Competition Commission of Pakistan

Creating a level playing field

COMPETITION IN THE SKIES

Pakistan's Civil Aviation Market Assessment

(Under Section 28(b) & 29(b), Competition Act, 2010)

2025

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Publication of this report is designed to assist public understanding of the competition issues. Material in this publication may not be quoted or reprinted without the necessary acknowledgements.

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Foreword

It is with great pride that I present *Competition in the Skies: Pakistan's Civil Aviation Market Assessment*, a flagship initiative of the Center of Excellence in Competition Law at the Competition Commission of Pakistan. This report constitutes the first comprehensive, evidence-based assessment of Pakistan's air passenger market, drawing on nearly two decades of traffic data alongside qualitative insights from key private-sector participants and government stakeholders.

Civil aviation is vital for Pakistan's economic connectivity and trade. Over 19 years, it served nearly 340 million passengers, growing from 12.8 million in 2006–07 to 24.3 million in 2024–25 with an 89% increase driven mainly by international travel. Despite this growth, the market remains uneven, with airline exits, rising concentration, and dominance of foreign state-backed carriers.

The assessment identifies key structural constraints undermining competitiveness, including the absence of a unified national vision treating aviation as a strategic industry, fragmented governance across regulatory and fiscal institutions, uneven competition from state-backed foreign carriers under liberal bilateral regimes, and weak commercial orientation and aviation-specific financing for domestic airlines.

The study concludes that privatisation and outsourcing as well as public private partenership and low cost carrier models can play a positive and constructive role in strengthening Pakistan's aviation sector, provided they are pursued within a coherent and strategic policy framework. In particular, the privatisation of PIA has the potential to attract fresh investment, modernise the fleet, and improve operational efficiency. However, complementary measures are necessary to support domestic carriers and ensure competitive neutrality. The findings highlight the importance of sequencing privatisation alongside broader sectoral reforms to safeguard national connectivity, promote fair competition, and retain strategic oversight over critical aviation assets, while still benefiting from private capital and expertise.

Accordingly, the report advocates a competition-neutral policy pathway that recognises civil aviation as a strategic national asset rather than a purely administrative function. This requires a holistic, commercially driven national vision, operationalised through a National Civil Aviation Roadmap integrating aviation policy with taxation, finance, transport planning, tourism, trade, and labour mobility. Developed jointly by relevant public institutions with structured private-sector participation, such a roadmap can align regulatory, fiscal, and investment frameworks to revive the sector, strengthen domestic competitiveness, and safeguard Pakistan's long-term national interests.

Ms. Bushra Naz
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Abbreviations and acronyms

AAIB	Aircraft Accident Investigation Board
ACGF	Aviation Credit Guarantee Facility
ADB	Asian Development Bank
AML	Anti-Money Laundering
AOC	Air Operator Certificate
ASA	Air Service Agreement
AWG	Aviation Working Group
B	Billion
BASA	Bilateral Air Service Agreement
BASI	Bureau of Aircraft Safety Investigation
BOAC	British Overseas Airways Corporation
CAA	Civil Aviation Authority (Pakistan)
CCP	Competition Commission of Pakistan
C-PEC	China-Pakistan Economic Corridor
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
COVID-19	Coronavirus Disease 2019
DOJ	Department of Justice (USA)
FTC	Federal Trade Commission (USA)
EASA	European Union Aviation Safety Agency
ECA	Export Credit Agency
ESG	Environmental, Social, and Governance
EU	European Union
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FED	Federal Excise Duty
FX	Foreign Exchange
G2G	Government-to-Government
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GST/VAT	Goods and Services Tax/Value Added Tax
GTFS	Green Technology Financing Scheme
GIFT	Gujarat International Finance Tec-City
GVA	Gross Value Added
HHI	Herfindahl-Hirschman Index
IBMS	Immigration Border Management System
ICAO	International Civil Aviation Organisation
IDR	Indonesian Rupiah
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IFSC	International Financial Services Centre
IIGF	Indonesia Infrastructure Guarantee Fund
IATA	International Air Transport Association
KPI	Key Performance Indicators
KSA	Kingdom of Saudi Arabia
KPBU	Kerjasama Pemerintah dengan Badan Usaha (Indonesian PPP model)
LCC	Low-Cost Carrier
M	Million
MAHB	Malaysia Airports Holdings Berhad
MAS	Monetary Authority of Singapore

