector employees increased from 52,085 employees in 2001 to 69,330 in 2009. Added to this, the contribution of the private sector to the real GDP of the country has increased since 1994.

Figure 6.7 indicates that the contribution of the private sector increased from 47.5 percent in 1994 to 57.8 percent in 2010 (see Figure 6.7).

In spite of the growing role of the private sector in the Saudi economy, there are still many issues that need to be considered by policy makers and those responsible for the implementation of the programme. As Akoum (2009) notes, despite the acceleration of the privatisation process in Saudi Arabia after it joined the World Trade Organization (WTO) in 2005, the overall implementation of the programme is characterised by a slow pace. More precisely the author referred to the impact of technical issues, including asset valuation,

enterprise debt and terms of sale, the tendering process, an active capital market, and the proper regulatory environment. At the social level, the Privatisation Programme has raised different issues related to the labour market and the distribution of wealth and power in the country. Such issues are expected to impact directly on the social and economic life of Saudi citizens.

Figure 6.7: Structure of Real GDP in Producers' Value



Source: KSA Central Department of Statistic & Information Econ in Figures 2011 English.xlsx 11/10/2011

These technical issues are complicated even more by the ineffective bureaucratic practices of many public agencies, and the red tape and routine activities which render many of the investment decisions unrealistic and push many investors away (see Rice 2004). The legal and regulatory environment, as well as the overall business climate, was mentioned by Akoum (2009: 22) as another factor that might affect the ability of the decision makers to implement the Privatisation Programme effectively. According to his view, variables such as the investment laws, the legal and regulatory environments, law enforcement, and labour-market conditions are very important for any new private investor, and such variables determine where private investors will direct their new investments.

6.5. Conclusion

This overview of the Kingdom of the Saudi Arabia focused particularly on its political and economic contexts. The main political players were identified and their roles in the decision-making and policy-making processes were explained. The country's economic indicators were also provided, along with a detailed discussion of the Saudi Privatisation Programme. Covering these political and economic issues was important as an introduction to the detailed case study of the privatisation of the civil aviation sector as it enables an understanding of the issues discussed in their wider context and of the reasons for success or failure.

When examining the Saudi strategy for privatisation and associated approaches and methods, it can be concluded that it was initiated with continuous government support for the private sector. As the discussion indicated, the private sector was an integrated component in all the Kingdom's developmental plans. The Saudi government also supported the private sector by providing private companies with technical aid, exemption from customs fees, land and services. The regulatory system was modernised by the Saudi government by the introduction of the Saudi Tax Code and detailed company regulations. The development of national banks and the stock market was another important step prior to the introduction of gradual privatisation in selected areas, mostly via contract management.

Creating a suitable environment for private-sector operations in Saudi Arabia was necessary because the private sector was not sufficiently developed. As the major recipient of cash inflow, the Saudi government preferred to participate in joint projects with private companies and partnerships, firstly to modernise critical industries and secondly to provide the private companies with financial support and protection that was needed for future growth. This is not to say that the implementation process of the programme is progressing without problems. As Akoum (2009) remarks, "privatisation and promoting private-sector development, in a country characterized for a long time as a welfare state with a dominant public sector, cannot be taken as a straightforward and simple endeavour." Certainly, technical, social, and legal issues still need to be resolved to improve the outcomes of the Privatisation Programme.

Chapter Seven will discuss in detail the specific decisions and actions that have been taken by the Saudi government to reform the civil aviation sector. The analysis draws on primary data sources (elite interviews) as well as documentary analysis of policy and public documents.

Chapter 7:

Privatisation, Liberalisation and Regulation of the Saudi Civil Aviation Sector

7.1. Introduction

As indicated, the Government's official economic strategy since 1994 has been to increase the participation of the private sector, particularly in all non-oil sectors of its economy, including power, water and transport. Responding to demographic and economic changes in Saudi society that have produced increasing demand for essential resources, as well as a call for industrial diversification and infrastructure development, the Saudi Government recognised different economic sectors and opened the way for privatisation and private sector participation in its infrastructure. In this context, some state-owned firms have been partially privatised, and competition has been introduced in other economic sectors that used to be under state monopolies.

Chapter Seven focuses on the liberalisation and regulatory reforms of one sector of the transportation industry, i.e., the civil aviation sector. Following an overview of the civil aviation sector, and a discussion of the regulatory and legislative reforms and the resultant institutional changes in the civil aviation industry, privatised projects and the pros and cons of each experience are examined. The chapter also discusses the liberalisation of the market and the performance of the new private service providers. The challenges facing the private sector in this regard are explained and the required solution for improving competition in the market is investigated. The chapter concludes by providing an overall evaluation of the liberalisation and regulatory reform process in the Saudi civil aviation sector. The discussions and analysis build on documentary analysis of official and company documents along with the material collected during interviews.

7.2. An Overview of the Civil Aviation Sector in the Kingdom of Saudi Arabia

The history of civil aviation in Saudi Arabia goes back to 1934. Since providing a detailed history of the developments of the civil aviation sector in the Kingdom is beyond the scope of this section, the landmarks are highlighted briefly, and major developments broadly discussed.

The first landmark was the construction of a desert runway near the city of Jubail by one of the oil companies to facilitate the transport of its staff and materials. Effectively, the

emergence of the civil aviation sector was linked from the first day to the oil industry and was initiated by a foreign company that later became part of ARAMCO (www.gaca.gov.sa).

In 1945 the Kingdom purchased the first civilian aircraft, and the first regulations for civil aviation in the Kingdom were issued in 1953. The civil aviation sector was organised and regulated under the Saudi Royal Air Force until the two were separated. After the split from the Saudi Royal Air Force, a new organisation, the Presidency of Civil Aviation, was established, and included Saudi Arabian Airlines and the Meteorology Department. In 1960 Saudi Arabian Airlines was separated from the Presidency of Civil Aviation, leaving the Meteorology Department to work under its supervision. In 1966 the Meteorology Department followed Saudi Arabian Airlines and also became independent from the Presidency of Civil Aviation (GACA Statistical Yearbook, 2010).

In total the Kingdom has twenty-seven international and domestic airports (Table 7.1).

Table 7.1: International and domestic airports in the Kingdom of Saudi Arabia

Airport Name	CODE
JEDDAH, King Abdulaziz International	JED
RIYADH, King Khaled International	RUH
DAMMAM, King Fahd International	DMM
MADINAH, Prince Mohammed Bin Abdulaziz International	MED
ABHA	AHB
GAZAN, King Abdullah Bin Abdulaziz	GIZ
AL-GASSIM	ELQ
HAIL	HAS
TABUK	TUU
TAIF	TIF
AL-AHSA	HOF
AL-BAHA	ABT
AL-JOUF	AJF
AL-QAISUMAH	AQI
ARAR	RAE
BISHA	BHH
DAWADMI, Prince Salman Bin Abdulaziz	DWD
GURAYAT	URY
HAFR AL-BATIN, King Khaled Military City	KMC
NEJLAN	EAM
RAFHA	RAH
SHARURAH	SHW
TURAIIF	TUI
WADI AL-DWASER	WAE
WEDJH	EJH
YANBU, Prince Abdulmohsin Bin Abdulaziz	YNB
RABIGH	RGB

Source: (GACA Statistical Yearbook, 2010:22)

As Table 1.7 shows, the main four international airports are:

- King Abdulaziz International Airport (KAIA),

- King Fahd International Airport (KFIA),
- King Khaled International Airport, and
- Prince Mohammad Bin AbdulAziz International Airport, or Al-Madinah International Airport.

KAIA was inaugurated in 1981 and is today one of the most important international airports in the Kingdom. Located in Jeddah, the commercial heart of the Kingdom, it is home to Saudi Arabian Airlines (Saudia), the national carrier. The airport extends over an area of 105 square kilometres and incorporates a range of facilities, including “three parallel runways, two main passenger terminals, the iconic tented structure of the Hajj Terminal, the Royal Terminal, the General Aviation Terminal, the Cargo Terminal, a military logistics base and the necessary support facilities and infrastructure” (www.jed-airport.com). At the time of writing KAIA was undergoing a process of renovation and extension in the following areas (ibid.):

- Expansion and upgrade of North and South Terminals, to increase space, improve equipment and enhance customer service;
- Establishment of a Build, Operate and Transfer contract at the Hajj Terminal, incorporating major renovation and upgrading of facilities;
- New desalination plant, also on a Build, Operate and Transfer basis;
- New Air Navigation Service Area Control Centre; and
- Airfield facilities upgrade: extension and reconstruction of runways and taxiways, airfield ground lighting renewal, and Instrument Landing System upgrade.

Many of these projects are under the leadership of GACA in cooperation with the private sector, which in this study is seen as a form of privatisation, as indicated in the theoretical framework, and are discussed in more detail when looking at investments in the sector’s infrastructure development.

King Fahd International Airport is another important international airport serving the Eastern Region of the Kingdom of Saudi Arabia. The design process started in 1976 and the airport infrastructure was completed in 1990. KFIA was officially opened by GACA for commercial use in 1999. Its catchment area includes cities such as Dammam, Dhahran, Al Khobar, Qatif, Ras Tanura, and Jubail, and it is presented by its management as “Your World-Class Airport of Choice”, with a value system focusing on know-how and excellence, innovation and initiative, friendliness, and accountability (www.the-saudi.net/kfia/). KFIA’s corporate

responsibility underlines management commitment in the areas of environment and health and safety, and include “commitment to the issues of the environment such as air quality, noise disturbance, waste policy as well as tackling safety and security issues in the rapidly changing security environment”. KFIA has also made other commitments to its wider community and stakeholders and is continually improving its capabilities and processes; working in partnership with its stakeholders; developing its staff as valuable assets; integrating with the community and respecting the environment; and adopting commercially oriented, profit-driven business practices (ibid.).

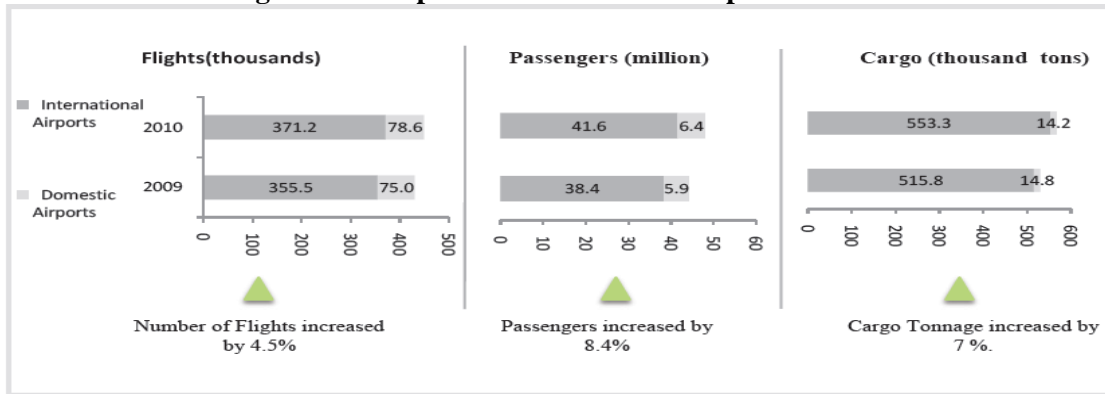
King Khaled International Airport is located in the capital city, Riyadh, and is the domestic flights hub. The airport occupies an area of 225 square kilometres and encompasses different facilities including “shopping centres, the royal pavilion, the air cargo building, the post office, the private aviation building, the mosque, the control tower, the aviation square that contains the two parallel runways each measuring 4200 meters in length, in addition to land passages and aircrafts parking spaces” (www.gaca.gov.sa).

Al-Madinah International Airport, also known as Prince Mohammad Bin AbdulAziz International Airport, is yet another important international airport in the Kingdom. This is because of its location in Al-Madinah Al-Munawwarah, which millions of pilgrims visit annually to see the Mosque of the Prophet Mohammed. Al-Madinah International Airport was established in 1972 as a domestic airport, but, because of the importance of the holy city it was decreed that the airport would become the international hub for the Hajj. A master plan was developed under GACA’s supervision that took into account the anticipated needs of the airport and the demands of its passengers over the next twenty-five years. The master plan according to GACA’s official website includes:

- Construction of new passenger terminals with air bridges and accessories to accommodate the increasing number of passengers – arriving and departing on international and domestic flights during the next 25 years as well as the existing Haj terminal expansion.
- Increasing the capacity of the airport from (400,000) passengers per month to (1,000,000) passengers assisted by the one-way system to permit complete implementation in transporting the Pilgrims and Umrah performers arriving in between Makkah and Madinah.
- Facilitating the movement of the arriving and departing Haj and Umrah Pilgrims and securing their safety and comfort and offering them the best services (www.gaca.gov.sa).

As reported in the *GACA Statistical Yearbook 2010*, airport traffic in Saudi airports in general and in international airports in particular increased from 2009 to 2010 (see Figure 7.1).

Figure 7.1: Airport Traffic in Saudi Airports 2009-10



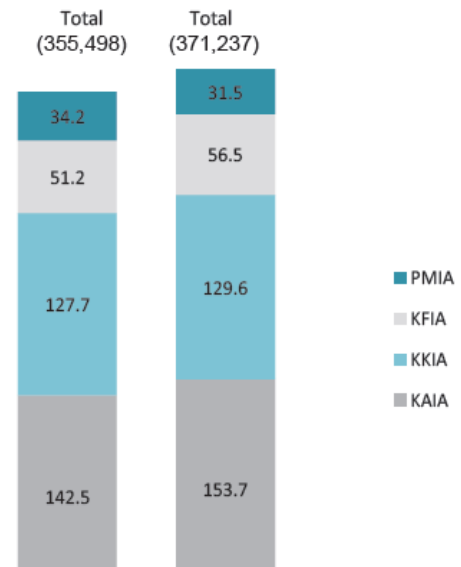
Source: GACA Statistical Yearbook 2010

As Figure 7.1 shows, the overall number of flights increased in both international and domestic airports by 4.5 percent. At the same time, the total number of passengers increased by 8.4 percent and the overall cargo tonnage of increased by 7 percent.

Figure 7.2: Flight numbers by international Airport

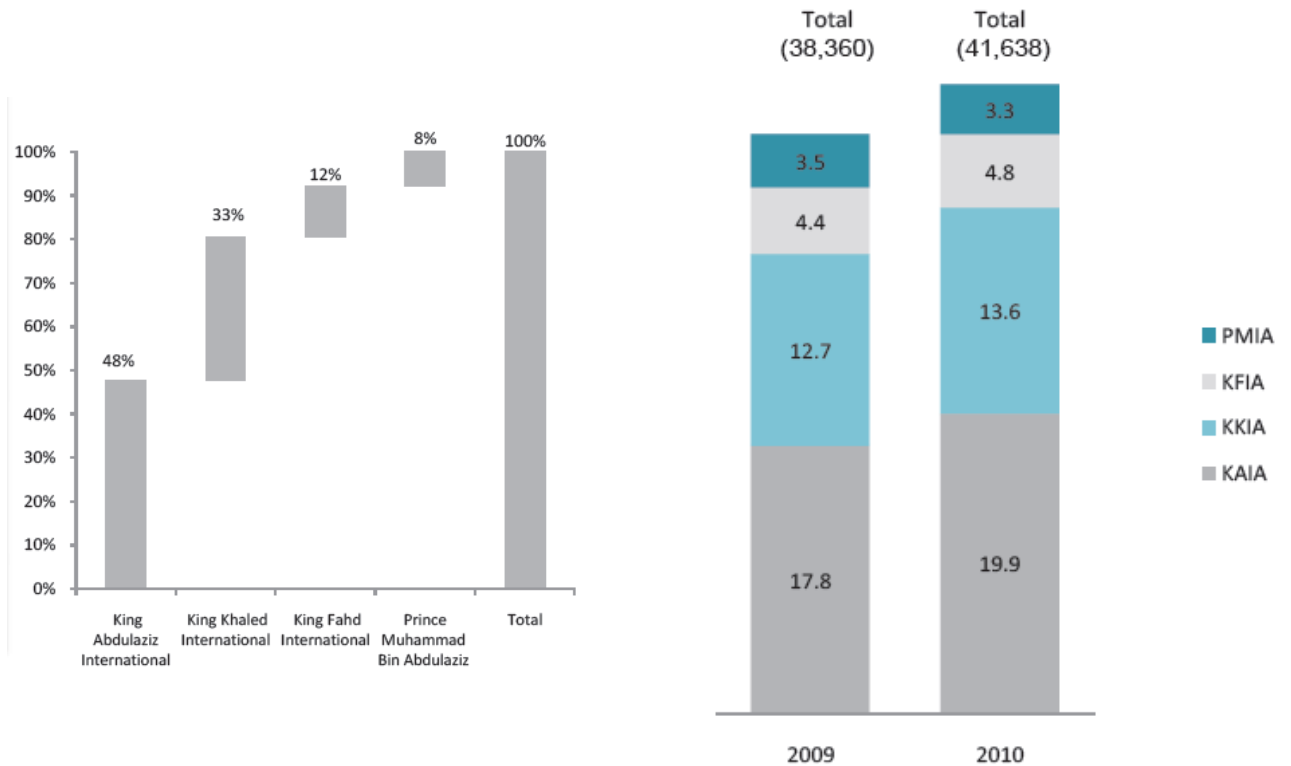
Looking at the total number of flights by international airport, we see that KAIA has the largest number of flights (153.7), followed by KKIA (129.6), KFIA (56.5), and PMIA (31.5) (see Figure 7.2).

The figure also shows that in general the overall number of flights increased in 2010 (371.237) in comparison with 2009 (355.498). The number of KAIA flights increased from 142.5 to 153.7, KKIA's increased from 127 to 129.6, and KFIA's from 51.2 to 56.5.



Source: GACA Statistical Yearbook 2010

Figure 7.3-7.4: number of passengers by international airport



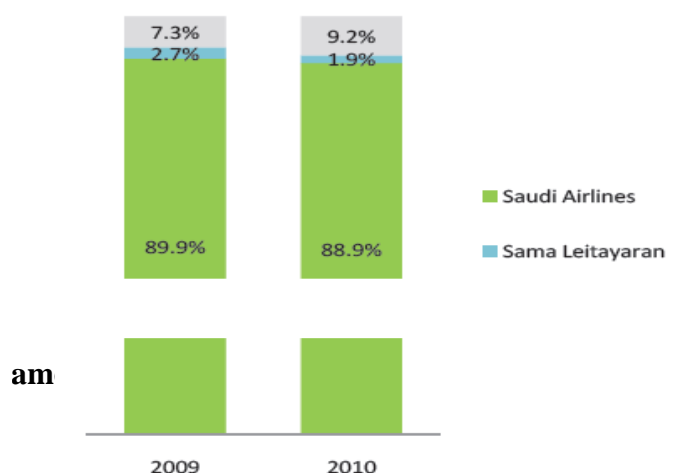
Source: GACA Statistical Yearbook 2010

Concerning total passenger numbers by international airport, KAIA has the largest number of passengers (19.9), followed by KKIA (13.6), KFIA (4.8), and PMIA (3.3) (see Figures 7.3 and 7.4). The figures also show that in general the overall number of passengers increased in 2010 (41.638) compared with 2009 (38.360). KAIA’s passengers increased from 17.8 to 19.9, KKIA’s from 12.7 to 13.6, and KFIA’s from 4.4 to 4.8.

Figure 7.5: Civil Aviation Market

At present the market is dominated by Saudi Arabian Airlines, which has the largest market share of passengers (see Figure 7.5). As the figure illustrates, the overall market share of Saudi Arabian Airlines has decreased from 89.9 per cent to 88.9 per cent, which means that 1 per cent of the market share has gone to private operators, particularly NAS.

