CHALLENGES FOR THE COMMERCIAL AIRLINE INDUSTRY IN PAKISTAN [1]

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INTRODUCTION

While the coming together of satellite communication and information technology has made mass communication affordable and efficient for many people, air travel continues to remain an important and integral requirement of all societies since it is an essential part of present day lifestyle.

Though just about one hundred years old, the commercial airline industry has come a long way towards providing efficient, comfortable and affordable means of travel and trade. It has successfully shrunk the world into a 'global village'. The exponential growth of airline business in recent times has provided impetus to all segments of the industry from manufacture of aircraft to handling of increasing quantum of passengers and cargo; development of related infrastructure; handling of various aviation activities with ease; and ensuring safety on the ground and in the air.

However, for now and for some years to come, it appears that the future of the industry, both domestic and international, will be clouded by many uncertainties in several sectors; economics, energy, and regulatory policies of governments. This paper reviews the state of the civil aviation industry in Pakistan, analyzes its status in relation to global developments and proposes ways and means for improving the aviation scene in Pakistan.

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GLOBAL TRENDS

Extracts from a recent review of the world air transport industry by the CEO of International Air Transport Association (http://www.iata.org) April 2005 is given below to highlight the current situation and future trends in the industry:

"International air transport is a great industry. It generates:
• Four million direct jobs and $ 400 billion in output (annually).
• Twenty four million related jobs and $ 1. 4 trillion in related output or 4.5 % of the global GNP (annually).

It is a great generator of wealth:
• GDP expanded threefold in the last 30 years.
• Air transport grew seven times during the same period.
• This trend will continue with 6% annual growth in the air transport business.

The industry's resilience is impressive. In the last five years it has rebounded from SARS, "terrorism", war and natural disasters.

And its record in safety is tremendous. More people flew in 2004 than ever before—1.8 billion—and it was the industry's safest year. Tragically, there were 428 fatalities—the same level (as) in 1945, when only 9 million people traveled by air. This is a great achievement but the industry will do even better with the ongoing Operational Safety Audit program of the International Air Transport Association (IATA). The commitment to safety is strong, despite the dismal situation of the industry's finances.

The bad news is that the industry lost $ 4.8 billion in 2004. This brings the accumulated losses for the period 2001—2004 to $ 36 billion. There are lots of reasons for the loss but the extra-ordinary price of oil is at the top of the list. The industry cannot continue like this.

In fact the industry has lost its balance. Some governments deregulated airlines but did not look closely enough at the playing field and the rules. The rules of the game are outdated:

• Too many costs; the charges of the monopoly suppliers, e.g., airport charges, navigation charges, fuel prices, are beyond the control of the airlines;
• Labor is another big cost item—between 18 and 38 % of operating costs. It is controllable but experience shows how stubbornly difficult labor costs can be;

• Competition is intense;
• More aircraft are entering the industry;
• Low fare competition is now global;

And airlines continue to reduce costs to gain competitiveness. Non-fuel costs are dropping 2-3 % each year. Consumers are happy because air travel has never been so cheap. More precisely airline yields have never been as low. And what do the governments do?

Instead of modernizing the rules of the game and putting pressure on the monopoly suppliers, they milk the industry for taxes and charges. We must remember that tourism is the backbone of many developing countries. Taxing the industry that facilitates global tourism simply does not make sense.

Therefore it is time to put the industry back in balance. There are three main challenges facing the industry:

• The challenge to simplify the business and evolve to a low cost industry.
• The need for monopoly suppliers to match airline efficiency efforts.
• And the urgency for governments to look at the airline industry in a different way.

IATA is creating a revolution in the way people travel and ship their goods with:

• 100 % e-ticketing by 2007
• Bar coded boarding passes
• Common use kiosks for check-in
• Radio frequency identification for baggage management
• Paperless cargo

The technology exists and a number of progressive airlines have already adopted it. Other airlines should hasten to do so, for their own benefit". The potential for growth is tremendous as can be seen in Table-1 (http://www.iata.org).