MBA	Master of Business Administration
MCPAT	Market Concentration and Performance Analysis Tool
MoD	Ministry of Defence
MRO	Maintenance, Repair, and Overhaul
NAP	National Aviation Policy
NAS	National Holding Company (Saudi Arabia)
NCAR	National Civil Aviation Roadmap
NDC	New Distribution Capability
NDCs	Nationally Determined Contributions
NIBAF	National Institute of Banking and Finance
ORR	Operational Risk Ratings
PAA	Pakistan Airports Authority
PCAA	Pakistan Civil Aviation Authority
PBS	Pakistan Bureau of Statistics
PESTEL	Political, Economic, Social, Technological, Environmental, and Legal
PFIs	Participating Financial Institutions
PIA	Pakistan International Airlines
PIACL	Pakistan International Airlines Corporation Ltd.
PIAHCL	PIA Holding Company Ltd.
PKR	Pakistani Rupee
PPP	Public-Private Partnership
RPT	Regular Public Transport
ROI	Return on Investment
RWA	Risk-Weighted Assets
SBP	State Bank of Pakistan
SBU	Strategic Business Unit
SDGs	Sustainable Development Goals
SECP	Securities and Exchange Commission of Pakistan
SMS	Safety Management Systems
SOE	State-Owned Entity
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TSA	Tourism Satellite Account
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USD	US Dollar
USOAP	Universal Safety Oversight Audit Programme
VAT	Value Added Tax

Executive summary

Introduction: Pakistan's civil aviation sector is a key economic engine, directly employing 56,700 people and contributing USD 2.1 billion (0.6% of GDP), with a total impact of USD 5.6 billion and 683,900 jobs when tourism and supply-chain effects are included. Aviation-enabled tourism alone adds USD 952 million to GDP, supports 227,900 jobs, and brings in USD 1.6 billion in international visitor spending. The market was projected to reach USD 6.0–8.1 billion by 2030, with 48.5 million travellers and 54% of revenues from online bookings. With major policy reforms (Civil Aviation Act 2023; restructuring of CAA, PAA, BASI), improved ICAO ratings, EASA/UK ban removals, and Gwadar Airport's launch, the sector stands at a critical inflexion point.

This study provides a comprehensive competition assessment of Pakistan's civil aviation sector, focusing on scheduled air passenger services across domestic and international markets. Based on 19 years of traffic data, extensive secondary sources, and primary insights from structured stakeholder interviews, the report examines market structure, competitive dynamics, regulatory evolution, and key operational and macroeconomic constraints. It evaluates the implications of foreign carrier dominance, policy and governance gaps, and ongoing reforms, including PIA privatisation and airport outsourcing, while offering evidence-based recommendations to promote competitive neutrality, consumer welfare, and the long-term sustainability of Pakistan's aviation ecosystem.

Global Trends: The civil aviation sector operates through a complex supply chain comprising upstream (aircraft manufacturing, leasing, and technology), midstream (airline operations, airports, and regulatory oversight), and downstream (distribution platforms and passenger interfaces) markets, supported by cross-cutting systems such as digital infrastructure, safety governance, skilled workforce, and logistics management. Developments at any stage of this chain affect overall market performance, cost structures, and consumer outcomes. Global trends indicate that while passenger demand has recovered strongly after the pandemic, the aviation value chain continues to face structural challenges including supply chain constraints, high capital costs, rising maintenance demand, and decarbonization pressures. At the same time, emerging segments such as aircraft leasing, MRO services, dismantling and recycling, and AI-driven aviation technologies are reshaping the competitive landscape and creating new opportunities within the aviation ecosystem.