Passengers Market Share for National & Foreign Carriers



Source: GACA Statistical Yearbook 2010

The reform process has resulted in many changes at the legislative and regulatory levels. Most of the national policy programmes were redesigned to facilitate private sector participation in the economy. In addition, many actions were taken at institutional level to create a suitable institutional environment that would encourage and push forward the participation of the private sector. Among the most important institutional changes are:

- the creation of the Supreme Economic Council (SEC) in 1999, to increase private sector participation in developing the national economy through the Government's privatisation programme; and
- the establishment of the Saudi Arabian General Investment Authority (SAGIA) and the introduction of the Foreign Investment Act (FIA) in 2000.

The importance of these institutional changes is clear from the fact that, since their establishment, SAGIA and the FIA have become the driving forces for direct foreign investment in the Kingdom. The main role of SAGIA is to create a pro-business environment, to facilitate the exchange of best business practices between the public and the private sectors, and to act as an intermediary between the global community and the Saudi Government. At the same time, the FIA permits foreigners to invest in all sectors of the economy, apart from particular activities enclosed in the "negative list". It also allows global companies the option of 100 percent ownership of the projects and real estate in which they invest. The FIA also provides significant tax advantages for foreign companies and enables them to retain the same incentives given to national enterprises. The driving force behind these reforms, as was discussed in detail in the theoretical framework of the study, was the government's desire to facilitate and encourage private sector participation in service delivery and operations.

Focusing on the transportation sector, which includes the civil aviation sector, it has been noted that this sector has great potential for development and growth. Industry sources expect that around US\$50bn will be invested in this sector over the next twenty years, especially in airport, railway and road projects (Crothers et al., 2006). As part of the institutional and regulatory reform, an Ordinance was issued in March 2005 that transformed the former Presidency of Civil Aviation from a government department into the General Authority of Civil Aviation (GACA). It is managed by a President and a Board of Directors, and is responsible for the regulation of the air transport sector in the Kingdom of Saudi Arabia.

7.3. Regulatory Reforms and the Legal Framework For Liberalisation

7.3.1. GACA and Civil Aviation Regulation in the Kingdom of Saudi Arabia

The General Authority of Civil Aviation was created by the Civil Aviation Act of 2005 to play the role of the sector's regulator. Historically, GACA was formerly part of Saudi Arabian Airlines, and played the role of both service provider and sector regulator. When interviewed, the General Manager of Public Relations and Media and the Official Speaker of GACA commented that : “Historically, GACA was a part of Saudi Arabian Airlines; but now they are two separate bodies. As a regulator, GACA is now in charge of making and enforcing aviation regulations in the Kingdom” (INT.1).

Separating regulatory and operational functions is the first step in reforming and improving the performance of civil aviation sectors in general. Therefore, creating an independent regulator for the sector in Saudi Arabia represented the first step in liberalising the sector and allowing competition between public and private operators. The Civil Aviation Authority, “was transformed into an independent public body to be able to attract the expertise needed to develop the Civil Aviation sector in Saudi Arabia. This step was necessary to keep pace with developments that occur around the world” (INT.4).

The Director-General of the Corporate Planning and Transformation Programme (PMO) in the General Authority of Civil Aviation commented that GACA was, “an independent body responsible for the management of the civil aviation sector in the kingdom. It makes regulations that organize the different areas, including airports, flights to different destinations and competition between the national airlines and the new private companies (INT.10).

As the regulator, GACA is in charge of monitoring the sector as a whole and making sure that all companies and airlines comply with the issued regulations. In other words, its main functions include making and enforcing regulations in addition to controlling and managing the Kingdom's airspace. As the General Manager of Public Relations and Media and the Official Speaker of GACA stated: “In addition to regulation making and enforcement GACA is also responsible for airspace in the Kingdom in terms of managing airports, leasing contracts, safety and security, and the conclusion of international agreements in the field of aviation” (INT.1).

GACA's vision involves “continuing to develop safe airspace, in accordance with the highest standards of safety, and to establish excellence in the services offered by our airports to all

customers” (www.gaca.gov.sa). This holistic vision was interpreted by His Excellency, Dr Faisal Hamad Al-Sugair, ex-President of GACA, as including the creation of a healthy aviation system, to improve the sector’s infrastructure in order to provide better services, and to improve the operation’s economic efficiency: “Our vision is to create a healthy aviation environment whereby aviation stakeholders will benefit through improved infrastructure and operating efficiency” (Civil Air Navigation Services Organisation, 2011). To achieve this vision, GACA sees its mission as being to develop air transport through “constructing, managing, provisioning and operating airports and the air navigation infrastructure, and maintenance of systems, according to the latest, most stringent, standards. Applying rules, regulations, and procedures to ensure the safety and security of air transport” (www.gaca.gov.sa).

In Article 5 of the Civil Aviation Act 2005, the powers of the Authority are specified in general terms: “The Authority shall be solely in charge of all civil aviation affairs in the Kingdom, including undertaking all telecommunications services related to aviation safety and air traffic regularity.” This overall mandate has been translated by GACA into the following regulatory functions (www.gaca.gov.sa):

- Developing financial resources and working towards commercial success, to achieve financial independence.
- Promoting investment opportunities in the air transport sector.
- Providing optimal services to pilgrims and other visitors to Saudi Arabia, according to the latest global standards.
- Developing, constructing, managing, and operating the infrastructure of the air transport sector, according to the latest systems.
- Establishing procedures to ensure the safety and security of the air transport sector.
- Developing operating measures and maintenance of the air transport sector according to the highest standards.
- Achieving optimal utilisation of human resources and maximum employee satisfaction in this extraordinary work environment.

As such the Civil Aviation Act 2005 assigns specific regulatory functions to GACA, and provides the legislative foundation for developing the sector. It also gives GACA the power to set policies and formulate strategic objectives, including those relating to the licensing of national and foreign air carriers and the economic impact of such licensing. Article 16 lists the

wide range of powers and authorities that GACA enjoys in regulating the sector and enforcing rules upon the companies operating in the Kingdom. In this regard GACA has the power to represent the Kingdom in international organisations as well as in negotiating and concluding international agreements.

As an economic regulator GACA also has the authority to set prices and determine fees. In this regard its powers include “conducting necessary economic and technical studies and researches for the development of air carriage in the Kingdom and economies of airlines and air freight companies and agencies operating in the Kingdom” and “adopting air carriage tariffs and prices of group and touristic flight packages within, from and to the Kingdom and amendments thereto, and setting up a mechanism to monitor implementation thereof” (Civil Aviation Act, article 16).

Further, GACA is responsible for issuing licences to the companies and agencies working in the civil aviation sector in the Kingdom, such as air freight and ground service companies and agencies. In the area of licences and permits, GACA has the power to determine the fees for the licences issued and to terminate or suspend any licence if the licensed company has not enforced the regulations. GACA also gives the necessary permits to the operating companies to enable them to conduct their activities. In addition to licensing, GACA has the power to inspect the regulated companies at any time to make sure that the regulations are being correctly implemented. Article 16 of the Civil Aviation Act explains this by stating: “Without prejudice to provisions of other laws and international treaties, the Authority shall have the right to inspect and prevent aircraft from flying or seize any relevant documents for the purpose of overseeing implementation of this Law. Rules for inspecting and preventing aircraft from flying and seizing documents shall be specified in the Regulations.” GACA has the power to “oversee, check and inspect operations of national and foreign air carriage agencies to ensure compliance with the conditions of licenses, and permits issued thereto for operating regular airlines and irregular flights thereof and practice air carriage rights granted thereto; and inflict penalties set by law, upon approval by the competent authorities” (Civil Aviation Act, article 16).

Improving service provision and infrastructure is another area in which GACA has powers and authorities according to the Civil Aviation Act. It has the right to identify and recommend projects for privatisation and to initiate the procedures necessary to open the civil aviation sector to more private participation and allow private companies to compete with each other and with the Saudi airlines. GACA has played an important part in liberalising the sector and

pushing towards more privatisation and private sector involvement. The General Manager of Public Relations and Media and the Official Speaker of GACA expressed this view:

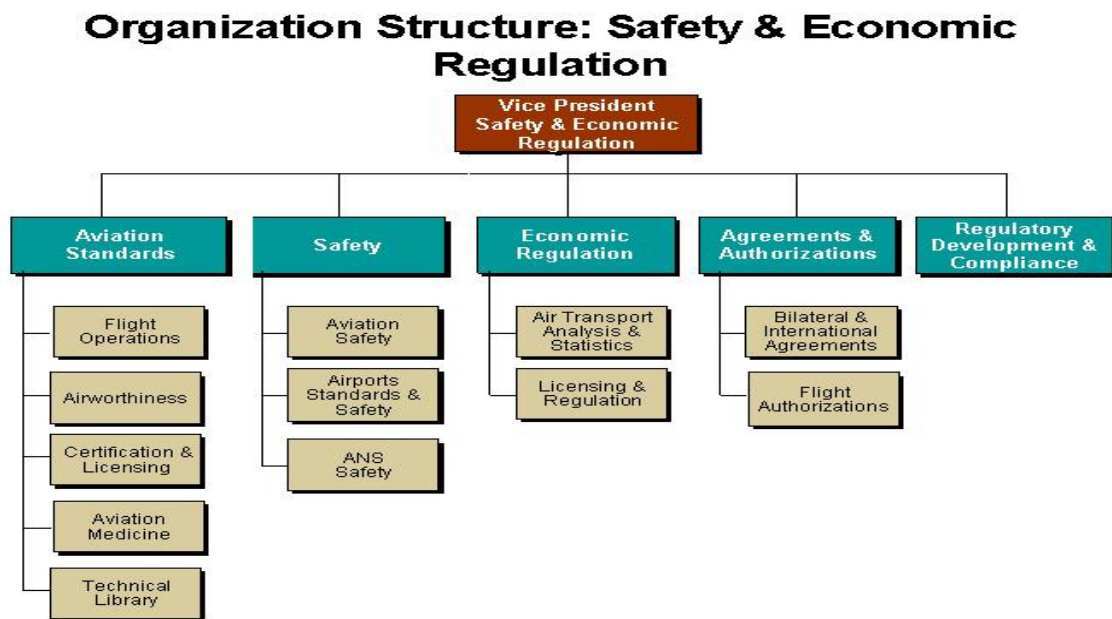
GACA is playing an active role with respect to prices liberalization and the liberalization of the Kingdom's airspace via concluding international agreements with other countries. Privatisation in the civil aviation sector in the kingdom has taken the form of several PPP projects between the government and the private sector. The latter has been given the chance to participate in service provision through different BOT projects. The airports development project is an example where public and private institutions work collaboratively (INT.1).

Some of these projects will be discussed later in the chapter to show GACA's efforts in opening up the civil aviation market in the Kingdom and introducing competition into the market.

GACA issues regulations and standards that guarantee the health and safety of passengers. Its Safety and Economic Regulations department plays an important role in this area (see Figure 7.6). It works as "the sole Regulator and Auditor of the aviation industry in Saudi Arabia" (www.gaca.gov.sa), and has the authority to "register civil aircraft and certify domestic and international airlines, repair stations and schools that wish to operate in/from the Kingdom of Saudi Arabia" (ibid.). As stated by Al-Sugair, GACA's former President, "Safety has always been our top priority" (Civil Air Navigation Services Organisation, 2011).

To achieve its ends in the area of safety and standards, GACA has to work in accordance with international rules and regulations. Its Director of Bilateral and International Agreements noted that: "GACA is not working in a vacuum. In its decisions and regulations it is restricted by the international regime on civil aviation and its regulating rules. Global regulation on issues such as health and safety and other aspects are guidelines for national regulations" (INT.2). Article 16 of the Civil Aviation Act explains this by referring to one of GACA's main functions, which is the implementing of "standard facilitation and aeronautical safety rules and principles necessary for facilitation and safety of airline operations, aircraft and flow of passengers, cargo and mail from, within and to aerodromes of the Kingdom; in accordance with the provisions of the Chicago Convention and Annexes thereto and other agreements and treaties to which the Kingdom is party."

Figure 7.6: Organisational Structure: Safety and Economic Regulation



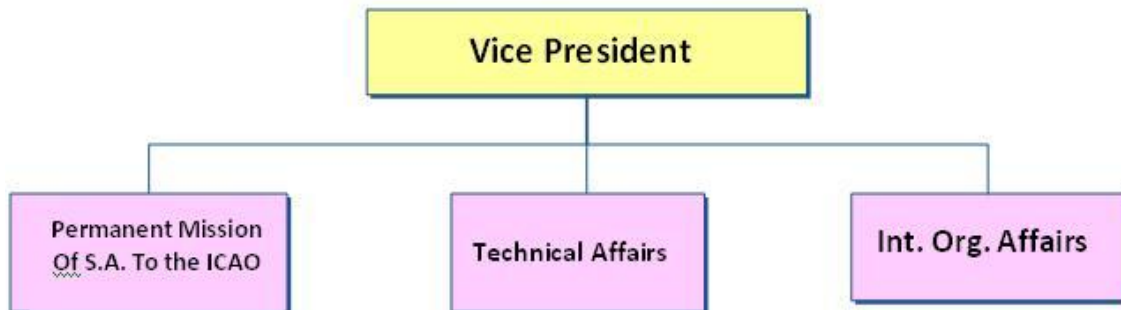
Source: (www.gaca.gov.sa)

The efforts and actions taken by GACA during the Hajj season are a good example of the role of the Authority in achieving health and safety standards for passengers. The Hajj season is a unique experience for the Kingdom of Saudi Arabia. Every year millions of Muslims from all over the world undertake the pilgrimage (Hajj) to the Kingdom over a short period of time, to visit Mecca and the many other holy sites. This puts great pressure on Saudi airports to secure the safety of their visitors, and to achieve this “the Civil Aviation Authority issues annually, several months before the Hajj season, instructions and regulations for the transport of Hajji by air, which include all the requirements for the safe transport of the Hajji and requires the operators to comply with the international aviation safety requirements” (ICAO, Directors-General of Civil Aviation Conference on *A Global Strategy for Aviation Safety*, 2006).

The Kingdom has committed itself to applying all international agreements and treaties and to guaranteeing this commitment by law. Article 4 states: “Provisions of, and annexes to, the Chicago Convention and all other international treaties on civil aviation to which the Kingdom is party shall be deemed supplements to this Law.” To achieve this commitment and to keep up to date with recent developments in the civil aviation field, GACA established an international organisation sector (see Figure 7.7).

Figure 7.7: international Organisation Sector

International Organization Sector



Source: (www.gaca.gov.sa)

This organisational sector plays an important role in representing GACA internationally. The sector was established in 2008 with the aim of keeping up to date with recent global changes and developments in civil aviation.

7.3.2. Liberalisation and Privatisation Strategy

The Saudi government supports privatisation, and the Supreme Economic Council is particularly concerned with this issue. Their strategy is to implement the privatisation programme in different sectors, which the Ministry of Economy and Planning tries to achieve in line with the society's norms and needs. In this sense, the Government has adopted privatisation in its broadest meaning, as explained in the theoretical formwork. In addition to the plans to privatise Saudi Arabian Airlines, the Government also allows greater participation by the private sector in providing services and improving the sector's infrastructure in cooperation with public organisations in the form of Public Private Partnership (PPP) projects.

As noted by the EVP Privatisation of Saudi Arabian Airlines: "In the case of Saudi Arabian Airlines, privatisation has taken the form of increasing private sector participation in service provision. Many services that used to be provided by the airlines directly have been opened up to the participation of the private sector, including catering, cargo and ground services" (INT.3). The same view was expressed by the Chief of Safety Coordination, Analysis and Training, at the Quality Assurance Department for Domestic Airports:

I see the wider meaning of privatisation as more applicable in the case of the civil aviation. The privatisation in this sector is not just about selling public assets to private investors but it is more about the different forms and shapes in which the private sector can participate in service provision. What concerns us here is to make sure that the safety of passengers and the quality of service are not compromised because of private sector practices (INT.6).

Thus the policy-makers in the Kingdom have adopted a wide definition of privatisation to include all forms of private sector participation in service provision and the financing of public projects. The aim is to improve productivity and to use resources more rationally. In this sense the policy-makers did not limit themselves to a particular definition of privatisation. Instead, the idea of privatisation was welcomed at different levels and by different stakeholders:

Privatisation is a good idea in itself and it has succeeded at different degrees in different countries in including the United Kingdom. As for the Saudi Arabia the government have made privatisation a strategic choice in an attempt to improve the services in different areas including civil aviation. In this regard the government was talking about the privatisation of the national carrier the Saudi Airlines. However, the privatisation programme has been partially implemented to specific areas (INT.16).

Like other such cases, the privatisation of Saudi Arabian Airlines was impelled by a number of motives. On one hand the Saudi government wished to catch up with recent developments in the international civil aviation sector and particularly in the Gulf region. As indicated in the comparative chapter, the liberalisation and privatisation of civil aviation sectors has become a global trend that has affected the Gulf area, including the Kingdom. No country can afford to lag behind advances in this sector and to lose business to its competitors. The Saudi government was also spurred into initiating and encouraging more involvement and participation in service provision by the private sector, as a way of introducing competition and reaping its benefits. In theory competition should lead to better services at reasonable and competitive prices, which means a net gain for the consumer who will enjoy high quality services at reasonable prices. From an economic point of view, therefore, the participation of the private sector and the privatisation of Saudia will lead to a reduction in public expenditure and will also relieve the pressures on the public budget.

One issue of concern that was looked at in the theoretical section of this study was the particularity of the Saudi experience of privatisation, taking into account the Islamic nature of

the country. In other words, to what extent are privatisation and private ownership consistent with Islam and Shari‘a law? This issue was investigated further during my interviews. Generally speaking, the analysis of the interview material suggested that there was agreement among the interviewees that the Saudi experience had no particularity whatsoever because of the Islamic nature of the country.

From a religious perspective, and as explained previously (Chapter 3), privatisation is not forbidden in Islam and private ownership is fully admitted by Shari‘a law. The state and the government have the right to retain public ownership of certain projects. They also have the right to decide which projects are to be privatised and in what way. The important thing is that the privatised projects should be for the good of society and should benefit the largest possible number of Saudi citizens. The contracts with private investors are the guarantee that privatised projects will work for the benefit of the society overall.

The role of the Government is to oversee the commitment of the private sector and to enforce the regulations in cases of noncompliance. As stated by a Member of Committee, Deputy Chairman, Portal of the General Presidency of Scholarly Research and Ifta of the Kingdom of Saudi Arabia: “In general the state or the ruler has the right to organise the society in a way that benefits the whole community and makes the best use of the available resources. From this point of view privatisation, although a western concept, does not contradict Islam or the Shari‘a law. And in Islamic history one can see many similar experiences but under different names and labels” (INT.20).

The view was also expressed that:

In essence contracts are permissible except what Allah has forbidden, such as usury, damage, corruption and fraud. From this point of view I see no contradiction between Islam and privatisation, as long as the rules and teachings of Islam and Shari‘a are applied. On the contrary I can see many benefits in the participation of the private sector in service provision, as this will help people to receive better services and will improve the living standards of the whole society and this is something welcomed in Islam (INT.25).

What can be understood from this comment is that in Islam and according to Shari‘a law there is nothing against private ownership and privatisation other than the restrictions explained in Chapter 3. What controls the relationship between public and private organisations are contracts. As long as there are clear contracts that explain the duties and rights of each party and as long as the overall outcome of privatisation will be positive for the society,

privatisation and liberalisation are welcomed. This meaning was reflected by one of my interviewees, who stated that:

According to Islamic Law *pacta sunt servanda*, which means agreements must be kept. With this general principle I do not see any contradiction between Islam and privatisation. On the contrary, I can see a great deal of agreement between the two of them. On the one hand, Islam encourages us to improve our performance and work harder to deliver better services to the people and this is the end goal for privatisation. As long as there are agreements which prevent all parties from misusing their powers to harm another party and as long as there are conflict resolution mechanisms in place to protect the weak then there is no contradiction between privatisation and Islam or Islamic Law (INT.3).

