

To Privatize or Not to Privatize, that is the Question: State of Aviation Industry in Pakistan

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‘Unless you become more watchful in your states and check the spirit of monopoly and thirst for exclusive privileges, you will in the end find that... the control over your dearest interests has passed into the hands of these corporations. ‘

Andrew Jackson, Former US President
Farewell Address, March 4, 1837

Why liberalize?

- To promote competition
- To enhance economic efficiency
- To facilitate trade and globalization
- To protect consumers from anti-competitive behaviour
- To provide better quality goods and services at lower costs
- To generate employment and economic growth
- To promote broad development objectives
- To meet growing demand that incumbent cannot meet
- To reduce incumbent's inefficiencies and to make it competitive

History of Aviation in Pakistan

- **1946:** Orient Airways formed
- **1955:** The state-run airline, Pakistan International Airlines (PIA), formed and merged into Orient Airways
- **1960:** Civil Aviation Ordinance, primary aviation legislation in Pakistan, established
- **1982:** Civil Aviation Authority instituted to handle civil aviation matters in Pakistan
- **1992:** Deregulation & entry of private airlines

History of Aviation in Pakistan

- **1994:** Civil Aviation Rules, 1994 issued
- **1998:** Private airline, Bhoja Air, initiated international flights to UAE from all major cities of Pakistan; thus becoming a competitor for PIA on these international routes
- **2000:** National Aviation Policy drafted
- **2005:** Government allowed private airlines in Pakistan to operate flights to destinations in the UK, the US and Scandinavian countries in addition to flights to Gulf countries

History of Aviation in Pakistan

- **2006:** Pakistan ratified the Convention for the Unification of Certain Rules for International Carriage by Air
- **2007:** Draft National Aviation Policy devised to counter effects of deregulation by National Aviation Policy 2000

State of Aviation Industry

- Since 1955, PIA faced competition only on international air routes by foreign airlines.
- Liberalization of Pakistan's domestic aviation industry started in 1992.
- As a result, private airlines, such as Bhoja Air, Royal Airlines, Hajvairy Airlines, Safe Air, Aero Asia, Raji Airlines and Shaheen Air International entered the domestic aviation stage.

State of Aviation Industry

- Most of these airline operators started operations with only one aircraft wet leased from Central Asian Republics.
- However, most of these airlines had to close their operations within months leaving huge debts behind.
- Karachi Airport was unilaterally opened up for international airlines in 1992. However, the policy was reversed in the following year.

State of Aviation Industry

- The current stage of the aviation industry of Pakistan is set by three major airlines:
 - PIA
 - Shaheen Air International
 - Air Blue

Open Skies Agreements

- Pakistan signed its first open skies bilateral air services agreement with USA in 1995.
- In 1998, Pakistan signed its open skies bilateral air services agreement with Switzerland.
- At the same time, Pakistan concluded liberal bilateral arrangements with Scandinavian countries, Gulf Countries and Singapore allowing them market access to three additional gateways in Pakistan (i.e. Islamabad, Lahore and Peshawar).

Role of Civil Aviation Authority

- Regulatory Body under the control of Ministry of Defence, Government of Pakistan
- Provides services such as Facilitation, Air Space Management, Air Traffic Control & Fire Fighting Services
- Plans, develops and maintains civil aviation infrastructures in Pakistan
- Ensures conformity International Civil Aviation Organization standards
- Negotiates Air Services Agreements with other countries

History of Aviation in India

- 1912: Indian State Air Service in collaboration with Imperial Airways conducted first flight in India between Karachi and Delhi as an extension of London-Karachi flight.
- 1932: Tata Airlines, first Indian airline formed
- 1947 (Partition): 9 air transport companies - Tata Airlines, Indian National Airways, Air service of India, Deccan Airways, Ambica Airways, Bharat Airways, Orient Airways and Mistry Airways