Regulatory Environment: Pakistan's civil aviation sector has evolved from a centralised model, where regulation, operations, and development were combined, to a functionally segregated framework aligned with international best practices. Historical conflicts of interest under the Civil Aviation Authority prompted reforms through the Pakistan Civil Aviation Authority Act, 2023, separating regulation (PCAA), airport operations (Pakistan Airports Authority), and accident investigation (Bureau of Air Safety Investigation). Oversight, previously under a standalone Ministry of Aviation, was reabsorbed into the Ministry of Defence in 2025. Pakistan's aviation operates under ICAO standards, bilateral agreements, and multilateral conventions, shaping safety, market access, and competition.

Evolution and Scope of Pakistan's Civil Aviation Sector: Pakistan's civil aviation sector has evolved from a state-led system anchored around a national carrier and government-managed airports into a mixed market with limited private participation and growing foreign airline dominance. For analytical clarity, this study focuses exclusively on scheduled commercial passenger services. Historical experience shows repeated entry and exit of private airlines, indicating persistent structural fragility despite market growth.

Airport operations remain overwhelmingly state-controlled, with recent moves toward foreign-managed models raising important questions about competition, market access, and national control.

Air Passenger Market:

Market Structure: Pakistan's civil aviation air passenger market is segmented into domestic and international scheduled passenger services, with traffic heavily concentrated in Karachi, Islamabad, and Lahore. The domestic air passenger market exhibits a clear oligopolistic structure, characterised by a small number of airlines, high fixed and sunk costs, limited entry, and strong dependence on regulatory approvals, route rights, and internal capacity. Competition is shaped by ownership patterns, where a previously state-owned carrier (PIA) operates alongside private domestic airlines and a foreign-backed joint venture.

In the international segment, the market is structurally asymmetric: Pakistani carriers face fiscal, fleet, and financing constraints, while foreign airlines, mostly state-supported, benefit from lower capital costs and integrated hub networks. As a result, price formation is driven by fuel costs, exchange rate movements, taxes, airport charges, and bilateral air service agreements, and the overall market reflects unequal competitive conditions, raising concerns about sustainability and a level playing field.

Key Market Players: Pakistan's domestic air passenger market was served by PIA, Air Blue, Air Sial, Serene Air, and Fly Jinnah, with Fly Jinnah operating as a low-cost joint venture backed by Air Arabia. The market remains highly concentrated, with a small number of carriers accounting for the bulk of passenger traffic. In the international segment, Pakistani airlines, primarily PIA and Air Blue, compete against large state-backed foreign carriers such as Emirates, Qatar Airways, Saudi Arabian Airlines, Fly Dubai, and Air Arabia, which dominate international passenger flows. Despite higher flight frequencies by domestic carriers, foreign airlines capture a disproportionately larger share of international passengers due to superior fleet capacity, network depth, and financial backing.

Critical Analysis of Sector Dynamics: Pakistan's air passenger market grew from 12.8 million in 2006–07 to 24.3 million in 2024–25, driven largely by international traffic, whereas the domestic passenger growth remained minimal. The evidence from stakeholder interviews and long-term traffic data points to a structurally imbalanced aviation market in Pakistan, where, in the international market, the competition is driven less by airline performance and more by country-level advantages embedded in bilateral agreements, ownership structures, and macroeconomic conditions. International passenger traffic is highly concentrated in favour of Gulf-based, largely state-backed carriers, while Pakistani airlines operate under higher inflation, interest rates, tax burdens, and currency volatility. Although aggregate indicators may suggest competition, a granular analysis reveals a concentrated, oligopolistic international market with asymmetric cost structures, raising concerns about competitive neutrality, the sustainability of domestic carriers, and the long-term implications of reliance on foreign state-supported operators.