From a historic point of view, privatisation as a concept has not been mentioned as such in Islam. However, on many occasions the Prophet Mohammed took public money and gave it to other people as private property. This also happened during the era of the rightly guided caliphs, especially during the era of Omar bin al-Khatib. The right of arbitrariness, referring to the ability of the ruler or the Imam to take private property from people if they harm the interest of the society on condition that he compensates them for their losses, has also been admitted in Islam.

Added to the Islamic views about privatisation, a number of the interviewees from practical and functional backgrounds shared the same opinion about the particularity of the Saudi experience. In their opinion, there was nothing distinctive about privatisation in the Kingdom because of the application of Shari'a law:

There is nothing special about privatisation from an Islamic perspective. It is a global trend and we try to make a good use of other countries' experiences and to learn lessons from their mistakes. We also consult with international companies who specialise in civil aviation privatisation and liberalisation. For instance, we worked with a strategy and technology consulting firm named Booz Allen Hamilton which provided us with a study on how to restructure the sector and open up the market. We also work closely with a leading consulting firm known as Hey Group with respect to the human resources management and employees training (INT.1).

I do not see any contradiction between privatisation and the Shari'a law as long as the money produced from the privatised projects will not be used to finance any forbidden and illegal activities that contradict with Islamic teachings. Other than this I think there is no contradiction between them. On the contrary, privatisation may lead to

better service provision and higher productivity of public sector organizations which will in turn benefit the whole society and I think this kind of impact is welcomed by Islam (INT.5).

There is nothing particular in the privatisation of Saudi civil aviation and Saudi Arabian Airlines. The government has consulted international consulting companies which provided them with studies on how to undertake the privatisation of Saudi Arabian Airlines in the light of recent trends in the civil aviation industry worldwide (INT.7).

I cannot see any particularity regarding the privatisation of the Saudi civil aviation sector. Yes we apply the Shari‘a law but this does not affect the privatisation. The programme was guided by studies by international consultants and experts, in addition to working hand in hand with other partners such as Lufthansa (INT.11).

To conclude, from a religious and a practical point of view there is nothing to prevent the private sector from participating in service provision or selling state-owned assets to private investors. This kind of participation is welcomed by religious scholars and by practitioners in the field of civil aviation, especially when it leads to efficient and effective service provision and better quality services to consumers.

7.4. Carrying Out the Programme

The Ministry of Economy and Planning and the Supreme Economic Council both agreed on the importance of privatising Saudi Arabian Airlines, which is why they included it on the list of companies recommended for privatisation. The liberalisation and privatisation programme in the civil aviation sector consisted of two main parts: the first being public private partnerships with the private sector; and the second privatisation of the Saudi national flag carrier, Saudi Arabian Airlines. The first element of the programme aimed at encouraging private investors to make investments to improve the infrastructure of the sector or to provide civil aviation services directly, while the second element focused on improving the performance of Saudi Arabian Airlines by restructuring the company and selling its shares to private investors.

As noted by Executive Vice-President (Cargo), Saudi Arabian Airlines: “I think the Saudi government is more inclined to enter into partnerships with the private sector to improve the infrastructure of the sector. In addition to this they also are moving towards selling certain sectors on a small scale, such as the catering and cargo sectors of the Saudi Arabian Airlines” (INT.8). The idea was that privatising Saudi Arabian Airlines would open the market for new

private companies to bring in many new benefits for customers, who would be able to choose between service operators instead of being dependent on one national carrier that provided them with poor services.

The Civil Aviation Act of 2005 gives GACA a mandate to develop the civil aviation sector and to implement, in cooperation with other stakeholders working in the sector, the two-part liberalisation programme mentioned above. In carrying out this mandate GACA developed a liberalisation strategy for the civil aviation sector that highlighted the following objectives (KSA GACA 2007):

- Maintain access of all citizens to air transport services in the Kingdom, and avoid domestic fare increases;
- Institute a fair air transport system in the Kingdom that provides equal treatment to all air carriers, introduces competition where needed/warranted and avoids competition on unprofitable thin routes;
- Achieve GACA objectives outlined by the Ordinance, including becoming self-financed within 10 years and promoting airport development;
- Ensure air transport remains a facilitator of access to holy sites in the Kingdom;
- Create an environment for successful restructuring and privatisation of ‘Saudia’ (the Saudi airline) by 2008.

In December 2006 GACA approved a licence for National Air Services (NAS) to begin operations as a private airline inside the Kingdom. This was among the most important steps for market liberalisation and for introducing competition in the Kingdom’s domestic aviation sector. The new entrant was licensed as a low-cost carrier, with an initial fleet of five aircraft (www.nasaviation.com). Another low-cost carrier airline company, the Sama LelTayaran Company Limited operating as Sama, began commercial operations in March 2007. The company was founded by Investment Enterprises Ltd, and chaired by Prince Bandar bin Khalid al Faisal. Initial investment was received from thirty major Saudi private and institutional investors, including Olayan Financial Co, Xenel Industries Ltd, Saudi Industrial Services Co, Sara Development Company Ltd, and Modern Investment Company for Trade and Industries (www.flysama.com). Licensing low-cost private operators ended the sixty-year monopoly on scheduled domestic flights by Saudi Arabian Airlines.

Generally speaking the Saudi aviation market was regarded as a promising market for low-cost airlines, the main reason being that many workers in the Kingdom received low salaries, which encouraged them to use low-cost airlines even though these offered fewer luxury services: “Saudi Arabia is a promising market for low-cost airlines given that some 75 per cent of the country’s expatriate workers earn low salaries of around £267 per month and are likely to favour the new carriers to travel to their home countries” (www.worldreport-ind.com).

Following the death of Crown Prince Sultan, the head of the Ministry of Defence, and in an attempt to further liberalise the civil aviation market and to speed up the sale of Saudi Arabian Airlines, King Abdullah decided in 2011 to separate civil aviation from the Ministry of Defence and to establish an independent civil aviation authority, GACA. The King put Prince Fahd bin Abdullah bin Mohammed al-Saud, head of the newly-established agency, in charge of the Saudi Arabian Airlines Board. All civil aviation duties were transferred from the Ministry of Defence to the new agency, which reports directly to the King and is under his supervision. The appointment of the new head of the agency was welcomed by experts in the field, who saw him as competent and able to transform the sector and advance the privatisation plans because of his experience as assistant to the former Crown Prince. “He’s been in the sector for some time as assistant to the former crown prince. He’s familiar with the sector. Now that he’s officially in control of it, he will be handling the privatisation of the airline, the liberalisation of the skies, allowing competition and probably developing the airports into profit centres on their own” (<http://news.airwise.com>).

In 2012 GACA took another step on the liberalisation path by inviting tenders from airline companies as well as from investors to operate domestic and international flights from Saudi airports. GACA emphasised that the new airlines would be provided with all the assistance needed and would be free to operate at any Saudi airport with no restrictions on routes. As a GACA official stated, the authority “would provide airline companies that make the best offer with all facilities to operate domestic and international flights successfully and we will not insist that they operate from specific airports and we will give them multiple options, including free selection of domestic routes. A licensed company will have the freedom to choose any Saudi Arabian airport as its hub and also to operate international flights. Licensed airline companies will be able to operate international flights within the limits of bilateral agreements” (www.umrahpackages2012.org.uk).

Before this important decision, all domestic flights had been undertaken either by Saudi Arabian Airlines or by other national private carriers. Foreign airlines were not allowed to work on these routes. As *Al-Bawaba* reported: “Previously, domestic routes were covered by either government-run Saudi Arabian Airlines, or by National Air Services, a private company. However, the two companies have been struggling recently to meet demand, leading the Saudi government to decide to open the market to foreign providers” (www.albawaba.com).

This was an important move towards liberalisation, especially if one considers that Saudi Arabia is not a signatory to the Damascus Convention, which was signed in 2004 by thirteen Arab nations in order to liberalise air traffic between Arab countries in the Middle East and North Africa. The significance of this step comes from its potential impact on the civil aviation market in the GCC countries and in the Middle East in general. Moving towards liberalised and open skies in the Gulf area has been a long-awaited dream. In this regard, the 2011 *Airline Leader* report stated:

If opening the domestic market to foreign carriers were to occur, it would transform Saudi Arabia’s aviation landscape, but there could also be a broader effect in the Gulf and potentially the Middle East as a whole. Basic regulations would be needed for foreign carriers operating in the domestic market, but if Saudi Arabia were to go ahead with its liberalisation proposal, the move need not be entirely one-sided. In exchange for granting GCC carriers access to its domestic market, Saudi Arabia could ask for reciprocal rights, helping bring down regulatory barriers.

Airline Leader (2011) also reported: “In early 2010, GACA announced regional governments, civil aviation authorities and military/security organs were all working toward open skies in the GCC. Despite the proclamations, there have been few tangible outcomes” (www.airlineleader.com).

The Saudi Association for Consumer Protection was among the first to argue for allowing foreign full-service and low-cost carriers to operate domestic routes. The major reason for this was to break the Saudi Arabian Airlines monopoly, to benefit customers, and to enhance economic growth. As the *Airline Leader* report stated:

The experience of European and ASEAN regional aviation liberalisation has shown that opening up market access can significantly stimulate the air travel sector and enhance economic growth. Air travel is made more accessible, cheaper and more

convenient, and carriers can expand into new markets connecting new city pairs with more frequencies. Studies by IATA on European liberalisation have shown increased competition has cut European fares by a third and doubled the rate of growth. Throughout the Middle East, airports and industry bodies – and some airlines – have been lobbying to remove the regulatory barriers.

Another reason why this step by Saudi Arabia is important is that only Kuwait, the UAE, Bahrain, Oman and Lebanon have adopted formal open skies policies in the Middle East region. In the other cases civil aviation issues are organised by bilateral agreements that contain restrictions in terms of market access, seat capacity, frequencies, and aircraft types, in addition to many other limitations in other operational areas. These restrictions and limitations reduce the potential of the civil aviation market. Progress towards liberalisation in the region has also been slowed down because of the differences among countries in terms of the strategies and approaches they utilise for liberalisation.

7.4.1. Public Private Partnerships for Improving the Sector's Infrastructure

The transportation sector in general and the civil aviation sector in particular are quite important sectors because they are related to people's health and safety and also generate benefits for the Kingdom. As stated by Mr Mohammed Ali Alhaddad, Director of Business Development and Properties – KAIA, GACA: "The aviation sector is an important focal point for us because it generates important benefits for the country as a whole" (www.sita.aero). Because of this the Saudi Government has made commitments to invest substantially to upgrade the existing infrastructure and to build new facilities. As reported by Kingdom Airports, Aviation and Logistics: "The Saudi government has aggressive plans to overhaul existing transportation infrastructure which is likely to see over US\$100 billion of investments flowing into the large-scale airports, seaports, rail, road and logistics projects in the next decade, with over US\$30 billion allocated for the purpose in the government's next five year plan" (www.kingdomaeroexpo.com).

Because of this it is important for decision-makers and policy-makers in these fields to make sure that private sector participation is well regulated and that the performance of private companies is well monitored. This is because private companies are normally motivated by maximising their profits and this could come at the expense of health and safety issues as well as the quality of the services provided, since, for example, they might lower health and safety standards, or provide poor quality services.

This section highlights some of the major steps being taken by the Saudi Government to widen private sector participation in service delivery and building up the infrastructure of the civil aviation sector. As part of the strategy mentioned above, GACA has determined to expand, develop and improve many areas related to the infrastructure and services of civil aviation, and has put forward a plan to improve and develop the infrastructure of Saudi Arabia's main international airport. The head of GACA (2011) announced:

As for our current priorities, we aim to move forward with the implementation of sustainable mechanisms for the management of airports and their ownership, and method of financing them in terms of large investments in these airports. This can be achieved through corporatising all airports into independent companies. Therefore it is very important to establish a strategic partnership with the national carriers. As you know it has been demonstrated through international experience that when an airline's goals and strategies are aligned with those of the airports where it is based this will result in significant benefits to all parties and provide better services for the customers (Civil Air Navigation Services Organisation, www.canso.org).

To this end the Government allocated US\$1.4 billion to airport development projects in 2009, and US\$12.5 billion for airport development over the next decade. These investments are expected to create more economic activity and approximately four thousand new jobs (Centre for Asia Pacific Aviation, www.centreforaviation.com). As reported by Kingdom Airports, Aviation and Logistics: "Saudi Arabia plans to heavily invest in constructing new airports in the country, while also expanding existing airports over the next decade. The Kingdom is estimated to be investing US\$10 billion-20 billion developing and upgrading airports by 2020, with private companies to contribute as much as US\$10 billion to the projects." To start the process, GACA announced investment plans in 2010 that included US\$667 million for the development and expansion of twenty-three new and existing airports to handle nine million passengers each year. Operation and maintenance of these airports will cost GACA up to US\$120 million a year (ibid). Table 7.2 summarises the major projects and the investments allocated to each one.

To cover all the planned and implemented developments and investments in the sector would be unrealistic, which is why the Saudi Government is proceeding to put its plans in place in collaboration with the private sector. The development of King Abdulaziz International Airport (KAIA) is a good example of the collaboration between the Saudi Government and the private sector as well as the other stakeholders in the civil aviation sector. The plan has emphasised the participation of the private sector in three areas: the expansion of the existing

facilities of KAIA; the rehabilitation and expansion of the Hajj terminal; and undertaking a BOT project for a new 30,000 m³/day seawater desalination facility that would supply potable water to the airport.

Table 7.2: Major projects in the Kingdom of Saudi Arabia

Projects	Investments
New airports	
Prince Abdul Majeed bin Abdul Aziz Airport in Al-Ula	USD42.1 million
King Abdul Aziz Regional Airport in Jazan	USD3.5 million
Taif Regional Airport	USD5.3 million
Upgrade of existing domestic airports	
Jazan Airport	USD80 million
Tabuk Regional Airport	USD61.3 million
Urgent development projects	
Eight airports: Baha, Rafah, Sharoorah, Al-Ahsa, Taif, Al-Wajh, Qassim and Hail	USD16.5 million
Preparation of general plans	
Design and architecture plans for Hail, Araar and Quraiaat airports	USD6.1 million

Source: based on data from the Centre for Asia Pacific Aviation, www.centreforaviation.com

It is worth noting that from the early stages of the project the expansion and development of KAIA was regarded as more than just a construction. It was understood that, for the project to be successfully completed, a large number of stakeholders would have to be involved throughout the different phases including design, construction, commissioning, training and operation. The major stakeholders include: GACA regulatory and operational authorities, including KAIA Operations; Government Control Authorities: Customs, Immigration and Security; the Royal Saudi Air Force (RSAF); Saudi Arabian Airlines (SV); all other airlines operating at KAIA; general aviation operators; cargo, catering and ground handling companies; Saudi Aramco and fuel handling companies; the Ministry of Transportation; the Saudi Railways Organization (SRO); power, water and telecommunications providers; and Jeddah Municipality (www.jed-airport.com).

The purpose of the project is “to increase the airport’s capacity from 15 million to 80 million passengers per year” (www.kingdomaeroexpo.com). The mission of the new KAIA project is “to become an intermodal hub to promote the economic spirit of the country, to support the national air transportation system and to enhance service as the gateway to the region. To fulfil this mission, the airport will provide quality facilities to its passengers, tenants and operators in an efficient, financially sound and environmentally responsible manner” (www.jed-airport.com). The overall vision to be achieved after the completion of the project

is for KAIA to be “a landmark economic development for the region and the nation, capitalizing on the Kingdom’s ambitious growth plans and the Authority’s efforts for Saudi Arabia to enhance the status of Jeddah as an international hub” (ibid.).

According to the announcement made in September 2000 by GACA, the process of expanding the existing KAIA facilities included the construction of a new large terminal for international and domestic passengers, new support service buildings, modifications to the existing terminals and upgrades to the existing runway and airfield systems to accommodate the new Airbus 380. With the completion of the project it was expected that the airport’s annual passenger capacity would increase from 13 million to 21 million. In 2003 GACA signed a US\$1.5 billion agreement with Bechtel-Saudi Arabia and Dar Al-Riyadh to implement the project. Construction started in the second quarter of 2004 and the expansion was scheduled to be completed by the final quarter of 2010 (Crothers et al., 2006).

The Hajj terminal at KAIA, which is solely dedicated to processing Hajj and Umrah pilgrims throughout the year, has been owned and operated by GACA since 1981. The growth in the number of Hajj pilgrims (according to the Ministry of Hajj, 2.5 million Muslims arrived in the holy city of Mecca for the Hajj in 2009), compounded by the increase in Umrah passenger traffic, meant that the existing facilities had become insufficient. Therefore, GACA invited the participation of the private sector to restore and expand the Hajj terminal. The pre-qualification process to find a private operator started in November 2005. As stated by Khaled Al-Khaibari, the CAA Head of Media, when “these new projects are completed, King Abdulaziz International Airport will have 10 moveable bridges, 13 terminals, and four additional lounges to receive arriving pilgrims” (www.centreforaviation.com).

The selected investor entered into a twenty-year build-transfer-operate (BTO) agreement with GACA. The scope of the activities transferred to the private operator included: (i) investments in the expansion and rehabilitation of the Hajj terminal facilities; (ii) operation and maintenance of the terminal; and (iii) commercial activity within the Hajj terminal complex (Crothers et al., 2006). GACA also operates three desalination plants that support KAIA. These plants have aged and in poor physical condition, are unable to provide reliable water supply in sufficient quantities. GACA therefore invited private sector participation to undertake a BOT project for a new seawater desalination facility. Under the BOT structure, the private sector investor would be responsible for financing, designing/constructing, and operating/maintaining a reverse osmosis desalination plant to sell water for a twenty-year term. GACA would be responsible for the energy supply and would purchase production.

Under GACA's leadership the master plan for the project was developed between 2005 and 2007 by Netherlands Airports Consultants B.V. (NACO). According to the master plan the project was divided into three main stages to be completed by 2035. As the Centre for Asia Pacific Aviation reported, this three-phase expansion programme increased the original US\$1.5 billion expansion budget to US\$11.3 billion: "The first phase expansion of KAIA is scheduled to be operational by 2012-2013. The phase will increase capacity to 30 million passengers p/a from 15 million p/a currently, and includes a new 400,000 sqm terminal complex, to replace the existing North and South terminals; 46 new gates; a new air traffic control tower and an air cargo village with capacity to handle 1.5 million tonnes of cargo p/a, which will ultimately increase to 3 million tonnes p/a by the end of the third phase" (www.centreforaviation.com).

The main features of stage one included:

- A state-of-the-art terminal facility, capacity 30 Million Annual Passengers (MAP), with the capability to operate as both a domestic and an international hub;
- Transportation centre and railway station, to accommodate the new high-speed rail service now under construction, serving Makkah and Madinah;
- Full programme of supporting infrastructure: New Air Traffic Control Complex and Tower, systems and equipment, taxiways, airside and landside road network, utilities networks, services and support buildings;
- First phase of cargo village and Airport City development, driven by private sector investment;
- Uninterrupted airport operations maintained at all times during construction;
- Airport Operational and Transfer (ORAT) Programme, to move all scheduled airlines from existing two terminals to the new facility; and
- Increased opportunities for involvement of the private sector, to encourage commercial dynamism, quality and variety in the new airport development (www.jed-airport.com).

A holding company, Construction Products Holding Company (CPC), was established to carry out phase one of the project. Under CPC, different private partners were involved including: Marble and Granite International (MGI), Vision Electro Mechanical Company (Vision), United Arab Aluminium Co (UAAC), Saudi Company for Development of Construction and Trading Ltd (SACODECO), and Arabian Elevator and Escalator Co (KONE)

(www.centreforaviation.com). The project also included Dar Al-Handasah (Shair and Partners) to manage the construction. The company is part of the Dar Group (a global network of consulting firms providing services in architecture, engineering, planning, environment, economics and project management, with extensive experience in airports and very large projects, across the Middle East and elsewhere). As construction manager, Dar was responsible for the overall planning and control of the design, construction, schedule and budget; the design review of all works; and the supervision of all construction and operational readiness and transfer (www.dargroup.com).