History of Aviation in India

- 1948: Air India International formed as a national carrier.
- 1953: All airlines nationalized and consolidated under Air Corporations Act 1953 – Indian Airlines Corporation (Domestic) & Air India International (International) formed.
- 1986: Air Taxi Scheme – Private companies allowed non scheduled air transport
- 1994 – Liberalization policy – Air Corporation Act 1953 repealed

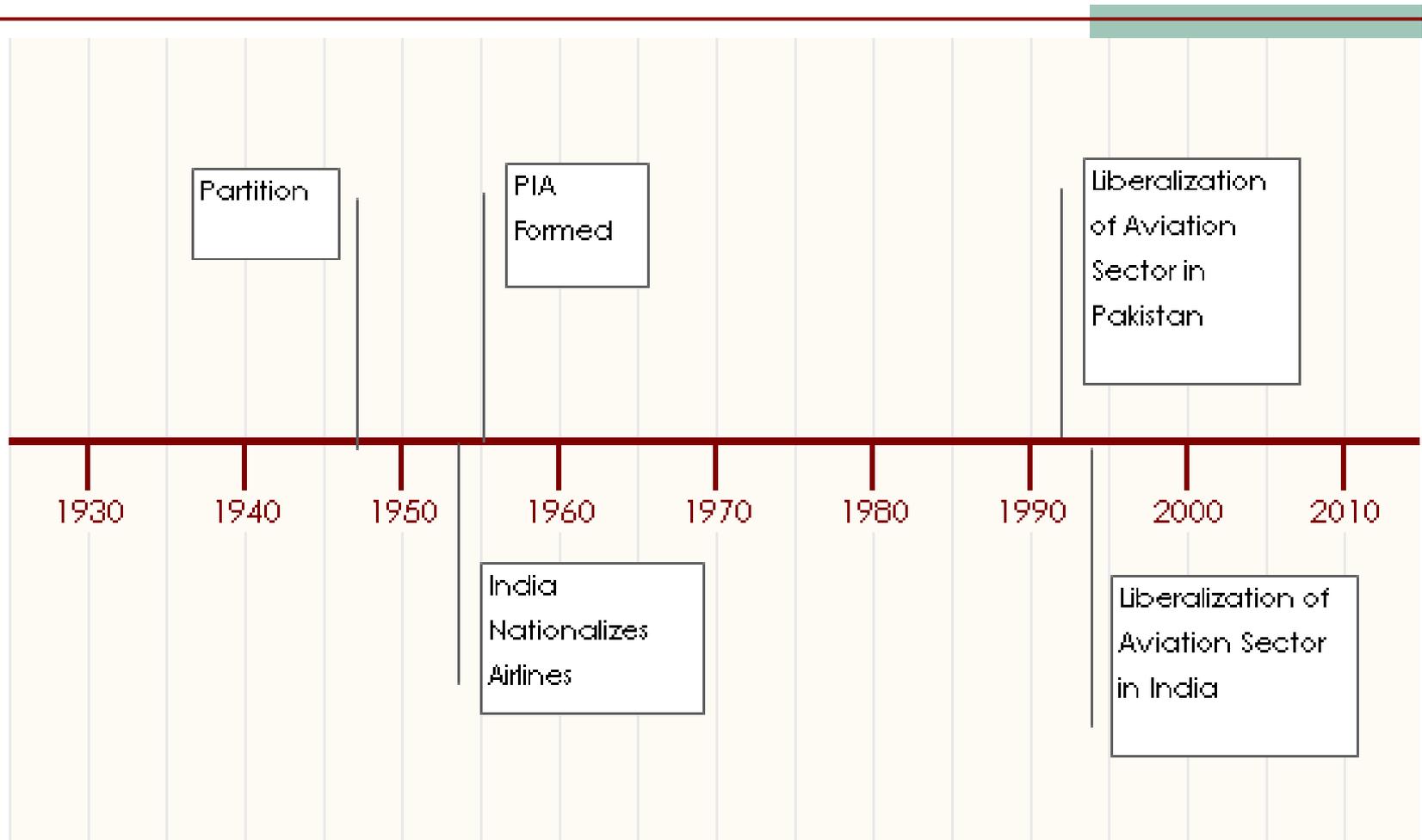
History of Aviation in India

- 1995: 10 Airlines started including Jet Airways Sahara, NEPC Airlines, East West Airlines, ModiLuft Airlines, Jagsons Airlines, Continental Aviation, and Damania Airways –
- Only Jetways and Sahara Survived
- Currently: Indian Airlines, Jet Airlines, Air Deccan, GoAir, IndiGo, Kingfisher Airlines, Paramount Airways & SpiceJet