Table-1: Growth of international scheduled air traffic

January 2006 over January 2005	RPK [1]	ASK [2] Growth	PLF [3]	FTK [4] Growth	ATK [5] Growth
Africa	7.4%	10.0%	70.8%	9.0%	6.8%
Asia Pacific	6.4%	4.3%	74.5%	8.3%	5.5%
Europe	5.2%	3.6%	73.5%	-0.3%	3.5%
Latin America	2.8%	2.2%	74.8%	8.8%	5.2%
Middle East	18.3%	11.7%	76.8%	9.4%	12.6%
North America	3.6%	3.8%	76.7%	4.6%	4.5%
Industry	6.2%	4.6%	74.6%	5.3%	5.2%

EXPLANATION OF MEASUREMENTS:
NOTES
1. RPK: Revenue Passenger Kilometers measures actual passenger traffic
2. ASK: Available Seat Kilometers measures available passenger capacity

3. PLF: Passenger Load Factor is percentage of ASKs used. It indicates point differential between the periods compared.
4. FTK: Freight Tonne Kilometres measures actual freight traffic.
5. ATK: Available Tonne Kilometres measures available total capacity (combined passenger and cargo).

The aviation industry has established itself as a major driving force in development activities around the world. Some developing countries have already shown exemplary progress by concentrating on information technology applications in civil aviation. They have not only achieved significant growth on consistent basis, but have also helped develop the support and ancillary industries in line with global benchmarks. In this process, these countries have also established their credentials and image as 'progressive', and 'destinations of choice'.

BACKGROUND OF AIRLINE INDUSTRY IN PAKISTAN

Pakistan International Airlines Corporation (PIAC) was established in 1955 and was the only airline of the country. Since its infancy it has enjoyed the active patronage of successive governments. Its initial leadership was dynamic and committed. Consequently, the airline was established on a sound professional footing. This can be gauged from the illustrious record of the airline in the 1950s, 60s and the 70s. At one stage during those decades, PIA was considered the most vibrant airline in the Asian region. The development of the airline also contributed significantly towards improvement of its human resources and ancillary or support infrastructure. This human resource, as indeed that which was produced by the Pakistan Air Force, was to become the backbone of the aviation industry in general, and the airline industry of Pakistan in particular.

However, the commercial airline industry has experienced rapid change in its regulatory environment worldwide. The winds of change began in the United States, with the introduction of the Airline Deregulation Act of 1978 and spread to Europe and gradually to the rest of the world. After operating under strict regulation for nearly forty years, the airlines were given freedom to choose the routes they served, and to set the prices they charged. Up to the early 1980s the regulatory aspects of the aviation industry were still evolving and the level of liberalization varied from country to country. Whereas most of the countries have moved rapidly, Pakistan is still in transition. The policy with regard to deregulation remains clouded with uncertainties and lack of clarity. As a result, various segments of the industry remain completely confused.

In 1982 the Pakistan Civil Aviation Authority (CAA) was created as a regulatory body through an act of parliament, at the behest of the International Civil Aviation Organization (ICAO), to govern and align civil aviation activities in the country with ICAO recommended practices. The newly created CAA faced severe resistance from various professional cadres of PIAC. As the CAA started to move forward, and made efforts to seriously undertake its regulatory duties,
the resistance from the national carrier started to take an ugly shape. Neither the government of the time, nor the leadership of PIA and CAA made any meaningful and

concerted effort to curb these unhealthy tendencies. This resulted in a gradual but certain decline in standards in all areas of airline operations. It also led to professional compromises by some CAA personnel. This situation was to become the main reason for the downgrading of Pakistan's CAA by ICAO a decade later.

OPEN SKIES POLICY

In the early 1990s the government of Pakistan adopted an Open Skies Aviation Policy, and signed a memorandum of understanding with a number of countries of the region and outside. These exercises were undertaken in great haste without really understanding the implications of "Open Skies" for Pakistan's own carriers. PIA, which was at that time mainly dependent upon domestic and ethnic passenger traffic, suddenly found itself competing with outside carriers at home. The resultant chaos led to more confusion in the minds of unprofessional bureaucrats, the regulatory authority and of course the national carrier. Each was looking myopically through its own prism of interest, little realizing the negative impact of its actions, or inactions, on the state of the civil aviation sector of Pakistan in general, and the airline industry in particular.