The project designer was Aeroports de Paris Ingenerie (ADPi), a leading French architecture and engineering design firm that specialises in airport development. It has particular strengths in airport planning, architecture and special airport systems (SAS) design and operation. On the KAIA project, ADPi was responsible for developing the project design from the concept to an advanced stage, appropriate for the main contractor to develop into detailed design and installation (www.adp-i.com). The project also included a number of contractors such as Saudi Binladin Group (SBG), Almagbani General Contractors Co. (AGC), and Saudi Oger-Murray & Roberts Joint Venture (bringing together Saudi Oger Ltd and Bongkyung Construction Co. Ltd). All marketing, advertising and public relations activities for phase one of the master plan were assigned to Focus Advertising, the marketing and advertising consultants for the project.

Alongside the infrastructure development the Saudi government was also focusing on running airports on a commercial basis. Thus, the commercialisation of Saudi airports has become a major concern for policy-makers in the Kingdom. As Faisal Hamad Al-Sugair, former President of GACA (2011) noted:

To enable our airports to respond to global changes and to provide quality services that exceed our customer expectations, we are in the process of corporatising all airports in the Kingdom of Saudi Arabia. By corporatising the airports, independent professional airport managers will be able to introduce proven management practices and inject an enterprising spirit to increase operating efficiency and international competitiveness. With innovative financing schemes, the private sector will be attracted to invest and will provide enhanced food and beverage concessions, duty-free shopping, parking and hotels. Global airport economics demonstrate that lower aeronautical fees/charges lead to higher traffic levels. Attractive commodities and efficient services lead to greater airport revenues (Civil Air Navigation Services Organisation, www.canso.org).

As such, running Saudi airports on a commercial basis as well as modernising their infrastructures in collaboration with private investors was a cornerstone in the reform programme of the Saudi civil aviation sector. The increasing role of the private sector in infrastructure development of the Saudi civil aviation sector is consistent with what was discussed in the theoretical section of this study, since governments worldwide rely increasingly on private investment to meet their financial limitations and restricted governmental resources.

7.4.2. Privatisation of Saudi Arabian Airlines – ‘Saudia’

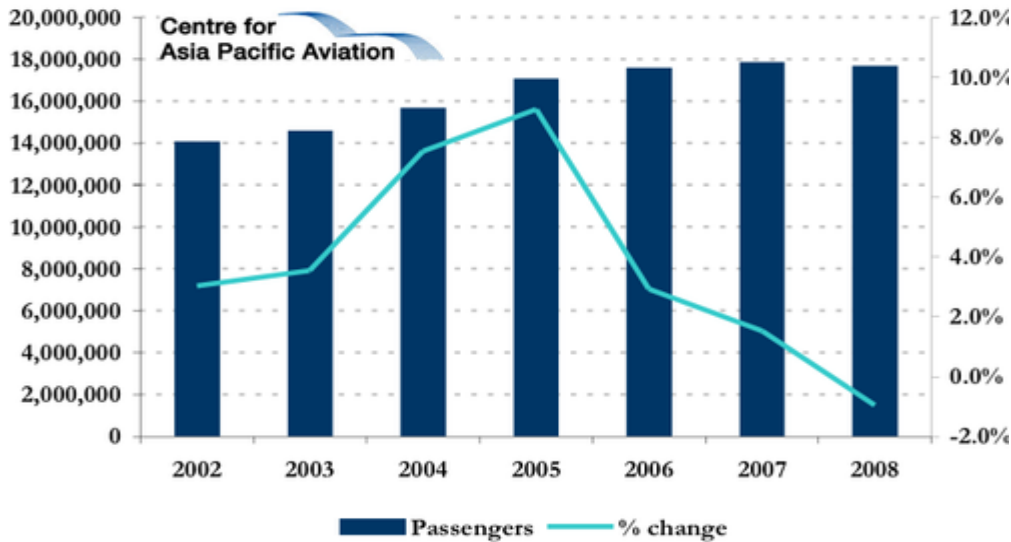
Privatisation is defined in the privatisation strategy for Saudi Arabia as “the process of transferring the ownership or management of public establishments, projects, and services from the government sector to the private sector, relying on market mechanisms and competition, through a number of methods including contracts for managing, operating, financing, or selling all or part of the government's assets to the private sector” (www.mafhoum.com). In this section the privatisation of Saudi Arabian Airlines is discussed in detail to highlight the major steps being taken in this respect and to underline both the shortcomings of the experience and the way forward. Saudi Arabian Airlines is one of the biggest public institutions in the Kingdom. As the national carrier it serves all destinations in Saudi Arabia, and is “the Middle East’s second largest carrier by revenue and passenger numbers” (www.kingdomaeroexpo.com), on average flying over 12 billion passengers per annum (<http://www.answers.com>). As Figure 7.8 shows, the number of passengers using Saudi Arabian Airlines increased steadily from 2002 to 2007; passenger numbers then fell slightly from 2007. This decline can be partly explained by the fact that, after the liberalisation of the market and the issuing of licences to two private operators, some of the passengers who had previously used Saudi Arabian Airlines moved to the newly established low-cost airlines.

As the official website of the company reports:

Saudi Arabian Airlines started out in 1945 with a single twin-engine DC-3 (Dakota) HZ-AAX given to King Abdul Aziz as a gift by the U.S. President Franklin D. Roosevelt. This was followed months later with the purchase of two more DC-3s, and these formed the nucleus of what [a] few years later was to become one of the world’s largest airlines. Today Saudi Arabian Airlines has some one hundred and thirty-nine (139) aircrafts, including the latest and most advanced

wide-bodied jets presently available: B747-400s, B747-300s, B747-100s, B777-200s, Airbus A300-600s, MD-11s and MD90s (www.saudiairlines.com).

Figure 7.8: Passenger Numbers using Saudi Arabian Airlines, 2002-08



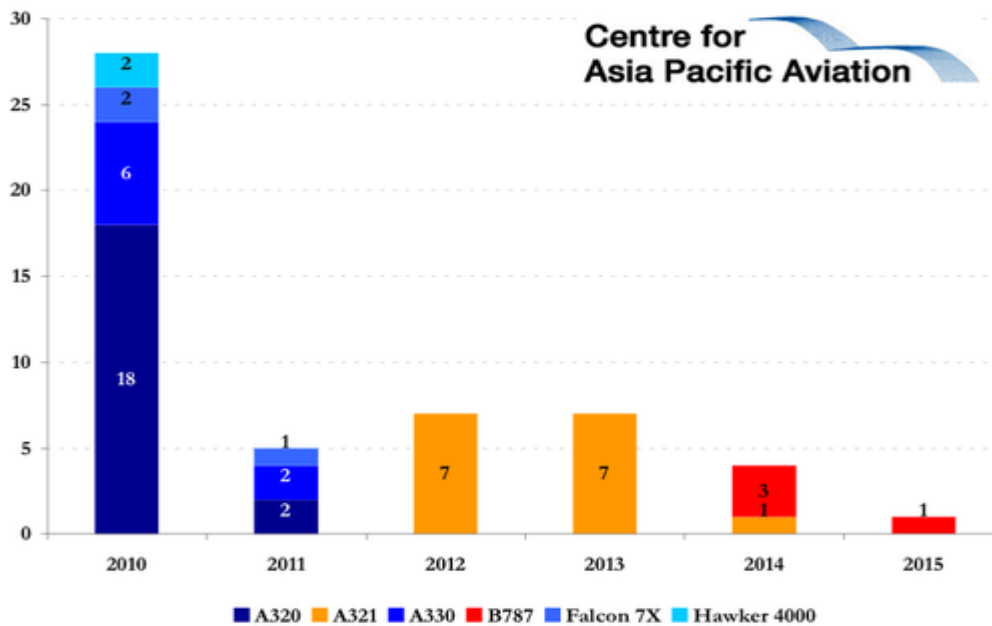
Source: Centre for Asia Pacific Aviation, and Saudi Arabian Airlines

The company is always keen to improve its fleet of aircraft and therefore invests a lot in this area. As reported by the Centre for Asia Pacific Aviation, Saudi Arabian Airlines announced plans to acquire four Falcon private jets from Dassault Aviation for approximately USD200 million, to use in its Saudi Private Aviation unit. The first of the four Falcon 7X tri-jets were delivered by Dassault Falcon at the beginning of May 2010 to Saudia Private Aviation (SPA), the business aviation unit of Saudi Arabian Airlines. Two more aircraft were scheduled for delivery to SPA later in 2010 and the final aircraft were due in 2011. SAA planned to deploy the aircraft on VIP charter flights within the Middle East and around the world. With a range of 5,950 nm, the aircraft can connect major cities, such as New York to Riyadh, Dubai to Tokyo, or Rio de Janeiro to Jeddah.

Taking all this into account one would not expect there to be an easy and direct process for privatising this company. However, based on the company's own published reports, the experience so far shows many indicators of success. In addition to improving the sector's infrastructure, GACA had also embarked on an ambitious programme to privatise Saudi Arabian Airlines 'Saudia'. Its reasoning was is that it would improve and modernise the civil

aviation sector as a whole which, in turn, would help to transform the Kingdom into an international hub for the aviation industry. According to Crown Prince Sultan, Deputy Premier and Minister of Defence and Aviation: “Privatisation of the carrier would strengthen Saudi Arabia’s aviation industry and services. The plan also aims to make the kingdom a main hub for commercial aircraft maintenance in the Middle East” (www.centreforaviation.com).

Figure 7.9: Saudi Arabian Airlines fleet plans: 2010–2015



Source: Centre for Asia Pacific Aviation & Saudi Arabian Airlines

In the past, Saudi Arabian Airlines, in operation since 1945, enjoyed a virtual monopoly on exploiting Saudi Arabia’s international scheduled air service rights, as well as on the provision of domestic scheduled air services as the Kingdom’s sole international flag carrier (<http://www.ussabc.org/i4a/pages/index.cfm?pageid=3278>). This monopolistic situation came to an end in June 2003 when the Council of Ministers issued Resolution No. 90, which determined that the Saudi aviation sector should be opened to competition, including scheduled passenger and cargo services, as well as charter services. In addition, the resolution authorized the adoption of policies designed to stimulate general aviation activities within the Kingdom.

The privatisation process of Saudi airlines started formally in 2006, when the carrier’s privatisation master plan was approved by the Supreme Economic Council. The Saudi Press

Agency reported in 2007 that the Council of Ministers had decided “to allow the General Organisation for Saudi Arabian Airlines to transform strategic units in sectors targeted for privatisation into companies” (www.domain-b.com). Owing to the slow progress of Saudi bureaucracy it was not until 2007 that Saudia received full approval of its five-year plan. According to this plan the company was able to transfer its strategic business units into six separate and wholly-owned companies. This was a crucial step on the path towards the company’s full privatisation (www.centreforaviation.com). Since then many actions and decisions have been taken to privatise Saudi Arabian Airlines and to liberalise the whole sector. The core idea was to transform non-core units, including catering, ground handling services and maintenance as well as the Prince Sultan Aviation Academy in Jeddah, into commercial units and profit centres. The Director-General of Saudi Arabian Airlines commented:

We are taking a great leap forward into the future and in order to ensure the success of this very crucial period, we have begun, gradually and through a multi-phased program, to implement the Airline's strategic plan. This includes upgrading the technical infrastructure, expanding the network to serve the Airline's marketing objectives, upgrading the sales, reservations, airport and on-board services, and a complete face lift for the Al Fursan program (see <http://www.ameinfo.com/134349.html>).

In this context, Saudi Arabian Airlines received the government’s agreement to transform its catering, cargo, ground handling, pilot training and technical service sectors into five independent companies as part of the airline’s efforts to speed up its privatisation process. According to an official statement, shares for the five new companies, which would have international strategic partners, would be floated for public subscription through initial public offerings (IPOs) (Abdul Ghafour, 2006). According to the privatisation plan Saudi Arabian Airlines would act as a holding company for the newly-emerging companies that would be run by the private sector. In addition, it was planned that the company itself was to be privatised by some of its shares being offered to private investors, and it was reported that:

According to the privatisation plan, the airline will be transformed into a holding company with subsidiaries running its catering division, air cargo division, ground service division, the Prince Sultan Aviation Academy, and technical and basic aviation services. Part of the holding company will be floated for public subscription in the future (www.domain-b.com).

The first move saw a 49 percent stake in the group’s catering company sold to a consortium of local players led by the Al-Hokair Group and the Al-Fozan Group, in partnership with global

catering firm Newrest (Almolhem, 2009). As reported by *Airwise News* (2006): “It is expected that the catering business will undergo restructuring to become the New Catering Company, a new firm under the helm of Saudi Arabian Airlines” (news.airwise.com). The catering business had started in 1981 and it included activities such as on-board duty-free sales. Catering activities were a profitable sector, having generated in 2005 “a turnover of SR643 million (USD\$171.5 million), a net profit of SR142 million with a net operating margin of 25 per cent” (ibid.). The cargo sector of Saudia was privatised by offering 30 per cent of its shares to private investors, and is now 30 percent owned by Tarabut Air Freight Service. As with ground services privatisation the ground handling services unit was merged in 2010 with National Handling Services and Attar Travel Company (<http://news.airwise.com>).

As a Saudia public relations manager commented:

The project for the privatisation of Saudi Arabian Airlines is a dynamic and flexible project. It is subject to an on-going evaluation in order to make sure that the goals and objectives are achieved and that all the recent changes in the economic sphere are taken into consideration and the negative side effects are effectively dealt with. From this angle we always make sure that the programme is on the right track and all negative consequences are contained and mitigated (INT.9).

It can be seen from this comment that privatising such a gigantic company is not an easy task. Saudi policy makers and public managers are taking the issue seriously and trying to ensure that the privatisation programme is achieving its goals and objectives gradually and consistently with the overall policy directions.

On 22 April 2008, in an attempt to privatise Saudia’s technical services sector, and to promote its great potential in the next few years to become one of the largest centres for processing and maintaining aircraft, engines and spare parts in the Middle East, an agreement was signed by the Director-General of Saudi Arabian Airlines, and Air France and KLM in joint cooperation. As reported by Saudi Arabian Airlines the agreement was aimed at reducing operating costs, and developing performance standards and quality controls in the maintenance of aircraft and engines sector (www.saudiairlines.com). This provided the professional services sector with an added value while serving both Saudi Arabian Airlines and other airlines operating within the Kingdom. Another important agreement was signed on 16 September 2008 to sell 30 per cent of the freight sector of Saudi Arabian Airlines to a Saudi-based group called Tarabut Air Freight Services Company (Aero News: www.jogjaaero.org/2008/09/16/saudi-airlines-sells-

30-of-freight-sector/). In addition to these steps, Al-Molhem, the Director-General of Saudi Arabian Airlines, stated that Saudia's maintenance unit would be prepared for sale either in the fourth quarter of 2009 or in the first part of 2010. The stake sold would be between 30 and 49 percent.

7.5. Evaluating the Liberalisation and Privatisation Programme in the Saudi Civil Aviation Sector

The aim of this section is to provide some critical discussion of the process of privatisation and liberalisation of the civil aviation sector, based on analysis of the interview material and the official documents published by the Saudi Government and other stakeholders. Issues such as the positive and negative impacts of the privatisation programme, the unfair competition between private companies and the previous incumbent, the dominant position of Saudi Arabian Airlines, job security and labour after privatisation, and the competence of the decision-makers will all be looked at in the light of the responses gathered from the interviews and the policy documents.

7.5.1. The Implementation Approach

A gradual approach towards the liberalisation and privatisation of Saudi Arabia's civil aviation sector was preferred by policy-makers rather than the radical transferring of public ownerships to the private sector: "The process started gradually, by allowing the private sector to participate in providing a limited number of services including catering, cargo, and other airport services" (INT.7). As stated by the General Manager of Public Relations and Media and the Official Speaker for GACA: "We followed a gradual approach to liberalising the civil aviation sector and opening up the aviation market. We have different plans regarding the different aspects of the liberalisation process and we work on them gradually, in light of the instructions and the guidelines we receive from the government" (INT.1). One reason for adopting this gradual approach was that it allowed the decision-makers to see the impact of their decisions and then to correct them if they were wrong or had negative effects on the stakeholders in the aviation sector.

According to the Chief of Safety Coordination, Analysis and Training at the Quality Assurance Department for Domestic Airports, this gradual approach towards liberalisation was a good choice by the Government. As he put it: "I think the government preferred the gradual approach for applying the privatisation programme. And I see this as a good choice

for policy makers to be able to evaluate and measure the impact, firstly on a small scale and then to go ahead if they see that the pilot projects were a success” (INT.6). The same view was expressed by Executive Vice-President Cargo, Saudi Arabian Airlines, who mentioned that “decision makers want to be sure that the decisions they make are in the right direction. They also want to reduce the negative impact of the programme on the labour force” (INT.8).

Gradual privatisation makes sense, as the Vice-President Ground Operations, Saudi Arabian Airlines, commented:

We started by creating separate strategic units and some of these units have been privatised, such as the catering and the cargo services and some are on their way to being privatised, including the ground services. The programme is progressing according to a time plan, and we hope the rest of the services will be privatised according to this plan (INT.11).

The overall impression of the Saudi Arabian Airlines staff whom I interviewed was that because of the size and importance of the company as the Kingdom’s national carrier, it was hard to transfer its ownership radically to the private sector. As a public relations manager in the Saudi Arabian airline remarked:

There are many administrative, financial, and personnel issues that call for a gradual approach for privatisation. Therefore, Saudi Arabian Airlines started by privatising the cargo and the catering services first to see what the outcomes would be and how this would impact on the newly-privatised units. Based on the results of these new projects the rest of the services will be privatised (INT.9).

The gradual approach adopted by the Saudi policy makers and managers, with the features and advantages/disadvantages discussed in the theoretical section, has also been preferred in other countries. However, for the success and completion of the process in Saudi Arabia the shortcomings of this approach especially the slow process of implementation need to be addressed and solutions need to be found to deal with this problem.

7.5.2. The Impact of the Privatisation and Liberalisation Programme

In spite of this agreement among the Saudia interviewees about the suitability of the gradual approach towards privatisation, there were still some issues open to debate. Some saw a positive impact on the company and its employees, while others highlighted different negative impacts.

7.5.2.1. Positive Impacts

On the positive side, according to some interviewees, the participation of the private sector in service provision had resulted in improved overall performance of the sector and had increased the flexibility of the market structure:

We can see many positive administrative and economic impacts in the sectors where privatisation was applied (INT.13).

In general, liberalisation and private participation have impacted positively on performance and I think performance measurements since privatisation can confirm my point. Furthermore, thanks to the creation of profit centres and strategic units we also enjoy more flexibility now in running and managing the different sub-sectors and services in the civil aviation market (INT.1).

Clearly, managerial flexibility and profit orientation were among the most obvious performance indicators as to the success of the privatisation programme from an early stage of its implementation. Other points of view emphasised the positive impact of the liberalisation and privatisation processes on the Kingdom's treasury. According to them, sectors such as airports that work as independent strategic units are now more profitable and save money for the treasury by cutting the subsidies directed to these units. As the Chief of Safety Coordination, Analysis and Training at the Quality Assurance Department for Domestic Airports put it:

I do think privatisation has had a positive impact on the civil aviation sector. According to the civil aviation authority's plan, in ten years time from now all the national and international airports will work as separate strategic units. This means the subsidies given to these airports will be cut and they will be required to rely more on their own resources. At the same time this also means airports must find new ways to rationalise their spending and organise their resources. This will all lead to more savings to the treasury and more money available for public spending on other issues (INT.6).

Other positive impacts of privatisation and liberalisation highlighted by interviewees include improvements to the sector's infrastructure, human resources training and skills as well as overall service provision and customer satisfaction:

I see more signs of success in the future and a more positive impact on the development of the infrastructure of the sector as well as the quality of the services provided (INT.6).