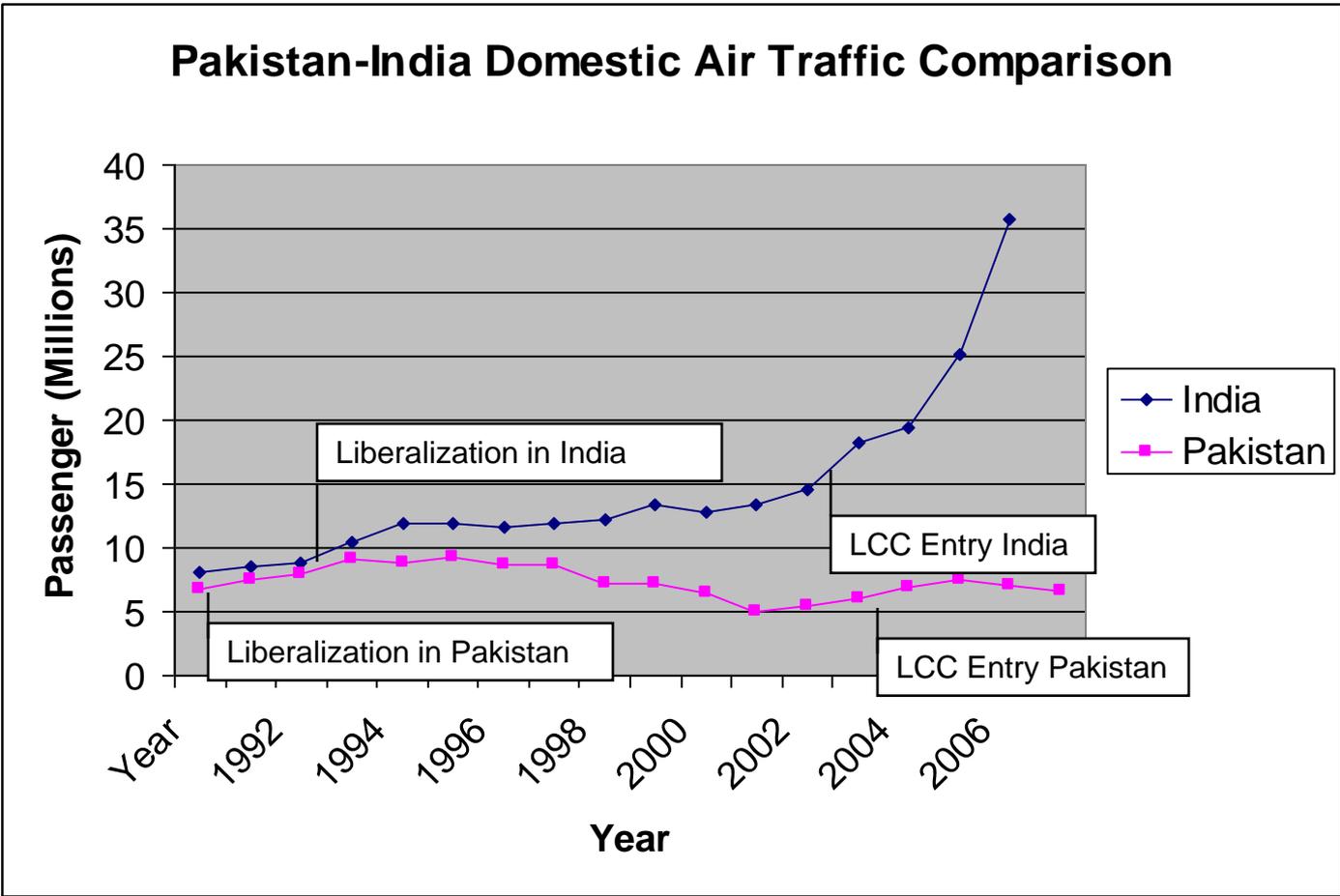
Privatization in India

- Privatization of NACIL (Air India International & Indian Airlines) was announced in 2000.
- Due to change in governments and their approach towards privatization of the national carrier, the process has suffered setbacks and the carriers have not been privatized yet.

Time Line



India-Pakistan 1991-2008: Comparison



PIA – a failing monopoly

- PIA incurred losses of:
 - 12 billion rupees in 2006
 - 13 billion rupees in 2007
 - 18 billion rupees in 2008
- Despite continuous heavy losses, PIA survived due to unmitigated financial and administrative support of the Government of Pakistan.

State-Aid vis-à-vis Privatization

- Liberalization of the aviation industry depends on the privatization of state-owned flag carriers
- When the state provides administrative and financial support to a national airline while private airlines do not have access to similar assistance, the latter face a competitive disadvantage while the former become increasingly inefficient and uncompetitive
- The very thesis of liberalization is distorted when entities are not privatized

PIA – a failing monopoly

- Sinking fuel prices made it possible for PIA to post a profit of Rs 600 million after a lapse of nearly four years with the handsome revenue of Rs 121 billion in the last quarter 2008-09.
- However, the difference in fuel prices was not passed on to PIA passengers, as reflected from the high Hajj air fares charged by PIA during Hajj season 2008.

PIA – a failing monopoly

- Unsatisfactory Customer Services
 - PIA's cancellation/rescheduling charges appear to be against international standards and practices.
 - PIA applies percentage charges across the board to all categories, including normal and discount fares, while Air Blue and Shaheen Air charge a fixed fee for refund and change.