Privatisation and Outsourcing in Pakistan Civil Aviation: PIA and Pakistan's civil aviation faced inefficiencies, financial mismanagement, and political interference. PIA's domestic share fell from ~61% (2006–07) to ~29% (2024–25) and international share from ~28% to ~15%, despite 167% passenger growth in the international market. Emerging domestic carriers captured modest traffic, while foreign airlines dominated. Privatisation aims to modernise PIA's fleet, improve transparency, and reduce political influence. Pre-privatisation, domestic carriers included one SOE and four private players, which struggled against foreign SOEs; post-privatisation, PIA will commercialise with a modern fleet and better competitive efficiency.

On the sector level, however, a few private entities would be competing with large-scale foreign SOEs. Therefore, supportive policies are necessary for the progress of the domestic players.

Similar to privatisation, outsourcing without a strategic vision can reduce national control over strategic assets. Strategic measures are essential to translate sector growth into sustainable domestic competitiveness.

Barriers to Competition: Pakistan's civil aviation sector faces systemic challenges across governance, regulation, finance, and operations. Strategic and governance gaps include the absence of a national vision linking aviation with labour mobility, tourism, and export competitiveness, coupled with fragmented oversight by primary and secondary government stakeholders, which are operating in silos without clear coordination and a long-term strategic vision, producing inconsistent policies and regulatory burdens that disadvantage domestic players. Legal and policy weaknesses, such as politicised bilaterals, opaque slot allocation, frequent policy shifts, and high entry barriers, further tilt the playing field towards foreign state-owned, specifically the Middle Eastern airlines. Macroeconomic and financial pressures, thin profit margins of 3-4% versus lending costs above 11%, VAT at 18%, corporate tax at 29%, FX volatility, and absence of aviation-specific financing instruments, limit fleet investment and operational viability, while Gulf carriers exploit large funds, state backing, and hub advantages to capture 47% of international traffic. Asset ownership and outsourcing, particularly for major airports like Islamabad, risks long-term revenue, strategic control, and MRO/cargo development, specifically in case if it favours foreign players. Operational challenges, including thin demand outside pilgrimage traffic, outdated infrastructure, inconsistent service standards, underdeveloped secondary airports, and fragmented data systems, undermine regional connectivity, consumer trust, and evidence-based planning for the sector.

Conclusion and Recommendations: Pakistan's aviation reforms should establish an integrated, commercially driven, and strategically governed system, treating aviation as a core national industry within the long-term strategic vision, integrated planning, and operational framework. Politically, this entails depoliticising decision-making, unifying regulatory frameworks, adopting calibrated approach in liberalization, strengthening monitoring for consumer protection and competition, and institutionalising stakeholder consultation. Economically, rationalizing excessive taxes and introducing aviation-specific financing instruments are critical to level the playing field with foreign carriers, while retaining national ownership of key airlines, airports and expanding domestic MRO, cargo, and ancillary services through structured PPPs involving domestic investors. Focusing on data, technology and supply chain strengthening at each level of value chain is necessary. Social and operational measures include streamlined visa facilitation, targeted upgrades of secondary airports, and relocation of major airports from dense urban zones, wildlife management, ESG and SAF adoption, and improved slot allocation transparency. Legal, institutional, and data governance reforms, modernising financial fitness rules, recovery mechanisms, and real-time electronic platforms, will support evidence-based planning, competitive balance, and long-term sector revival.