In my view the experience so far shows indicators of success. I will talk about the cargo sector where I work. I can see many positive signs, not only at the level of performance but also at the level of improving the skills of those who work for this sector. Over the last few years many of the workers in this sector have been trained in special programmes to build on their skills in this area. Therefore I think this is one of the major benefits of privatisation. Added to this, there are now new ways to provide these services which are more advanced and will lead to more innovative and high quality services to our customers (INT.8).

We cannot see all the results of the privatisation and liberalisation programme in the short term. But from what has been achieved so far we can conclude that there are definitely some positive effects. For example our customers now have more options and they are generally more satisfied. In addition to this the market structure is now more flexible (INT.11).

The main benefit in my view goes to the consumer. The liberalisation process has provided consumers with alternative services. Instead of dealing with one company they now have the choice to deal with more than one. They can choose whatever services will suit them better (INT.4).

I see some progress in service provision and I am sure upon the completion of the project many advantages will be achieved for the civil aviation sector (INT.5).

Despite these positive views about the impact of privatisation, some interviewees raised concerns regarding the way in which the programme was implemented and its future impact on the civil aviation sector and the companies working in it. According to these views, the way the privatisation programme was being implemented at present would not lead to any improvements in the long run. As one employee in the Saudi Arabian Airlines put it:

The activities of the Saudi airlines look like a chain. Each activity is related to the others. But what they do now is, they create independent units in the way they did with the catering, cargo and partly with the ground services. And they privatise these units without looking at the whole chain. To make my point clearer let's say that a customer wanted to book a flight and he went to the booking office and he was treated nicely so that he was happy with the booking service. The customer went to the airport and he was welcomed by the Saudi airlines staff there and he also was happy with the service at the airport. Let's also assume that for some reason his flight was delayed and he missed an important appointment. Do you think he would be happy about the Saudi Airlines services? Of course not – he will forget about the good treatment at the booking office and the warm

welcome by the staff at the airport and he will remember that he missed his appointment because of the unreliable services of the Saudi Airlines (INT.14).

In short, the selective approach towards privatisation, according to the interviewees, would not result in any improvements in the future unless Saudi policy-makers and decision-makers looked at the whole chain of activities and how these activities were linked together. This observation is a good point at which to discuss some of the other issues raised by the interviewees regarding the liberalisation and privatisation programme adopted by the Saudi Government and its potential impact on service providers and operators.

7.5.2.2. Negative Impacts and the Slow Pace of Implementation

Some interviewees felt that liberalisation and privatisation were not the solution for the civil aviation sector. From their point of view the reason was that these methods were by no means completely free of problems.

Regarding the approach adopted for liberalisation and privatisation of the sector, some of the private operators were concerned about the slow nature of the process. As the Chairman of the Board of Directors of Alwafeer Air, put it: “The policy makers have adopted the gradual approach to liberalisation. Therefore, I think they still have a long way to go to get to the privatisation” (INT.4). The same view was expressed by the Vice-President Ground Operations, Saudi Arabian Airlines:

The major shortcoming I can see at the moment is related to the slow pace of the implementation process of the privatisation programme. The company is huge and the sector is sensitive; therefore at certain points policy makers find it difficult to move on with some issues. For example, it’s hard to get rid of old employees in the company because they have rights that need to be considered when taking any decision regarding dismissing them. The new recruits are subject to the private sector law and they have a social security programme to deal with their pensions. (INT.11).

Timing is a critical element for the success or failure of any privatisation programme, and managers need to bear in mind the importance of taking the right decision at the right time. However, in some cases, including the big companies like Saudi Arabian Airlines, certain compromises should be made in order to ensure that the privatisation programme has the minimum negative impact on stakeholders, including customers and employees.

Despite being regarded as a shortcoming, the slow pace of implementation is not necessarily a bad thing, as it gives decision-makers the time to be sure they are making the right decisions, bearing in mind the size of Saudi Arabian Airlines and the political and social considerations that must be taken into account. As an advisor for the Minister of Economy in the Ministry of Economy and Planning put it:

Yes I do agree that one of the major problems with applying the privatisation program is the slow pace of the implementation process. But this can be understood if we look at each sector individually. Each of the sectors recommended for privatisation has its own implementation plan. And of course each sector has different kinds of problems. What they do is they let the government know about these problems and the government takes whatever decisions they see necessary to deal with these problems. And sometimes the slow implementation can be better than rushing everything on and then ending up having more problems than solutions to the existing issues (INT.13).

Following on from this view a slow pace of implementation is not always a bad thing. It might ensure that the decisions taken by policy-makers have positive effects and reduce the negative impacts of privatisation on consumers, employees and stakeholders.

7.5.3. Unfair Competition and GACA Intervention

Unfair competition and intervention represent a major concern for stakeholders in the Saudi civil aviation sector, especially for private operators and service companies. The problem is that private companies feel that they are not treated equally in comparison with Saudi Arabian Airlines. They see many of the decisions as being in favour of the previous occupant. GACA takes decisions that benefit Saudi Arabian Airlines at the expense of other private companies. According to the interviewees, these decisions affect their ability to compete with the giant Saudi Arabian Airlines and to improve their market share. In concrete terms the Chairman of the Board of Directors of Alwafeer Air, one of the private operators working in the Saudi Kingdom, summarised the problems faced by private companies as follows:

The General Authority for Civil Aviation has taken a decision to establish private national companies in the Kingdom in order to create a competitive environment for a commercially-driven aviation sector. New companies including NAS and Sama and Alwafeer have been established, and competition in the market has been encouraged by the authority. The major issue in this regard is that commercial competition between the new companies and the previous incumbent is not fairly done because of the privileges given to Saudia. Saudi

Arabian Airlines has been given many facilities; for instance, they buy fuel for their aircraft at 20 percent less cost compared to the other private companies. Additionally, the previous incumbent is exempted from many other tariffs that private companies have to pay. As such, the working environment for the time being is not in favour of the newcomers. New private companies do not enjoy the same opportunities on equal footing with Saudi Airlines. This in turn results in higher operating costs for the private companies (INT.4).

The same concerns were expressed by the Chief Executive Officer of NAS and a journalist at *Al-Hayat* newspaper who mentioned their concerns during their interviews:

What really worries me is the unfair competition between private airlines and Saudi Arabian Airlines. The General Authority of Civil Aviation is giving the previous incumbent many advantages and treats it differently from the private companies. To give you some examples, as a private company I am not free to serve any destination I want. There are certain routes that the General Authority of Civil Aviation identifies that have to be served. In addition to this the General Authority of Civil Aviation puts a cap on the prices we can charge. They also give us fuel at a different rate from what Saudi Airlines gets. Furthermore, they also charge us higher fees. All these issues and restrictions have resulted in unfair competition between the incumbent and the private companies. Some companies like ours have survived and are trying very hard to succeed in such difficult conditions and some have declared their bankruptcy and dismissed their employees (INT.12).

Liberalisation and competition between private companies and each other and between them and Saudi Airlines will improve the quality of services and will result in many other advantages for the customer, no doubt about that. But from what we have heard from the private companies, the General Authority of Civil Aviation is not treating them fairly. On the one hand the authority puts many restrictions on their operation, but on the other hand they support the Saudi Airlines and give it preferential treatment. Such a reputation about the way the private companies are treated, as well as the collapse of one of the private companies... all these things make private investors reluctant to invest in this sector (INT.17).

What can be concluded from this is that unfair competition between the new private operators and Saudia is one of the major issues that impacts negatively on the ability of the private operators to establish themselves and to expand their market share. This is an issue in all liberalised infrastructure industries. Therefore, the privileged position of the previous incumbent should be mitigated by creating regulators who ensure that competition rules are applied and that safeguards are provided to enable new private companies to compete with

Saudia. In other words this requires an impartial role on the part of the regulatory agency in relation to all operators, including the incumbent.

However, what normally happens is that the previous incumbent continues to receive preferential treatment even after liberalisation, as indicated in the views expressed above. To give an example, the Chief Executive Officer of NAS Holding, one of the collapsed private operators in the Kingdom, regarded the unfair competition with Saudia as a major cause of his company's collapse. According to his view:

The unfair competition with Saudi Airlines is not the only reason for the hardships that private airlines are facing at the moment but it is the major one. It is true that we have been given the licence for free but all the statistics and the numbers used for the feasibility studies of private airlines were not accurate. Added to that, it is true that those who established the private airlines have influence but they do not normally use their influence to solve problems and issues between the private companies and the General Authority of Civil Aviation. The licence stated clearly what we could and could not do, but the subsequent events and the continued support by the General Authority of Civil Aviation of Saudi Airlines worsened our position and made us unable to compete and achieve our goals (INT.12).

In a similar way *Airline Leader* reported that:

The gradual opening of the local airline industry has not produced the hoped-for growth. The privatisation process of Saudi Arabian Airlines has moved with glacial slowness and despite losing its domestic monopoly in 2007, the airline still controls more than 90 percent of domestic traffic. Of the two LCCs launched in the country in 2007, one has failed – after running up losses of USD266 million in four years – and the survivor, Nasair, has yet to break even, and warns it could go the way of its counterpart. A rigid economic regulatory structure has been blamed for at least part of their problems (airlineleader.com).

This point of view was rejected by GACA officials who emphasised: “The authority deals with Saudi Airlines, on an equal footing with other companies” (INT.1). What appears to be preferential treatment of Saudi Arabian Airlines is justified by GACA staff on the ground that, as the previous incumbent, the company was responsible for serving remote areas that were not commercially and economically attractive to the private sector. As the Director-General of the GACA Corporate Planning and Transformation Programme (PMO) Manager in the General Authority of Civil Aviation commented:

The company looks equally at all the players, including Saudi Arabian Airlines, and treats them fairly. However, because of the obligations on Saudi Arabian Airlines to serve remote destinations which are not economically attractive to the private companies, they are compensated for this. Other than that, the General Authority of Civil Aviation, as the regulator, treats all service providers equally (INT.10).

The argument presented by GACA in this regard is quite convincing. However, it is important to make sure that support for Saudia does not extend beyond compensating it for its non-commercial obligations and into other areas that might affect competition among service providers and operators. Because of universal service obligations, the incumbent in all utilities and infrastructure industries including telecoms, water, energy etc., is normally compensated following the liberalisation of the market through financial support of their operations and using different methods of service delivery. Such subsidy should not, however, be a continuous activity since by nature it is temporal and should be removed when the market reaches maturity levels.

In addition to competition, price setting was another area that both the private operators and the previous incumbent, Saudi Arabian Airlines itself, were not happy with. As the Vice-President Ground Operations, Saudi Arabian Airlines, said:

We still have some problems in relation to government intervention and the pricing policies. If we talk about internal flights, the low prices of these flights and the long distances involved make it difficult from an economic point of view to cover the expenses required for maintenance of the aircraft. Many of these problems, I think, are going to disappear when the programme is completed (INT.11).

One of the major outcomes of GACA's unfair and interventionist approach was the collapse of one of the private operators, Sama airlines. The company was established in 2005 and started its operations in 2007. The feasibility studies conducted at that time showed that there was a great opportunity for success and high profitability, but when the company began operations it faced many administrative and financial obstacles, which led to its total collapse.

As reported by Sama's Director of Marketing, various financial, managerial and regulatory factors all contributed to its collapse. He summarised the situation:

One of the major obstacles was the way in which the Civil Aviation Authority dealt with the private companies and the advantages it gave to Saudi Airlines at the expense of the new private company. Another

factor was the management of the company itself. From the very first days the management of the company was given to foreigners who only cared about their profits and salaries and did not care much about the future of the company or the aviation industry as a whole. The reluctance of the Saudi banks to lend to the company was another reason for its collapse. Because of the company's bad financial situation the banks refused to give it any loans to adjust its financial position. Added to this, no governmental subsidies were given to the company in an attempt to rescue it. All these factors led to the company stopping its flights on 24 August 2010 and releasing its employees (INT.21).

At the start of their operations many of the private companies focused more on the profit side and tried to achieve more profits at the expense of the quality of the services they provided. The result was that they did not succeed in acquiring a reasonable market share that might have helped them in achieving these profits. Consequently, Sama Airlines was forced to withdraw from the market because of the losses it made as a result of its poor performance. The other company, NAS, learnt from its mistake, and is now more orientated towards providing high quality services and focusing more on the satisfaction of its customers.

With these obstacles in the working environment of civil aviation companies the question becomes what are the solutions? How can such shortcomings and problems be overcome to achieve more success and more progress? The analysis of the interview material has provided an answer to this question: more liberalisation and more competition among operators and service providers. The Saudi market for transportation in general and the aviation market in particular were perceived by the interviewees as rich and able to accommodate more private investment and the creation of more private companies. The problem as they described it is with the way the new private companies are dealt with and their unfair treatment by authorities such as GACA. If such obstacles were not in place private companies would be encouraged to invest in such a vital and important sector.

In this regard the Chief Executive Officer of NAS Holding noted:

In my opinion the solution is simple. More liberalisation of the civil aviation sector and a more encouraging environment for private companies is required. No preferential treatment should be given to any company, including the national carrier Saudi Airlines, especially as people have been complaining a lot recently about the low quality of its services and the mistreatment of its employees. No fuel subsidisation for the national carrier. No restrictions should be imposed on flight prices. This must be done according to the market

mechanisms. No restrictions on destinations. In short creating a truly liberalised sector and a fair and competitive environment that works in accordance with market mechanisms and does not discriminate against any particular party are the solutions. If we succeed in achieving this we will be able to encourage private investors to invest more in this sector. Briefly, if we are given the same advantages given to Saudi Arabian Airlines I am sure we will be able to compete with them better, and our chance to achieve success and continuity will increase (INT.12).

This comment indicates in a nutshell the major obstacles faced by private operators in the context of the Saudi civil aviation sector. Some of these obstacles can hinder the ability of the new private operators to deliver competitive services at competitive prices. Therefore, the issue of competition and the ability of private operators to function in the civil aviation market should be taken seriously by GACA. Neglecting these issues may not have an immediate impact on the market; however in the long run it will affect the reputation of the whole sector and the willingness of private companies to invest in the civil aviation industry.

To sum up, analysis of competition in the Saudi civil aviation market indicated that the competition environment did not favour the newly-established private companies. In my view, therefore, improving working conditions for commercial aviation in the Kingdom and having a competition policy framework will enable the sector to grow and will enhance its competitive capacity, especially with other Gulf countries. For example, national companies will attract a lot of passengers who travel on neighbouring airlines such as those of the Gulf and the UAE. As *Airline Leader* (2011) put it:

Without effective competition, the Saudi domestic aviation market appears moribund. Last year, 22.6 million passengers flew in the country's domestic market. Growth was limited to just 2.3 percent – well below growth in the rest of the Middle East. Despite the billions of dollars invested in improving airport infrastructure, the domestic passenger market in the country has expanded just 11 percent in the past five years (www.airlineleader.com).

7.5.4. Saudi Arabian Airlines: Dominance and Customer Satisfaction

In theory, implementing privatisation should lead to better and cheaper services, which in turn will lead to higher levels of customer satisfaction; but was this the case with the privatisation and liberalisation of the Saudi civil aviation sector? As indicated, some of the interviewees saw some positive effects of the privatisation with respect to the choices available for

consumers and the quality of the services provided. However, others mentioned issues that, in their opinion, impacted negatively on the satisfaction of the customers. A major issue was the way in which customers were treated by the employees of Saudi Arabian Airlines and the quality of the services they received. As the Editor-in-Chief of *Al-Iqtisadiyya* newspaper stated:

In general customers are not happy with the services they receive from Saudi Airlines. Newspapers have written quite a lot about this issue and tried to convey the voices of the dissatisfied customers to the decision makers in the company, but these attempts were not successful since many customers are still complaining about the poor service of the company in relation to cancellations and delayed flights (INT.16).

From this point of view the increasing number of dissatisfied customers creates a contradiction between the declared official statements of policy-makers and the actual performance and level of satisfaction as expressed by customers. As the General Manager Editorial, Saudi Arabia and Gulf States, of *Al-Hayat* newspaper stated:

If you follow the news over the last few months you can notice that there is a contradiction between the success of the privatisation programme as declared by public officials and what people say about the level of the services provided. As a newspaper we publish both sides of the story. But we were thinking that when we published articles about how dissatisfied people are with the services they receive from Saudi Airlines we might have expected some change in the company's policies but nothing has changed and people are still complaining about the services provided (INT.17).

One reason behind customer dissatisfaction could be the monopolistic nature of the market and the controlling position of Saudi Arabian Airlines. The previous incumbent is still enjoying a monopolistic position in the Saudi civil aviation market, and this strong position of the previous incumbent was summarised by one of the interviewees:

Saudi Airlines is supported by the government because it was the previous incumbent. It has a large fleet compared to the private companies, which gives it competitive advantages. What is needed is for the management of the company to be modernized and to improve enough to cope with the latest managerial techniques. The mentality of public employees, who are beyond accountability and who are motivated first and foremost by their own interests and do not care about the customers they serve, must be changed. I think with the

competition of the privatisation programme many of these issues will be solved and this is what we look for in the future (INT.17).

Similarly, another specialist at the company noted: “Up till now, competition between Saudi Arabian Airlines and the private airlines has been very limited. We could not even feel it in some case. Many of the internal and international destinations are still served by Saudi Arabian Airlines. However with the privatisation programme going forward I expect more competition to follow” (INT.7). In this situation, customers understand that they have no option but to use the services provided by Saudia. As one of the interviewees reported:

What is reported in my newspapers and magazines about the poor quality of the Saudi airline services is in many cases true. Saudi Airlines understands that there are no other options available to travel within the country apart from its flights. Those new private airlines can only serve certain destinations. Because of this monopolistic situation, they do not care how satisfied their customers are (INT.14).

On the other hand, the employees of Saudi Arabian Airlines were aware of the strong and dominant position of their company in the market. Most of them were under the impression that the Saudi market was a very sizeable market and for now they did not feel any real threat of competition from other private companies. As stated by a General Manager at Saudi Arabian Airlines:

At Saudi Arabian Airlines we are not afraid of competition from the new private companies. We have the biggest market share and the largest number of customers. In addition to this, if you look at their fleets and the size of the companies you will understand that they do not represent a real threat to the competitive position of Saudi Arabian Airlines. The transport industry is a service industry which means profit is not everything a company should look for, but that is exactly what the new private companies are after, to make more profits (INT.22).

Although aware of their strong position in the market, the employees of Saudi Arabian Airlines presented the issue of customer satisfaction differently. According to their views, the company always blamed them even when the customers misbehaved. As one of them mentioned:

Saudi Arabian Airlines always takes the blame for wrongdoings even when these wrongdoings were committed by customers. Many customers do not respect their bookings or the permitted amount of luggage, and when the employees of Saudi Arabian Airlines talk to

them about these matters they get angry and start to complain. I am not saying all our employees are perfect but the behaviour of some customers may cause discontent (INT.23).

From this point of view the company's employees are doing their best to provide their customers with high quality services. Khalid Al-Molhem, the company's Director-General , underlined the issue of customer satisfaction as a key element in the long-term strategy of Saudi Arabian Airlines. As Mr Yousef Attiah, Vice-President for Customer Services, stated in 2007:

We have improved and simplified services for our customers, the economy is booming and traffic has increased. The airline serves so many different segments of customers: pilgrims travelling for the Hajj and Umrah religious festivals, businessmen and domestic travellers. So growth is good, but one of our major challenges is to find the best way to meet demand (www.worldreport-ind.com).

The company has also invested in many other areas, including the ticketing system and the services provided on board, in order to improve the quality of the services offered to its customers:

We have introduced e-ticketing for domestic flights and we have improved on-board services in terms of food and entertainment and sky sales. We have almost one million SMSs sent monthly to our customers to remind our passengers of ticket time limits, to confirm reservations, and provide information about departure times. The passengers are very happy with the new service (ibid.).

Utilising such technological advances is important, but it is equally important for the consumer to find someone to talk to if things go wrong. Technology cannot assist at all times and the way in which the company's employees respond to their customers' questions and requests can be a detrimental factor in the latter's levels of satisfaction. This is also important, especially for the old generation who may not be familiar with new technologies and how to use them.