REGIONAL DEVELOPMENTS

It must also be stressed that Pakistan used to be the hub for international carriers up to the 1970s, for both East-West and reciprocal flights. Karachi airport was a bustling place with vibrant aviation activity. Due to various political developments in the region, deteriorating law and order situation in Karachi in the 80s, development of alternate aviation infrastructure in the region, and lack of vision exercised by Pakistan's aviation hierarchy, international carriers started shifting their regional hubs to other more attractive locations in the Gulf area. Successive governments in Pakistan continued to remain passive bystanders in this fast changing scenario.

Since then, the Gulf region in general, and UAE and Qatar in particular, have shown extraordinary vision and planning to not just develop attractive aviation infrastructure in their countries, but also develop support industries of international standards, along with airlines which have gradually become world class. Today, the Gulf region is not just a trendsetter for global aviation and tourism industries; it is also the highest growth area both for passenger and cargo traffic. This is certainly a cause for deep concern and embarrassment for Pakistan when seen in the light of the fact that Pakistan was a regional aviation hub just 20-25 years ago; it had the most progressive airline in the region in the form of PIA; its professionals helped set up airlines like Emirates and Singapore Airlines, etc. We allowed these major advantages to slip from our hands due to sheer negligence, lack of professionalism, and internal wrangling.

PRIVATE AIRLINES

In line with global trends, and also as a consequence of our Open Skies policy, several local airlines started to appear in the private sector during the 1990s. Most were set up with short-term gains in view. They used old and inefficient equipment; lacked professional managements; and they blatantly violated basic aviation standards and laws governing safety standards. Sooner than later they also felt the heat of overt and sometimes covert competitive pressures from PIA. Resultantly, several of these carriers lost money heavily and had to shut down unceremoniously. Those that survived were nowhere close to the standards expected of decent passenger carriers, with the exception of one or two. The reasons why PIA has managed to survive, despite its under par and erratic performance, are: federal government patronage, CAA's support to the national carrier, and a high average growth rate of passenger traffic of around 8-10 percent per annum, to and from Pakistan, during the past 15 years.

PAKISTAN'S AVIATION POLICY

It must also be stated that Pakistan's National Aviation Policy has been reviewed and revised several times in bits and pieces, mostly by unprofessional bureaucrats and people with vested agendas. It is now a moth-eaten document, which is perceived as protective and somewhat tilted towards the national carrier. Nonetheless, neither the national carrier nor the airlines in the private sector of Pakistan find the current aviation policy acceptable. This situation is a major impediment in the orderly growth of the aviation industry in Pakistan. Lack of vision, inability to use modern management tools and poor infrastructure, are some of the other factors responsible for this situation. In contrast, several smaller and lesser-developed countries of the world, including a few in this region, have correctly envisioned and based their national development plans on the back of their vibrant aviation sectors. Those who have played their cards right, are reaping the fruits of their forward-looking policies. Others, like Pakistan, which were unable to meet competitive demands, continue to be left behind. The pace of growth in the region is now so rapid that within the next five years it would become next to impossible to catch up with the market leaders simply because of high investment costs, and lack of professional human resources.

CURRENT PAKISTAN SCENE

An unbiased analysis of the current aviation scene in Pakistan brings out the following harsh facts:
- Pakistan is inadequately and poorly served by its own and foreign carriers both for passenger and cargo carriage.

- Lack of meaningful incentives to the industry does not allow quality carriers to develop in the country.
- Our government has yet to understand the importance of civil aviation as a 'driving force' in the growth of a developing economy. This is despite several high profile examples within our region.
- Pakistan's tourism industry continues to remain stunted because of many reasons: this being so despite the existence of many attractions similar to those found in India, where tourists flock in hordes, several coming on repeat visits. Apart from the questionable law and order situation, lack of adequate support infrastructure, archaic laws, hostility of a segment of our society towards foreigners, there is also a lack of confidence in our international carriers in terms of value for money, reliability, etc.

- The airport infrastructure is inadequate to handle the growing number of travelers, and tonnage of cargo, expected to be processed through these airports in the next 5-10 years. Additionally, there is a long over-due requirement of upgrading technologies existing at these airports. All this requires heavy expenditure, simply because little has been done to update or upgrade these important facilities and operational equipment on a regular basis.

- None of our airports is worthy of being called a world-class facility. Some are more like crowded bus stations, and little else. Even security-related facilities at these airports are not quite in line with global standards.

- None of our airports is capable of handling the new technology large aircraft such as the A-380, which is expected to start commercial flights in a couple of years. The passenger handling facilities at the various terminals, as indeed the landing and parking spaces, are also inadequate.