 - Airlines in the United States as well as Thai Air & Gulf Air, impose fixed refund and change fees.
- Poor Safety Standards
 - EU banned 35 of 44 PIA aircrafts which failed EU safety tests in 2007

Reluctance to Privatize PIA

- Labor Concerns
 - A large number of employees have been inducted in PIA on political basis.
- Aircraft to Employee Ratio: Comparison
 - Ideal ratio ranges between 1:130 to 1:170
 - PIA – 1:418
 - Air India – 1:229
 - Japan Airline – 1:74
 - US Airways – 1:106

Government's Stance on Privatization

- Government officials are deliberating that state-run entities, such as PIA, Railways and PEPCO, that are extracting 200 billion PKR from the masses in the form of taxes, should be privatized to save Pakistan's economy.
- The government is also planning to devise a long-term scheme for PIA to improve its financial health after reviewing its performance in first quarter of 2009.

Competition Regime in Pakistan

- The Government of Pakistan established the Competition Commission of Pakistan under the Competition Ordinance, 2007 in November 2007.
- The Commission intends to detect, and where necessary condemn anti-competitive practices, in line with the international standards, while reflecting the state of development in the fines imposed or remedies suggested.

Competition Regime in Pakistan

- The Commission is analyzing the unreasonable increase in Hajj air fares charged by PIA in Hajj season 2008 as compared to the Hajj fares in preceding years (2006 and 2007).
- PIA and Saudi Airways entered into an agreement and fixed the airfares to be charged from Hajjis, which is against the spirit of competition.

Conclusion

- There is a need for a strong and independent regulatory body
- The implementation of competition regime will help prevent anti-competitive issues arising because of government ownership
- Privatization is essential for effective liberalization and therefore competition