Sometimes, though, the reason for customer dissatisfaction could be something out of the company's reach and customers needed to understand this and try to cooperate with the employees in those circumstances. In the words of a company employee:

You cannot satisfy every customer. We do our best but sometimes the customers themselves treat the employees of Saudi Arabian Airlines

in a bad manner and then complain about how bad the employees have treated them. I think after privatisation this issue will be solved. The problems existed in the telecoms sector before that privatisation. But after privatisation and the existence of more than one service provider people are now happy with the provided services. This is not to say that all telecoms customers are happy because again you cannot satisfy every customer (INT22).

What can be concluded from these views is that the employees of Saudi Arabian Airlines realised that there were some problems that might cause customer dissatisfaction. However, according to some of them, this was basically because the privatisation programme was still at an early stage and, with the programme's implementation going forward, the situation would get better and customer satisfaction would improve. As stated by a Senior Public Relations Specialist of Saudi Arabian Airlines:

I know there are still some problems with some services that make the customers dissatisfied with Saudi Arabian Airlines. But we need to understand that not all the services have been privatised and maybe that is the reason why some services satisfy the airline's customers and some not. In the future when the company is fully privatised I think many things will change and different issues will be solved and customers will be happier (INT.7).

Taking all these issues into account, some interviewees argued that the privatisation of Saudi Arabian Airlines was not, as many thought, a success story but rather a story of failure. According to them, for this privatisation to be successful, the overall legal and regulatory environment needed to be reconsidered, as well as the whole political and economic environment. The administrative culture of Saudia, and the way in which the company was run also contributed to this failure. As stated by the Planning and Development Director in the Institute of Public Administration during his interview:

Privatisation calls for change in mentality, culture and administrative procedures. None of this is available at the moment in Saudi Airlines. I agree that the government supports the privatisation programme in Saudi airlines and in many other sectors but financial support is not enough. The overall environment needs to be changed, including the way the managers in Saudi Airlines think and act, as well as the way that they view their customers. Every Saudi has a sad story with Saudi Airlines, including delayed flights, cancellations, and many others. Despite the implementation of privatisation in some sectors, the overall performance of the company is very poor (INT.15).

For the privatisation programme to become a success from this point of view, the Government needs to overcome the obstacles in the implementation phase. One of the most important problems that the Saudi government must address is the competence of the management team responsible for implementing the programme. Good management is key for the success of any privatisation programme. Without this successful management, without minds that can cope with the rapid changes in the global economic environment, without skilled and competent managers who are capable of applying state-of-the-art techniques in the field of administration and administrative reforms, it would be hard to talk about the success of any reform programmes. Up till now, there have been few signs of any of these changes taking place, maybe because the process is still at the beginning. The future may carry more positive impacts. As one interviewee remarked:

The Saudi government and Saudi policy makers have chosen privatisation as a strategic policy option to satisfy pressures from international organisations including the World Bank, and to be in step with changes in the global economic environment. This is good in itself but what is more important is create the internal environment that helps in making these reforms a success story. And this is not an easy task as it requires real change in the existing administrative, political, and economic settings (INT.15).

7.5.5. Employment and Job Security

One particular challenge when we talk about privatisation is its possible negative impact on labour. Like other public organisations, Saudi Arabian Airlines is overstaffed, and, under privatisation programmes, downsizing is an important method to cut unnecessary costs and to improve the company's profitability. In this regard, Saudi Arabian Airlines was advised to cut its employee numbers although only in areas that would have a limited effect on the company's core activities. As mentioned by a number of the employees in the company:

The company is overloaded with unnecessary employees, about 22000 employees. Those who are directly related to the activities of the company are about 10000. These are the staff who work in booking, airports, cabin crews, pilots, etc. The consultant companies advised Saudi Arabian Airlines that if they wanted to cut down on employment they should target those who were not directly linked to its core activities. But the nepotism and influence of certain people forced the company to keep these unnecessary employees (INT.14).

This comment is quite significant in revealing the political and social pressures that incumbents may face during the privatisation phase. Because of the way Saudi Arabian

Airlines and other airlines in other countries were run under state ownership, they were normally used as means of employing people without thinking of the real need for such employment. The result was an over-staffed company with many employees who did very little or nothing. This is not the way private companies work. No private investor will agree to employ unnecessary staff for social or political reasons, simply because they represent a financial burden for the company. Therefore, all privatisation programmes are accompanied by other downsizing programmes to reduce the size of the company concerned.

Analysis of the interviews indicated that the senior members of staff in Saudi Arabian Airlines agreed that the company was very careful about minimising as much as it could the impact of its privatisation plans on the labour force. In this context the EVP Privatisation Saudi Arabian Airlines mentioned that:

Job security is always an issue when you talk to employees about privatisation. One of their biggest fears is that they are going to lose their jobs which makes them resistant to accepting the idea of privatisation. Therefore, resistance to privatisation is a common problem in any company that moves towards this end. However, explaining the options available, together with rehabilitation and training programmes and putting good compensation schemes in place can lead to the reduction of such resistance. In preparing for privatisation the company has conducted several workshops to illustrate to the employees how privatisation will impact on their rights and positions. The available options for employees, after transferring from the civil service system to the social security system (the contract) according to private sector practices, have been discussed in these workshops, including early retirement and accompanying schemes so as to guarantee the satisfaction of the employees. And thanks to the downsizing plans the number of employees has been dramatically reduced (INT.3).

A Public Relations Manager in Saudi Arabian Airlines shared the same view, as he emphasised during his interview:

Since the beginning of the privatisation programme Saudi Arabian Airlines has tried to minimise the negative impacts on labour as much as it could. Saudi Arabian Airlines looks at its employees as its real assets and the means for progress and improvement. This is the reason why the company was keen on providing its employees with different options if they wanted to leave. For example the early retirement project was among the different initiatives presented by the company to help those who wanted to leave the service and we will support them with generous remuneration (INT.9).

In this regard the Vice-President Ground Operations emphasised:

Up till now we have succeeded in cutting the number of our employees by 16 percent. No one has been forced to leave the company. The company conducted a number of workshops to explain how the transfer process from public to private ownership would take place. They have also indicated the different options available for employees that they can choose from freely. Therefore I could say we have not seen any negative impact of privatisation on our employees. Any decisions taken in this regard are based on negotiations and voluntary actions by the employees themselves (INT.11).

Dealing with excess labour is a thorny issue which needs to be dealt with gradually and carefully in order to avoid any social or political unrest. Despite this cautious approach for dealing with the issue of employment and the rights of the employees, many employees, especially those who had worked for the company for less than ten years, were not happy with the privatisation because they would be treated as private sector employees and not public employees. This will have an effect on their pensions as they will be moved to the social security system and will not be treated the same way as other public employees. According to their point of view, “the overall work environment is not the way it was before. We do not get as good a return on our work for the company as our previous colleagues used to get. Therefore, it is not only the customers who are not happy with the services provided by the company – it’s also the employees” (INT.14).

The concerns raised by the employees of Saudi Arabian Airlines are understood by the management of the company. According to their viewpoint they have to take unpopular decisions that cannot satisfy everyone in the company.

No decision maker can satisfy all the employees in any company. With a huge programme such as the privatisation of Saudi Arabian Airlines one should expect enormous resistance from the employees. Saudi Arabian Airlines tries to educate the employees and to raise their awareness regarding the impact of privatisation on their employment. Many workshops and conferences have been organised by the company as well as many publications but again with a company that employees almost 25000 staff, one should expect a high level of resistance to change (INT.20).

Another Saudi Arabian Airlines manager mentioned:

I know some employees are not happy with the privatisation plans of Saudi Arabian Airlines. But those who complain try to put their

personal interests first and disregard the benefits that can be achieved from the privatisation of the company. Privatisation will benefit not only Saudi Arabian Airlines but also the customers who will receive better services, as well as the government since it will reduce the subsidy burden on the public budget (INT.3).

The company's efforts in this regard were a success story from the management's viewpoint. They managed to reduce the number of employees by encouraging them to leave voluntarily and compensating them with various financial offerings, such as 'golden cheques'. As the General Manager Government Sales stated:

Saudi Arabian Airlines has a smaller number of employees today compared with previous years. The company has encouraged employees to retire early by giving them the golden cheque. The new employees are hired according to private contracts, as in any private company and they are subject to the social security system in just the same way as private sector employees (INT.22).

On the other hand, the management's efforts to handle employment matters were regarded by some of the interviewed staff as insufficient. They still felt that there was a gap between the top management in the company and the ordinary employees. "It is also worth mentioning that there is a gap between the senior management team in Saudi Airlines and the employees" (INT.14). According to their views, this gap resulted in other issues related to the lack of accountability, and opened the door for financial and administrative corruption.

Added to this, although the golden cheque was an effective way to benefit those who were targeted to leave the company, new members of staff were not eligible to take the cheque.

Those who benefited from the golden cheque are those who were about to retire from the Saudi airlines and not the new staff. For them it was much better to retire early and get the cheque to use the money in their private projects. But those who have been in the company less than 10 years were not entitled to get this cheque. And even if they were able to get it, the money would be spent quickly and they will join the unemployment lines (INT.14).

In this respect, when considering compensation schemes for early retirement it is important to be fair for both old and new employees. Although it is not necessary for a scheme to be equal, it must be fair, in the sense that if new employees wish to retire they should be given a compensation package equal to the time they have spent in the company's service. If this is not taken into account, those who have not spent long time in the company will not be happy

and may well resist the decisions taken by their manager; this in turn will probably have a negative impact on their performance and satisfaction levels.

When it comes to new recruitment procedures the interviewed employees of Saudi Arabian Airlines were concerned that according to their new private contracts their salaries were less than they had been receiving when the company was a public organisation. They also mentioned the lack of training for new staff, which affected the quality of the services provided. “The new staff is recruited on private contracts and gets much less than what the company used to pay its employees. Added to this there is no good training for the new employees which, of course, affects the final outcomes and outputs of the company and make the customers unhappy” (INT.14).

Differences in opinion between the management team and the rest of the employees can be expected in any privatisation programme, since privatisation normally carries some threats to existing employees who are vulnerable to losing their jobs because of cost-cutting and downsizing. Therefore it is normal for employees to defend their posts and to resist the decisions and actions taken by management. However, the above analysis of the interview data indicated that there were some serious issues when it came to the way that management dealt with employment issues. For privatisation to become a success these issues have to be addressed properly.

7.5.6. The Competence and Experience of Decision-Makers

These claims were counter-argued by many voices that emphasised the competence of the existing management team at the head of the programme. According to these individuals, the existing team lacked neither the skills nor the experience needed for running the privatisation and liberalisation programme. In other words, management were competent and based their decisions on their own experience in the field as well as on the experience of other countries.

In this context the Vice-President Ground Operations, Saudi Arabian Airlines, stated:

I think the decision maker in the Saudi Airlines has enough experience to undertake this job. He has successfully privatised the telecommunications sector and is now working on the privatisation of the Saudi Airline. Of course he will make good use of his previous experience in telecoms but he also is guided by the studies conducted by leading experts in this field, and based on his experience and judgment, he chooses what suits the Saudi context from those studies (INT.11).

The legitimacy of the decision-making process is an important element in the acceptability of the judgements made by decision-makers and managers in public and private organisations. Having the necessary expertise is equally important for establishing such legitimacy, and for gaining support for the decisions that are made. This issue can be seen clearly during the implementation process, since unacceptable decisions are normally met with opposition and resistance on the part of the employees. The impact of this issue is rarely seen in the case of Saudi Arabian Airlines as employees regard the decisions made by the managers as legitimate.

Saudia's Senior Public Relations Specialist gave a more detailed explanation of the pillars of decision-making at Saudi Arabian Airlines:

The decision maker in Saudi Arabian Airlines has made his decisions about how to privatise, based on three main pillars: his previous experience in the telecommunications sector. He has a very successful record in the privatisation of Saudi telecoms and this I think was one of the main reasons that encouraged the government to give him the task of privatising Saudi Arabian Airlines in the hope that it will be a success too. The second pillar was the studies provided by the international experts and the management consultancy companies working in this field. Many of these studies of course draw on the state of the art in civil aviation privatisation and looked at the experience of civil aviation privatisation in different parts of the globe. The third pillar was the plans and policy guidelines published by the government which in my view acted as a road map for the decision makers in Saudi Arabian Airlines by showing them the landmarks they needed to work to achieve (INT.7).

Learning from other experiences is key in the decision-making process. Policy-makers in the Kingdom had studied the experiences of other countries and tried to learn from their mistakes and to avoid the shortcomings of their programmes. In this regard there was agreement among the interviewees that global experiences had been taken into consideration when decisions had been made about how to privatise and how to minimise the negative impacts of privatisation and liberalisation. Here are some examples of the viewpoints given by a number of employees on this issue:

I think it is quite important when you work in a sector such as civil aviation, which is by nature a global industry, to look at the experiences of other companies to see how they privatised their airlines. This is what the decision makers in the Saudi Arabia have done (INT.9).

The privatisation decision was taken as a strategic decision at the macroeconomic level aimed at improving the delivery of services to the

citizen and to increase the participation of the private sector in service provision. In doing so, decision makers at the Supreme Economic Council considered the global context and the experience of other countries in this regard. At the micro level and thinking about Saudi Airlines we should not undermine the wide personal experience of the chairman who was responsible at some point for the privatisation of the Saudi Telecoms sector. In addition, the decision maker had also taken account of the studies and reports presented by global consulting firms specialising in the aviation sector. Of course such studies included various recommendations based on experience and the lessons learned from other countries (INT.3).

The decision makers in the sector have taken account of the experience of the other countries and tried to learn from their mistakes and not to repeat them. Additionally, the studies provided by the consulting companies have also enlightened the decision-making process and informed decision-makers about global trends and the practicalities of liberalisation and privatisation processes in other countries (INT.1).

The Kingdom has looked at the experience of other countries particularly the UK with regard to how they applied their privatisation programmes and what the impact was of such applications. By doing this policy makers in the Kingdom were able to discover the shortcomings of these programmes and to learn from their mistakes. In addition, policy makers were also guided by studies provided by national and international experts that indicated the consequences of applying privatisation in specific sectors and the requirements for effective application (INT.13).

It can be understood from these comments that decisions about the liberalisation of the civil aviation sector in Saudi Arabia and the privatisation of the national carrier are not taken randomly, but are guided by the experiences of other countries, which is a positive thing. The reason for this is that examining other countries' experiences is useful for officials, who learn from the mistakes that have been made and can avoid repeating them while taking decisions about opening up the civil aviation sector and privatising the incumbent.

It is important to mention in this regard that while looking at the experiences of other countries, the Saudi decision- and policy-makers were not simply copying what happened in those countries, but were trying to adapt these experiences to the context of the Kingdom and choose from them aspects that were applicable in the Saudi environment. As the Director-General of the GACA Corporate Planning and Transformation Program (PMO) Manager in the General Authority of Civil Aviation stated:

It is good, I suppose, to look at the experience of other countries in the area of civil aviation privatisation so as to learn from their success and

to try to avoid their failures. But I think what is more important is to adjust these experiences to the local context and the ambitions of our country. We have received studies conducted by international experts and these studies helped the decision-makers to know about recent changes and trends in the field of civil aviation and to choose from these reforms what would suit the Kingdom (INT.10).

Consequently, decision-makers in Saudi Arabian Airlines had the necessary personal expertise, as well the support of international consultants who could provide the latest in the field of civil aviation; and overall they had the policy guidelines and blueprints of the Saudi government. There seem to have been some shortcomings with the implementation process but this is understandable, given the sensitive nature of the sector as one of the main transportation sectors in the Kingdom, and the huge size of Saudi Arabian Airlines and the social impact of its privatisation on its employees. In such a context, decision-makers at Saudi Arabian Airlines and policy-makers at higher levels wanted to make sure that any decisions they made and any steps they took were the correct ones.

7.6. Conclusion

This chapter discussed several critical issues in the process of liberalising the Saudi civil aviation sector and privatising Saudi Arabian Airlines. Following an overview of the civil aviation sector in the Kingdom of Saudi Arabia the main actors in the civil aviation market were quickly identified. The legal and regulatory environment of the reform process was explained and the role of the sector regulator, the General Authority of Civil Aviation (GACA), was discussed. The liberalisation and privatisation efforts of the Saudi Government were examined in detail in light of the strategies approved by the Saudi government. An evaluation of the overall experience in the light of the data collected from the interviews and other policy documents was provided to underline the main issues and concerns raised by the interviewees, along with their views on how to take things forward.

Analysis of the Saudi experience in relation to the privatisation and liberalisation of the civil aviation sector indicated that Saudi Arabia has been successful in achieving high levels of growth and massive progress in the field of civil aviation. Many important decisions have been taken by policy-makers to liberalise the sector and to introduce competition into the civil aviation market. The licensing of private operators between 2006 and 2007, as well the decision to separate civil aviation from the Ministry of Defence in 2011 were among the most important moves of the Saudi Government. In addition, the decision to invite new private

operators to apply for bids to operate flights on domestic and international routes was another important development on the path towards further liberalising the market. What was new this time was that GACA invited not only Saudi investors to bid but also invited international investors to do the same. This means that the market is now open for more competition from both within and outside the Kingdom.

In addition to market liberalisation, important steps have been taken in the way of privatisation and encouraging more involvement of the private sector in operating and modernising the aviation sector. It is worth mentioning here that Saudi policy-makers have adopted the broadest definition of privatisation. As well as selling the previous incumbent, Saudi Arabian Airlines, and transferring its ownership to the private sector, many infrastructure projects have been implemented in collaboration with the private sector in the form of Public Private Partnerships. The renovation of Saudi airports, in particular King Abdul Aziz International Airport, is an important example in this regard. The privatisation of the catering, cargo, and ground services in Saudi Arabian Airlines also encourages more participation of the private sector.

In spite of the ambitious plans of the Saudi Arabian government to modernise and liberalise the aviation system in the Kingdom in order to enhance the sector's overall economic efficiency and to improve the quality of services provided as well as widening the range of options available for consumers, the programme has faced many difficulties in the implementation stage. Analysis of the interviews as well as the other policy documents underlined several issues and concerns. The slow pace of implementation, the monopoly status of the previous incumbent, low levels of customer satisfaction, unfair competition in the market, the impact of privatisation on labour and the competence of the decision-makers are all concerns raised by stakeholders in the sector and need to be responded to by the government for the programme to be successfully implemented.

The previous theoretical and empirical discussions of the liberalisation and privatisation processes of the civil aviation sector in the Kingdom of Saudi Arabia set the stage for the concluding chapter of the study, which offers reflections on the theoretical issues discussed, and on the empirical findings of the research.

Chapter 8:

Conclusions and Policy Recommendations

The aim of this concluding chapter is to draw together the theoretical and empirical discussions of the thesis, to reflect on the major issues arising from these discussions, and consider how to respond to these issues from a policy perspective. Following a summary of the research project and a section discussing the limitations and difficulties of this study, a number of policy recommendations based on the main findings of the research are provided, in order to assist decision makers and policy makers in the Kingdom to respond to and to solve these issues. The chapter then reiterates the original contribution to knowledge made by this thesis and concludes by providing some directions for future research in the area of civil aviation privatisation and liberalisation, based upon the preliminary work conducted for this thesis.