- All our civil airports are now in the middle of densely populated cities. Hazards for landing and taking off aircraft are therefore on the rise. Bird hits are a common phenomenon, resulting in frequent disruption of operations, inconvenience for the traveling public, huge avoidable expenditures for the airlines, and most importantly, a serious safety concern for life and property. New airports need to be built away from populated areas to service large passenger and cargo traffic in the coming years.

- The downstream industry in Pakistan, which is dependent for its survival on a thriving aviation industry, also remains limited and weak. Investment in the hotel industry is rather limited because of insignificant growth in tourism. Regular advisories against travel to Pakistan by major governments do no good for this industry. Similarly, smaller segments of the ancillary industries also continue to suffer heavily (transportation, portage, catering, ground handling, etc).

- A vibrant airline industry plays a pivotal role in projecting a country, and improving its global market image. Not so in Pakistan for reasons explained earlier. Our carriers, airports, the personnel involved in public dealing within this industry, apart from the retail outlets, hotels, restaurants, and transporters, etc., have all to play a part in this important ongoing exercise. Of course, nothing can manifest itself on the ground unless the government of the day ensures implementation and coordination of laws and activities considered essential to achieve positive results in this regard.

- The national carrier has a long way to go in improving its service, image, and most importantly, its profitability. The government currently absorbs PIA's heavy losses on a regular basis, apart from blessing it with concessions, some of which are not available to other airlines. Resultantly, PIA continues to monopolize the domestic market.

- No Pakistani carrier has made any significant contribution towards developing a decent cargo airline, or even bothered to undertake regular flights dedicated to carriage of ever-increasing exportable goods and reciprocal cargo. As a result, foreign carriers are the major beneficiaries of this business.

WHAT NEEDS TO BE DONE

Pakistan needs to go a long way to benefit from the advantages of having a vibrant civil aviation industry. While the task is certainly huge, it is not impossible. The following steps should be taken on a priority basis to establish a progressive aviation sector:

- The government needs to set up a professional high level national committee on civil aviation. It should consist of representatives from the airline industry (PIA and private carriers), the government, the military, the regulatory body, and the support industries. A representative of the tourism industry should also be on the committee. The formation of the Edwards Committee in the UK in the 1970s is an example.

- An individual with high intellectual integrity, and professional repute in the field of aviation, should be appointed to head the committee.

- The government should mandate the committee to study the country's National Aviation Policy, and also those of some other developing countries such as India, China, Iran, Malaysia and the UAE and come up with a comprehensive and futuristic policy that could be implemented after approval by the Cabinet. The committee should also study the aviation policies of USA and the European Union. These studies would identify global trends, and the various weaknesses that exist in our own policy.

- The committee should be given six months to complete its work. It should also be provided adequate support to undertake its task with ease.

- The committee should take inputs from the various players in the aviation industry. In-depth discussions should be undertaken to understand the rationale behind each point of view.

- The committee should undertake detailed in-house brain storming in the light of above-stated studies and inputs; the idea being to separate the chaff from the grain, and crystallize the essential ingredients of a healthy and progressive aviation policy.

- The head of the committee should ensure that the national interest remains foremost and biases are not allowed to interfere in any way. The government must support the head of the committee in achieving this objective.

- The draft National Aviation Policy, thus created, would have to be comprehensive, flexible and progressive enough to stand the test of time, and allow the country to achieve progress in the face of the evolving technologies, competition and other challenges.

- The government, in consonance with all the stakeholders, should consider restructuring the CAA so that its current functions of safety regulation, economic regulation and airport infrastructure development can be carried out effectively in a professional manner.

- We feel that there is a need to have independent organizations to focus on and professionally manage safety regulation, economic regulation and airport infrastructure development.

  - The government should ensure the writ of the restructured CAA; and violator, if any, should be dealt with firmly, even if it happens to be the national carrier.

  - The government should stop bailing-out the national carrier. PIA should be encouraged to run on professional, and commercial lines, as provided in PIAC Act 1955, and it should be expected to embrace competitiveness by using modern information technology, and other management tools to improve its efficiency.

  - Lastly, accountability should be institutionalized, dead wood should be removed, and corrupt individuals should not be allowed to remain a part of professional aviation institutions.