8.1. Summary of the Research and its Major Findings

This study has focused on the privatisation and the liberalisation of the Saudi civil aviation sector as one of the country's most important infrastructure industries. The main research question concerned the extent to which the privatisation of the civil aviation industry in Saudi Arabia had achieved the claimed benefits of transferring public utilities into private ownership (see Chapter 1). To provide a comprehensive answer to this question, the project examined different theoretical and empirical issues. At the theoretical level, the study examined the nature of privatisation as a theoretical approach for reforming public sector organisations and its relationship with wider reform policies and modernisation paradigms, such as the new public management movement (Massey and Pyper 2005). The study also investigated the special features of privatisation programmes in infrastructure industries, as these differ from privatisation programmes in other sectors, such as the sector of state-owned enterprises. A major theoretical concern of the study was to illustrate the strategic factors that may or may not lead to the success of privatisation programmes in sectors such as civil aviation. At the empirical level, the project examined the case of the civil aviation sector in the Kingdom of Saudi Arabia in order to understand and underline the motivations of policy makers and draw the major contours of this experience. This investigation resulted in an in-depth analysis of the

civil aviation privatisation and liberalisation in the Kingdom, which enabled the researcher to identify the main issues and problems faced by the sector.

The project was divided into two main sections: theoretical and empirical. The aim of the theoretical section was to develop an analytical framework of the investigated subject in order to facilitate the empirical discussion of the Saudi civil aviation sector's liberalisation and privatisation. To this end, several theoretical, conceptual and analytic issues were explored and discussed. Based on a literature review of the academic work on the subject of privatisation, the different definitions of privatisation were outlined, as were the different forms that privatisation may take in practice (see Ramamurti, 1992, Guislain, 1997, Parker and Kirkpatrick 2003, Soyebó *et al*, 2001). This section of the study indicated that despite the growing experience of privatisation, there remain many concerns regarding the concept and its implementation in different cultural and political settings around the world. In this regard, scholars have not developed a universal definition of privatisation because of the differences of social, economic, political and legal contexts.

Reviewing the definitions of privatisation provided by scholars from different backgrounds and looking at the different categorisations of its forms, the study made a distinction between two major meanings of privatisation. The first meaning looks at privatisation from a narrow perspective as the sale of state assets in public enterprises to the private sector. This narrow meaning of privatisation was rejected in the context of this study on the grounds that it better suits the privatisation of state-owned enterprises and is not broad enough to cover the different forms of private sector participations in the processes of service provision in infrastructure industries. For these reasons, the researcher was more inclined to define privatisation in a broader sense to include all forms of private participation in service provision, since this wide definition can capture the different types and shapes of private involvements in the sector of civil aviation in the Kingdom.

The conceptual and theoretical discussions of privatisation also covered the relationship between privatisation and New Public Management. NPM has been perceived as a wider framework which includes liberalisation and privatisation as well as other policy instruments (Larbi, 1999, Bouckaert 2004). In other words, NPM has been regarded as a modernisation paradigm which provides different policy tools to improve the performance of public sector organisations. As such, it calls for new demarcations in the relations between public and private sector organisations. The new instruments, such as contracting out and privatisation, require new structures of relationships and a new distribution of responsibility between public

and private actors. The main role of government is to work as a buyer, and to decide which service or product is to be provided by the private actors, under what conditions, and with what level of quality. Many drivers have facilitated this shift in the role of governments and private sector organisations; some of them were ideological and focused on the supremacy of market mechanisms and private organisations and called for a retreat of the state from the economic arena while other motivations were purely practical and arose out of practical needs including the need to improve the poor record of public sector organisations as well as the need to respond to and to deal with the financial limitations and fiscal constraints of governments. The solution was to combine the best of both worlds by allowing private money and expertise to be involved in the government's business.

The review of the literature on privatisation also revealed that this topic has been investigated from economic, political, and social perspectives (see Bouin and Michalet 1991, Raymond 1991, Mariuz 1993, Boubakri and Cosset 1998). From an economic point of view, privatisation is claimed to have positive impacts with regard to cost efficiency and the productivity of privatised companies as private enterprises employ extensive research on production techniques and marketing strategies that directly affect production efficiency. Political accounts of privatisation emphasise that privatisation will lead to the de-politicization of management and will increase the accountability of public managers who are normally politically appointed to meet defined objectives rather than ensure profit maximization. The result of this is that in cases of unsatisfactory performance, these managers are not threatened with the sanction of dismissal. This is not the case under private management where managers are responsible for the results and the outcomes of their organisations and can be punished for poor performance. Because privatisation may negatively impact on employees in terms of salary levels and structures, working conditions and benefits, the issue is a major concern from a social perspective. The case study has been used widely to examine privatisation in different developed and developing contexts (Leroy, 1991; Charles, 1988).

This study has added to previous research in the area of privatisation by providing an Islamic perspective on this issue; this is one of its major contributions to the literature. The main goal of this section was to contribute to the development of the concept of privatisation and to reach a greater understanding of private ownership in the light of Shari'a law and Islamic tradition. To achieve this goal, the research examined the concept of privatisation from an

Islamic point of view. It investigated the meanings of different forms of ownership in Islam as well as the role of the state in the economy and its relationship with private parties.

The discussion of privatisation from an Islamic point of view indicated that there is an agreement between religious scholars that if it is absolutely necessary that it be done, it must be done in accordance with Islamic law. Islamic rules recognise both public and private ownership (Al-Khatib 2001). Added to this, Islam has encouraged and protected private ownership and put in place regulations for making sure that benefits are distributed equally among Muslims. Therefore, it can be concluded in this regard that Islam does not reject the notion of privatisation entirely; on the contrary, Islam recognises and supports privatisation when it contributes to the development of the economic role of the state. This conclusion implies that the state should focus on core tasks and leave the other tasks to the private sector. In other words, instead of establishing economic projects and providing services to citizens, the state must focus on the duties that the private sector cannot perform, and leave other economic activities to the private sector (Al-Simadi, 2004).

Regarding the possibility of transforming public ownership to private ownership, the discussions showed that there is no agreement between scholars on whether the state has the right to privatise public organisations especially when those organizations are being run according to Shari'a law. Responses to this question and views of the issue vary between those who deny the possibility of transforming public ownership to private ownership and those who would allow such a transformation in certain areas and under specific conditions (see Sabri 2000). The opponents of the transformation of public ownership to the private sector support their position by claiming that looking at the functions of the Islamic state in the economy, the state should not transfer public ownership to private ownership according to Islamic tradition, as profits from these public projects must be shared with the people. Consequently, that group of scholars either support an outright rejection of some of the broad concepts of privatisation, including forbidding the leasing or sale of oil fields, phosphate and potassium mines, roads, the sea, and rivers to the people, or they may allow some forms subject to many reservations and conditions. Additionally, the opponents of privatisation suggest that industries such as petrochemicals, natural gas, electricity, water, telecommunications, and other strategic industries should remain under public ownership (Shehata 2000).

The in-depth analysis of these arguments reveals a strong rationale for opposing the transferring of public ownership to the private sector. The state, according to Islamic

traditions, has an obligation to secure the supply of basic services to people in society and to protect the Islamic Umma from any harm that might be caused by selling public projects to private investors who may come from the 'enemy camp'. However, looking carefully at what this group of scholars rejects, we notice that they do not reject the whole idea of the private sector's involvement in service provision, but they argue against the sale of state assets, particularly in the strategic sectors. As such, Muslim scholars and Islamic institutions, including the Council of the International Islamic Fiqh (part of the Organisation of Islamic Cooperation), legitimise forms, such as BOT and BOOT projects (The Council of the International Islamic Fiqh 2009).

The discussion of privatisation from an Islamic perspective concluded that Islam recognises and legitimises both public and private ownership. However, Shari'a law puts some restrictions on the process of transferring public ownership, particularly the transference of sensitive and strategic industries, to the private sector. Generally speaking, the transfer, or the marginalisation or withdrawal of the state, should not harm society in any way. The state is the protector of the needy and the poor in society, and the guardian of public interests in general. The state practises this role in modern society under what is known as its regulatory role. As a regulator, the state has to make sure that all negative side effects associated with privatisation are mitigated. The best way to conclude this is with the wisdom of Prophet Mohammed, who summarised all these meanings and principles in the following few words: "no harm and no reciprocated harm" (see Al-Jabiry, 2005).

The theory and practice of privatisation in the infrastructure industry was investigated, explained and linked to the concrete experiences of countries where these theoretical accounts have been empirically tested. In order to bridge the gap between theory and practice in the civil aviation sector, three case studies of liberalisation and privatisation in the civil aviation sector were examined. The first case study was the UK experience of the privatisation of British Airways. This case was selected because it is regarded as a success story, and it therefore has many implications for civil aviation privatisation in a number of developing countries, such as Kenya and states in the Gulf area (see Grugulis and Wilkinson 2001). Another reason for choosing the UK example was the fact that the UK represents the case of developed countries. For a comparison to be conducted, the experience of developed countries such as the UK should be contrasted with the experience of developing countries.

In addition to the UK example, the Kenyan case study was chosen to represent the case of developing countries; it is another success story which has been built on the UK model of

privatisation and liberalisation (see Massey, 2010; Debrah and Toroitich 2005). As a way to introduce the detailed case study of civil aviation in the Kingdom of Saudi Arabia and to explore whether there are particular elements which are unique to the Gulf area when compared with the Kenyan and British case studies, an overview of civil aviation markets in the Gulf region was also introduced which included a discussion of the processes of civil aviation liberalisation and privatisation in Kuwait, United Arab Emirates, Oman, Bahrain, and Qatar.

The comparative perspective adopted for this section of the study was very helpful in underlining the similarities and differences among the experiences of the countries studied. The comparison of the selected case studies indicated that there are also many similarities between the case studies. For example, in all these countries, civil aviation was owned and managed by the state as one of the major infrastructure industries. This situation changed at different historical points when national governments for different reasons decided that this sector would work more efficiently under private ownership. At the operational level, the losses made by publicly-owned airlines and the poor performance of the civil aviation sectors in terms of the poor quality of services provided, formed the basis for a strong argument in favour of privatisation and private ownership. Added to that and from a financial point of view, the increasing pressures on public budgets as well as the inadequate funds available to finance investments in civil aviation sectors were strong drivers for the privatisation decision. In this context, it was argued that national airlines would gain from privatisation by having access to private capital markets. Poor management skills and the lack of expertise in crucial areas, such as marketing and customer relations, have also motivated privatisation decisions (Oyieke, 2002).

In spite of these strong arguments for privatisation, this policy was not always welcomed in the countries studied as various groups opposed the liberalisation and the privatisation of national airlines on the grounds that there was no relationship between type of ownership (public/private) and performance. Thus the record of privatisation of civil aviation in different countries shows different and mixed results. For example, in Canada, despite public ownership of the civil aviation industry, the performance of this sector was relatively better in comparison with other privately-owned airlines (Giaume 2006). Despite the rationale behind this argument, the final triumph in countries such as Kenya was for those who were in favour of more liberalisation and more involvement of the private sector in service provision and ownership.

Focusing on the procedures followed by the countries studied to open up their civil aviation markets and to encourage more involvement of the private sector, the comparison indicated that there was a high level of similarity among them. Many elements of the UK experience were replicated in the experiences of Kenya and the GCC countries. Generally speaking, opening up the civil aviation sectors in these cases was associated with the creation of a regulatory framework. According to this framework, regulators were responsible for managing the transition period, and for organising competition in liberalised markets. With regard to the privatisation of a previous incumbent, national airlines are most likely to go through a two-phase process. The first stage is that of commercialisation, in which national governments attempt to improve the profitability of airline companies and transform them from loss-making enterprises to profit-making centres by restructuring airlines while changing the management and employing new managerial techniques borrowed from the private sector. Improving the profitability of national airlines through commercialisation is regarded as a starting point for the subsequent process, which is the sale of the company to private investors. The similarities between the investigated cases should not lead to the conclusion that there are no differences among them. Conversely, variables of time and context resulted in differences in the application of the various stages. For example, looking at the political systems in these cases, it can be seen that the cases represent countries with different levels of democracy. On the one hand, there is the UK experience, which represents a long-standing democratic country with high values of accountability, transparency, and participation in decision-making while, on the other hand, there are more autocratic countries with less emphasis on these values and perhaps higher levels of corruption (see Massey 2010). Added to this, the gap in time between the UK as a leading model and the other countries which followed the same model can be regarded as another factor in explaining the difference in application and implementation. In other words, those countries that followed the UK model had had the chance to learn from the experience of implementation in the UK and so were able to avoid repeating the same mistakes. Finally, we should also understand that not all cases joined the liberalisation process at the same time. Latecomers, such as the Gulf countries, can be expected to have less mature civil aviation markets compared to those countries which have already been following this route for a long time.

8.1.1. Civil aviation liberalisation and privatisation in Saudi Arabia

The theoretical and conceptual discussion of the major issues in the liberalisation and privatisation of infrastructure industries formed the departure point for an in-depth

examination and analysis of the case of the civil aviation sector in the Kingdom of Saudi Arabia. The empirical discussions began with an overview of the economic, social, political and legal frameworks in the Kingdom. The main political actors and policy makers in the area of privatisation were identified and their roles and obligations discussed. The main indicators of the Saudi economy were highlighted as well as the legal and regulatory framework. A detailed discussion of the Saudi privatisation programme was also provided in order to introduce the detailed case study of the privatisation of the civil aviation sector and to provide an understanding of the issues discussed in their wider context. Such an understanding is crucial in reflecting on the reasons for success or failure.

Reviewing the legal and regulatory frameworks in the Kingdom of Saudi Arabia illustrated that the private sector was an integrated component in all developmental plans as reflected in the Saudi Arabian strategy for privatisation (Akoum 2009). The Saudi government has developed various approaches and methods (including providing private companies with technical aid, exemption from customs fees, and land and services), in order to encourage private investors to invest in improving and modernising public projects or creating new ones. The legal and regulatory systems have also been improved by establishing detailed company regulations and the Saudi Tax Code. Prior to the introduction of gradual privatisation in selected areas, mostly via contract management, the Saudi government also took important steps to develop the Saudi stock market as well as the national banks.

These legal and regulatory reforms by the Saudi government were crucial in order to establish a suitable environment for private-sector operations in Saudi Arabia and to develop the Saudi private sector sufficiently. The preferred format of private sector participation from the viewpoint of Saudi officials was the Public Private Partnership projects. These were created in order to modernise critical industries and to provide the private companies with financial support and protection, measures that were regarded as necessary actions to secure the future growth and profitability of joint projects with private companies. In spite of the availability of the enabling factors identified and discussed above, and despite the efforts of the Saudi government to create a suitable and encouraging environment for the participation of the private sector, implementation of the privatisation programme was faced with different social and technical obstacles, as discussed in the context of the civil aviation sector in the Kingdom.

An analytical chapter was devoted to looking at several critical issues arising during the process of liberalising the Saudi civil aviation sector and the privatisation of Saudi Arabian

Airlines. The chapter provided an evaluation of the overall experience in light of the data collected from the elite interviews and other policy documents. In the light of this overview, the main issues and concerns raised by the interviewees, in addition to their views on how to take things forward, were underlined. An overview of the civil aviation sector in the Kingdom of Saudi Arabia was first provided, which highlighted the main actors in the civil aviation market. The legal and regulatory environment of the reform process was explained and the role of the sector regulator, namely, the General Authority of Civil Aviation (GACA), was discussed. The liberalisation and privatisation efforts by the Saudi government were then examined in detail on the basis of the strategies approved by the Saudi government.

The analysis of these critical issues led to the general conclusion that Saudi Arabia has succeeded in achieving a high level of growth and massive advances in the field of civil aviation. The civil aviation sector has been successfully liberalised, thanks to the decisions taken by the Saudi policy makers to introduce competition in the civil aviation market. Two main decisions can be seen as milestones along the route of liberalising the aviation industry: the first was the decision in 2006-2007 to license private operators, and the second was the decision in 2011 to separate civil aviation from the Ministry of Defence (<http://news.airwise.com>). These were among the most important steps taken by the Saudi government. These two decisions have been crowned by the very recent invitation by the Saudi government for new private operators to apply for bids to operate flights on domestic and international routes. This move has been regarded by many analysts as a crucial step towards 'open skies' arrangements, and to more competition in the market from within and outside the Kingdom, especially as the GACA, this time, not only invited Saudi investors to apply for the bid but also invited international investors to apply.

The Saudi government has also done well on the privatisation front, with the Saudi policy makers taking important decisions to privatise the national carrier and to encourage more involvement of the private sector in service provision as well as the modernisation of the civil aviation infrastructure. The analysis of the interviews revealed, in this regard, that the broad meaning of privatisation as adopted in this study, was more appealing to the Saudi policy makers. In other words, they did not view privatisation only in terms of selling the previous incumbent, namely, Saudi Arabian Airlines, and transferring its ownership to the private sector; they also considered other forms of private sector participation in the form of public private partnerships. The analysis and the discussions also indicated that the renovation of Saudi airports, in particular King Abdul Aziz International Airport, as well as the privatisation

of the catering, cargo, and ground services in Saudi Arabian Airlines were important steps and successful examples for encouraging more participation of the private sector in service provision and infrastructure modernisation (www.jed-airport.com).

The success indicators mentioned above should not lead to the conclusion that the privatisation and liberalisation programme in the Kingdom is perfect. Like other large policy programmes, even in developed countries, the implementation of the privatisation and liberalisation of civil aviation in the Kingdom faces a number of problems that need to be solved in order to modernise and liberalise the aviation system. Dealing effectively with these issues should enhance the sector's overall economic efficiency and improve the quality of the services offered. Solving these problems is also expected to widen the range of options available for consumers, which should lead to more customer satisfaction. Among the most crucial issues underlined in the interviews and the policy documents were the slow pace of implementation, the monopoly status of the previous incumbent, low levels of customer satisfaction, unfair competition in the market, the impact of privatisation on labour and the competence of the decision makers. For the programme to be successfully implemented, the government needs to respond to all these concerns mentioned by stakeholders in the various sectors. In the following section, the study offers some policy recommendations which may help in dealing with issues and solving these problems.

8.2. Contributions and Limitations of the Study

This study has contributed to the existing literature on civil aviation liberalisation and privatisation on various grounds. The section briefly highlights the different contributions of the study as well as the limitations and difficulties faced by the researcher. First, the research has contributed to this challenging field by examining in depth and describing fully the experience of the civil aviation sector in the Kingdom of Saudi Arabia. While many scholars have studied this subject in the context of European and western countries generally (Kort and Kluiters 2003; Shibata 1994; Helterlin and Ramalho 2007), fewer studies have been devoted to examining the privatisation and liberalisation processes in this important sector in the Arab world. As far as I know, this research is one of the few in the context of Saudi Arabia to have considered fully and examined in-depth the privatisation and liberalisation efforts in the sector of civil aviation. In this regard, the study has provided a wide-ranging description of the current status of the sector, as well as analytical insights into the most important and critical

issues highlighted during the interviews with the stakeholders, and the review of the academic literature.

As such, the material provided in this research can inform other researchers about the process of liberalisation and privatisation of civil aviation in the Kingdom of Saudi Arabia, which in many respects is similar to the experience in other Arab and Gulf countries. The material presented in this work may also be of use to policy makers and government officials in the Kingdom of Saudi Arabia itself. With its in-depth analysis of the civil aviation sector in the Kingdom, and guided by the experience of other countries, the study provides policy recommendations that policy makers, air company managers, regulators, and other stakeholders in the civil aviation sector in Saudi Arabia and elsewhere might well find useful.

Another contribution of this research is represented by the conceptualisation and theorisation of the concept of privatisation from an Islamic point of view. For many scholars, the Islamic position on privatisation is not clear. Given the Islamic nature of the Kingdom of Saudi Arabia, it was helpful to clarify this issue in order to find whether in Islamic states, the perceptions of privatisation and the implementation process differ from those in other parts of the world. This led to the discussion of the nature of ownership in Islam, as well as the role of the state as a protector of the society alongside many other issues regarding private ownership and the possibility of transferring public organisations and projects to the private sector. The conditions under which the privatisation of public projects may take place were explained from an Islamic perspective using verses from the Qur'an and from the Hadith of the Prophet Mohammed. The different views presented by Islamic scholars on these issues were discussed and it was concluded that there is no contradiction between Islamic teachings and private ownership in general, and the transformation of public ownership to the private sector in particular. This conclusion may enlighten those who are interested in applications of reform models and modernisation processes from a comparative perspective. It can also add a new perspective to the existing research in this area.

Based on analysis of the notion of privatisation and the nature of ownership in Islam it is clearly possible to claim that there is no contradiction between Islamic rules and private ownership. Contrary to what people might think about Islam, Islamic teachings have encouraged and protected private ownership. In some cases Islamic laws have put certain restrictions on the manner in which privatisation processes may be undertaken and the methods according to which public ownership can be transferred to the private sector;

however this is also the case in many countries with what is called strategic sectors. By emphasising the harmony between Islamic rules and privatisation, the study contributes to the existing research by clarifying and correcting any misunderstanding in this regard.

Regarding the limitations of the study, it is worth mentioning that at the methodological level, it would be difficult to generalise many of the findings and results in this study to the liberalisation and privatisation of civil aviation in another country. The main reason for this is that the research used the single case study approach to examine the process of civil aviation privatisation and liberalisation in the Kingdom of Saudi Arabia. In this context, the results cannot be generalised, but there is still a possibility for decision and policy makers in other countries to learn lessons from studying the Saudi case. There is also a possibility of expanding the research at a later stage to include more cases from the Gulf area and to turn the study into a comparative research, that would enhance the ability to generalise the results.

The example of competition is a useful way to illustrate how the results of this study may benefit research in other areas. Having a well-developed competition framework is important for infrastructural industries including civil aviation. Because of the dominant power of previous incumbents, the new private companies will be unable to compete unless there is a framework for competition that will help in minimising the impact of incumbents and provide a level playing field for all other players. Analysis of the civil aviation sector in Saudi Arabia has indicated particular concerns in this regard; however, the results and conclusions about competition in this study could also be applicable to other industries. Other matters, such as the competency of the regulatory agency, and the relationships between the regulator and the regulated industries, are all issues that are likely to be similar in all infrastructure industries; therefore the results of this study may be useful to policy-makers and scholars in this area.

Another limitation of this study is related to the data collection methods, particularly the interviews. The researcher made every effort to conduct interviews with as many stakeholders as possible within the time constraints and with the resources available. The preparation, as well as the process, of conducting interviews was not easy. In many cases, meeting up with targeted interviewees was not easy because of the nature of their positions and professional commitments, with many being senior officials in their organisations; on many occasions, the dates of interviews had to be changed to fit their busy schedules and some even had to be cancelled completely. There is no doubt that more interviews with a larger number of stakeholders would have improved the quality of this work, but again, the best was done within the allocated timeframe and resources.

8.3. Discussion and Policy Recommendations

This section reflects on the major issues raised during the theoretical and empirical analysis of the subject studied, in order to suggest some policy options to deal with the issues identified as most pressing by stakeholders during the interviews, and those resulting from the analysis of other policy documents. It is worth mentioning here that the experience of privatisation and liberalisation in the field of civil aviation is a novel experience in the Kingdom. Since the initial stages, many important steps have been taken to open up the market and to introduce competition. In addition, the Saudi government has also taken important decisions to privatise the previous national carrier and incumbent in the sector as well as encouraging more participation of the private sector in service provision generally and improving the sector's infrastructure in particular.

With respect to the liberalisation of the civil aviation sector, different steps have been taken to abolish the barriers to entering the Saudi market. This has led to the introduction of competition that has in turn resulted in better services to the customers. This was very obvious after the conclusion of the liberalisation agreement between Saudi Arabia and Egypt. These agreements help in reducing and abolishing market entry barriers and restrictions on prices. They also help to reduce operational restrictions, such as flight quotas, and encourage more competition among service providers.

The positive impacts of liberalisation could be further enhanced and sustained through more steps towards market liberalisation and increased involvement of the private sector. The aviation market in the Kingdom can accommodate more private companies and has not yet reached maximum capacity. Therefore, it is recommended that Saudi decision makers should elect to introduce more competition into the market by issuing new licences for private companies to operate alongside those currently present. Given that the civil aviation sector is controlled by international agreements and bilateral accords between countries, these agreements need to be considered when a country is about to liberalise its aviation sector, to make sure that there is no contradiction between international regulations and the new contracts with the private investors. This recommendation is expected to have positive impacts, particularly on customer satisfaction. On the one hand, customers will have more choices and can place their custom where they like and choose the company with the best services. On the other hand, competition among the service providers is expected to push them to provide the best of their services and to respond to the demands of their customers. In

this case, it is a win-win situation, where all parties can benefit from more liberalisation of the market. As one of the interviewees explained:

We would love to see more private airlines competing for the satisfaction of their customers because this would push all of them to improve their services and would push Saudi Airlines too to do the same. The end winner in this case would be the consumer, who would receive better quality of services and reasonable and competitive prices (INT.17).

What can be understood from this comment is that operators in the Saudi market for civil aviation make a distinction between two levels of competition: that among the new private companies that joined the market after the liberalisation, and that between the new private operators and the previous incumbent, Saudi Arabian Airlines. Fair competition at both levels is required for more effective and efficient operation in the market. A good and fully-elaborated competition framework, which clearly explains the ground rules for all players, is of fundamental importance. However, the existence of the competition framework is not an end in itself. It is needed to make sure that all market players are competing fairly, and that none of them enjoys a monopolistic position which might affect the ability of the other service providers to compete for customers. In other words, what is needed is a good framework for competition as well as good implementation and monitoring of this framework by the sector regulator.

The role of the GACA in monitoring fair play by all actors is crucial to the success of the liberalisation process. It is important in this regard that the GACA enhances and sustains its impartiality as a sector regulator and makes sure that all other players perceive the role played by the authority as being neutral and not supporting one player against the others. The interviewees highlighted some concerns regarding the close relationship between the GACA and the previous incumbent, Saudi Arabian Airlines. Many of these concerns were related to the special treatment that the airline received from the regulator. In their view, this special treatment resulted in unfair competition in the market. A gigantic company such as Saudi Arabian Airlines, with more than 60 years of experience in the aviation market, does not represent easy competition. With the added support of the regulator and the subsidies provided to the previous incumbent, the competition is becoming even harder. As reported by one of the officials in Saudi Arabian Airlines:

Opening up the Saudi market for civil aviation will definitely lead to more competition between the new entrants and the incumbent, Saudi

Airlines. However, it would not be true to say any of these newcomers threaten the previous incumbent (INT.3).

It would appear from this comment that, despite the introduction of competition in the Saudi civil aviation market, the previous incumbent still feels safe and that its position in the Saudi market for civil aviation remains untouched. It does not see the new private entrants as a threat, something that could have severe consequences for competition in the market. Unless the situation changes, many of the opportunities for success in the Saudi market for civil aviation could be lost. In other words, there is much potential for success in the Saudi civil aviation market, but because of this unfair competition and other bureaucratic restrictions and obstacles, it is probable that the consequences for the newly-established private companies would not be positive.

What private operators regarded as special treatment for the previous incumbent was justified by officials in the regulatory agency on the grounds that because of its previous obligations to provide airline services to geographically remote areas that are not viable from an economic point of view, and for the sake of ensuring the service's universality and the reach of flights to such unattractive places in which private investors may refuse to invest, the GACA provides some support to Saudi Arabian Airlines to help the company continue providing these services. The other option would be to abolish these services, given the lack of interest from the private investors as well as the economic incentive from the incumbent. For Saudi Arabian Airlines to run on a commercial basis, the company should either be freed from its previous universal service obligations or be given some support by the government, represented by the sector regulator, to continue providing these services.

These two lines of debate can be understood perfectly and both arguments make sense if the issue is viewed from each party's perspective. However, it is recommended in this regard that more communication channels between the regulatory agency and the private operators be established, in order to communicate effectively the messages and information from the regulatory agency on the one side and the private operators on the other, and from the private operators to the regulator. By establishing such channels, the logic behind regulatory decisions could be easily communicated to the other parties, and if there were any concerns regarding these such decisions that might affect the performance of the private operators, they could be fed back to the regulator. The way in which the GACA dealt with such feedback would be crucial in building confidence with private operators and would enhance the image of the regulatory agency as an impartial and neutral body. In other words, private operators

should feel that their voices are heard and that the regulatory agency is responsive to their demands. In this context, the GACA has a difficult task to perform, as it has to balance the level of responsiveness with the danger of being captured by the interests of the regulated parties.

Added to the trust-building arrangements between the regulator and the private investors, more liberalisation of the market and more involvement of the private sector should have a positive impact on the image of the GACA and lead to a more neutral perception of the role it plays. For example, in addition to issuing more licences to private companies, liberalising prices could be another strategy to reassure private investors and make them feel that the GACA is not biased towards Saudi Arabian Airlines. This will lead to better competition between private companies and Saudi Arabian Airlines. In addition, improving competition in this area will improve the overall performance of the private carriers as well as the national carrier. This also will lead to the success of the programme.

Regarding the privatisation of Saudi Arabian Airlines, it can be noticed that although it might be too early to judge the success of the privatisation process in the civil aviation sector in general and of the national carrier in particular, reports from privatised activities such as catering, cargo and ground services indicate improvements at different levels. It is worth mentioning in this regard that the overall impression regarding Saudi Arabian Airlines is that it is a huge company that cannot be fully privatised all at once. As one of the interviewees put it “Saudi Arabian Airlines has been working for almost 60 years and it is not easy to move such a huge company to privatisation quickly, especially if we consider the number of employees” (INT.22).

This argument is fully understood and I agree with it in part. It is perfectly understood that Saudi Arabian Airlines is a big company and includes more than just the services they provide in the aviation field. Therefore, it is understandable that the privatisation process of such a huge entity will not go smoothly, and some ups and downs are to be expected. I also agree with the adoption of a gradual approach for the privatisation of the company being preferred by decision makers in Saudi Arabian Airlines. They started by privatising specific units, such as the catering and the cargo sections in collaboration with a local strategic investor. In the future, more units are expected to be privatised. However, these issues should not be taken as an excuse for the slow pace of implementing the programme.

The experience so far illustrates different signs of success. Saudi Arabian Airlines enjoys more freedom at the moment in the way it uses the resources available to generate revenues. For example, after privatisation, the management team took many decisions that helped generate more revenues for the company. Saudi Arabian Airlines possesses wide tracts of land that have been given to private investors to exploit, but the company still has the ownership rights to these lands. By doing this, Saudi Arabian Airlines has generated new revenues instead of depending totally on the money and resources given to it by the government. Furthermore, many benefits have been achieved in the privatised units. It obvious now how free these units are when it comes to the decision-making process and the way they produce and use their resources. Compared to the pre-privatisation era, one can see a lot of dynamism and much freedom in the way the privatised units function. Having these strategic units has also encouraged these businesses to think in the same way as private investors. They also incentivise them to follow the same approaches for profit making followed by the private sector, and to run their businesses on a commercial basis. The end result is improved performance and more net profits for these strategic units. In addition, more job opportunities have been created thanks to the new projects with the private sector and the commercial traffic at airports has improved.

The plan to transform the national airports into strategic units with each being run and managed by a specific company is another landmark on the privatisation route. This step will make the Saudi airports self-dependent and will improve the safety and the quality of the services provided. Therefore, more high quality services to customers and more competitive markets are expected to be achieved. Furthermore, transforming the airports into strategic units will help improve the management of these airports as well as speeding the accomplishments of many projects. These airports will be opened to different forms of private finance, which will improve their abilities to build up new projects and to improve the existing ones.

In spite of the above mentioned benefits, it obvious that the implementation of the programme is slow. Decision makers in Saudi Arabian Airlines have implementation plans for the privatisation programme, but rather than speed things up, they want to proceed in the right direction to make sure that the experience will reflect a success story. In their view, making sure that everything is on the right track is better than rushing things and then spending more time correcting the mistakes. In other words, a slow and successful implementation is better than a quick implementation accompanied by many shortcomings. The delay in the

implementation, as noted above, is basically because of the size of Saudi Arabian Airlines. The company has more than 68 global stations as well as many regional offices. An entity of such size and complexity cannot be privatised as quickly as some people may think. However, while understanding this line of argument, I still think that speeding up the implementation of the privatisation of Saudi Arabian Airlines will benefit the whole sector. Based on the results achieved so far, more private sector involvement in service provision and more competition in the market will result in more economically effective and efficient services, better quality of provided services, and finally, more customer satisfaction.

In conclusion, the experience of private airlines is relatively new to the Saudi market and private companies are yet to gain the trust of the Saudi people. However, with some support from the government and policy makers, it could very easily become a success story. The aviation sector is a promising one. The overall privatisation and liberalisation programme should receive support from policy makers as well as other national bodies. In other words, if private investors can get some support from other institutions, including banks, this will strengthen their position. Unfortunately, though, the national banks do not want to be involved, and this was one of the major reasons behind the collapse of one of the private airlines. The privatisation of Saudi Arabian Airlines is an important step towards improving the performance of the company and reducing its dependence on the public treasury. From the reports I have seen so far, I can see many indicators of success, and I am sure the future holds even more success. The argument for speedier privatisation of the national carrier and more involvement of the private sector should be supplemented by another assertion on the importance of the good management of the programme. Capable and successful management is an important factor for the success of the programme. Capacities need to be built in areas where public companies such as Saudi Arabian Airlines lack such capacities. Areas such as marketing, financial management, and human resources all need to be improved. Finally, the major criterion for success, as I see it, is to create more opportunities for private companies to operate in a truly competitive environment.

8.4. Directions for Future Research

This study has covered different issues related to the privatisation and liberalisation of the civil aviation sector in the Kingdom of Saudi Arabia. Given the time constraints on the researcher and the limited resources available, the researcher acknowledges that there are

even more interesting and complementary issues worthy of further investigation and research. One of these areas is the impact of the recent steps taken by the government to encourage more private participation in service provisions. Very recently, the Saudi government invited private operators to bid for new licences. This decision was really important for different reasons. First, it emphasised the commitments made by the Saudi government and the GACA to liberalise the market further and to open it up for more competition. Secondly, for the first time since the beginning of the liberalisation process, the Saudi government invited investors from outside Saudi Arabia to bid for the licence. These efforts by the government towards more liberalisation are expected to have a considerable impact on the existing private operators and on the market structure. It would be very interesting to investigate this issue in order to consider its impacts on the competition among service providers on the one hand and on customer satisfaction on the other.

Another interesting issue that requires further research and examination is the privatisation of Saudi Arabian Airlines. As the study has indicated in several contexts, the process of privatisation is relatively slow and different plans have been put forward; however, for the reasons explained in the analytical chapter, none of them has been fully implemented. For that reason, it would be worth following up the implementation process and the potential impact of the full privatisation of Saudi Arabian Airlines, first on the internal governance of the company and the way in which the company handles its own affairs and, secondly, on competition between Saudi Arabian Airlines and other private companies working in the civil aviation market. Another interesting topic to be examined in this regard is the relationship between ownership and performance. Conducting a comparison between the performance of Saudi Arabian Airlines before and after the privatisation of the company could provide an answer to the long debated question about public and private ownership and its impact on the company's performance.

APPENDIX 1: Interview Questions Guide

Dear Sir,

This is a guide to the interview questions I am seeking to put to you, in order to assess the experience of the liberalisation and privatisation of the civil aviation sector in the Kingdom of Saudi Arabia. I would like to assure you that all your details and responses will be kept confidential and all information will be anonymized in any report arising from this study. This interview will take no more than one hour and your cooperation will help a lot in carrying out the enquiry.

- 1- In the literature there are different definitions of privatisation, which one did you choose to describe the Saudi experience?
- 2- Do you think there are any particularities of this concept in the Saudi context?
- 3- Do you think this meaning of privatisation changed with respect to the civil aviation industry?
- 4- The experience of civil aviation liberalisation in other countries highlights different approaches; the gradual and the radical approach for liberalization, which one best describes the Saudi case? Why?
- 5- In your opinion did the Saudi decision makers consider the experience of other countries? Which one precisely and in which aspects?
- 6- What do you think are the benefits of opening this vital sector to the participation of the private sector?
- 7- Are there any shortcomings for the liberalization process?
- 8- How do think the privatisation of the Saudi Airlines will affect the employees of the company?
- 9- Do you have plans to deal with negative side effects of privatisation on the labour?
- 10- How successful is the Authority for civil aviation in managing the newly liberalised market.
- 11- From the experience so far what do think went well and what areas can be improved in the future liberalization of the other sub sectors?
- 12- How do you think the Islamic legal framework of the Saudi state affect the decision of liberalisation and privatisation of civil aviatiions?
- 13- Do you think there might be a contradiction between these two aspects (privatisation and Islam)?

14- How successful do you think is the industry after the privatisation and regulation of the sector? In terms of (Profits, economic efficiency, customer services, consumer protection).

15- Have you developed plans to deal with the negative side effects of privatisation?

APPENDIX 2: Certificate of Ethical Approval



SCHOOL OF HUMANITIES
AND SOCIAL SCIENCES
incorporating the Institute of Arab and Islamic Studies

SCHOOL OFFICE
Amory Building
Rennes Drive
Exeter
UK EX4 4RJ

Telephone +44 (0)1392 263301
Fax +44 (0)1392 263305
Email huss-schooloffice@exeter.ac.uk
Web www.exeter.ac.uk/huss

CERTIFICATE OF ETHICAL APPROVAL

School/Academic Unit:

Department of Politics, School of Humanities and Social Sciences,
University of Exeter

Title of Project:

Civil Aviation Policy and Privatisation in the Kingdom of Saudi Arabia

Name(s)/Title of Project Research Team Member(s):

Abdullah Alotaibi

Project Contact Point:

Email: ada203@ex.ac.uk

Brief Description of Project:

This study will examine to what extent the privatisation of civil aviation industry in Saudi Arabia has achieved the claimed benefits of transforming public utilities into private ownership.

This project has been approved for the period

From: November 2009

To: October 2010

School Ethics Committee approval reference: 30.10.09/v

Signature... *H. Farrimond* Date... *8th Dec '09*
(Hannah Farrimond – Chair HUSS School Ethics Committee)

APPENDIX 3: List of Interviews

Interview	Position	Date
1	G.M. Public Relation and Media. Official Speaker General Authority of Civil Aviation (GACA).	1-8-10
2	Director, Bilateral and Int'l Agreements/GACA	1-8-10
3	EVP Privatisation/ Saudi Arabian Airlines.	20-7-10
4	President of the Board of Directors Alwafeer Air.	12-9-10
5	Head of Transport Sector/ Ministry of Economy and Planning	25-9-10
6	Chief of safety Coordination, Analysis & Training Quality Assurance Dept. For Domestic Airports./GACA	20-7-10
7	Senior Specialist Public Relations/ Saudi Airlines	20-7-10
8	Executive Vice-President CARGO/ Saudi Airlines.	21-7-10
9	Director of Public Relations for Media Production/ Saudi Airlines.	20-7-10
10	Director General Corporate Planning Transformation Program (PMO) Manager/GACA.	1-8-10
11	Vice President Ground Operation Saudi Airlines	20-7-10
12	Alhayat newspaper General Manager Editorial- Saudi & Gulf States.	26-9-10
13	Ministers of Economy Advisor/ Ministry of Economy and Planning	27-9-10
14	Number of Employees from Saudi Arabian Airlines.	2-8-10
15	Planning & Development Director/ Institute of Public Administration.	27-9-10
16	Al-Eqtisadiyah newspaper Editor-in-Chief	26-9-10
17	Chief Executive officer NAS Holding (CEO). Fly NAS	28-9-10
18	Director of Research & Studies Dept. Supervisor of Regional Planning Dept./ Ministry of Economy and Planning	25-9-10
19	Member of Committee Deputy Chairman/ Saudi Arabia	25-7-10
20	Member of Committee Deputy Chairman/ Saudi Arabia.	17-8-10
21	Director of Marketing/ Fly Sama	27-9-10
22	General Manager Government Sales	28-9-10
23	Number of Employees from Saudi Arabian Airlines.	2-8-10
24	Vice Minister of Economy & Planning	27-9-10
25	Legal Consultant	2-8-10

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