1. Introduction

1 Introduction

1.1 Background of the Study

The civil aviation sector contributes considerably to Pakistan's economy. It not only enables domestic and international mobility but also supports tourism, trade, and employment across a complex ecosystem of civil aviation-related interlinked services. According to the International Air Transport Association (IATA)'s 2023 estimates[1], Pakistan's aviation sector directly employs almost 56,700 persons in its key areas, such as airlines, airport operations, air navigation, and aircraft manufacturing. It thereby contributes about US dollar (USD) 2.1B (B) to Pakistan's economy, which is equivalent to 0.6% of the country's Gross Domestic Product (GDP) [1]. With respect to indirect impacts from the sector's supply chain, employee spending, and aviation-enabled tourism, the total contribution reaches USD 5.6B, supporting approximately 683,900 jobs. Additionally, aviation-supported tourism generates USD 952 million (M) in GDP and sustains 227,900 jobs, while international tourists are estimated to spend around USD 1.6B annually in Pakistan[1]. Furthermore, as per Statista's shared mobility market forecast [2], Pakistan's flight market is projected to generate USD 6.04B in revenue by 2025, with sustained annual growth of 6.22%, reaching around USD 8.17B by 2030. The number of air travel users is expected to rise to 48.5M by 2030, with online bookings accounting for 54% of total revenue[2].

The global airline industry demonstrated significant resilience and improved financial health in 2025 despite notable uncertainties in the first half of the year. Led by a favourable 13% drop in jet fuel prices compared to 2024, the sector projected a net profit of $36.0 billion, up from the previous year, with the net profit margin improving to 3.7% [1]. Total revenues reached a record high of $979 billion. Furthermore, the industry is expected to carry a record 4.99 billion travellers and 69 million tonnes of air cargo, reflecting solid operational growth even as some earlier demand projections were slightly tempered by external factors like trade tensions[1].

1.2 Civil Aviation Supply Chain

The civil aviation supply chain comprises a vertically and horizontally interconnected set of markets that collectively enable the provision of air transport services. These markets span aircraft production and financing, airline operations, airport and air navigation services, and the distribution of services to passengers and cargo customers. Competitive conditions, cost structures, and regulatory interventions at each level have system-wide implications, as inefficiencies or market power exercised at one stage may affect outcomes across the chain. A supply-chain perspective is therefore essential for evaluating market performance, identifying structural bottlenecks, and assessing competition and consumer welfare impacts within the aviation sector. Figure 1 provides a concise overview of the major components of aviation business structure. The various levels of civil aviation supply chain (i.e., upstream, midstream, and down stream) and its components are further discussed below in detail.

1.2.1 Upstream: Aircraft & Technology Supply Chain

The upstream segment encompasses aircraft design, manufacturing, and financing, forming the capital and technology base upon which downstream aviation services depend. This segment is characterized by high fixed costs, long investment horizons, extensive certification requirements, and significant technological complexity, resulting in high barriers to entry and a concentrated market structure in several subsectors,particularly aircraft and engine manufacturing.

Figure 1: Aviation Business Structure

Source: https://miagen.com/aviation/

Market outcomes in the upstream segment directly influence fleet availability, operating costs, environmental performance, and strategic options for airlines. Financing and leasing arrangements further shape competitive dynamics by determining access to aircraft, risk allocation, and cost of capital, especially for smaller carriers and airlines operating in developing markets. As such, upstream market concentration and contractual practices have important implications for competition, investment incentives, and long-term industry resilience. Figure 2 gives a brief depiction of upstream supply chain.

Figure 2: Upstream Supply Chain

Source: OpenAI generated image

1.2.2 Midstream: Regulatory Framework and Airline Operations

The midstream segment represents the operational core of the aviation supply chain, where regulatory oversight and commercial airline activities intersect. It includes market entry regulation, safety and operational approvals, and the provision of passenger and cargo transport services. This segment is highly regulated due to safety, security, and public-interest considerations, with authorities exercising control over licensing, slot allocation, route rights, and ongoing compliance. Bodies like ICAO, IATA, and national regulators (FAA, EASA, CAAC) provide the standardizing framework that allows this fragmented ecosystem to operate safely across borders. By 2026, these bodies are increasingly focused on decarbonization, forcing airlines to choose between expensive sustainable aviation fuel (SAF) or operating older, less efficient fleets at a cost penalty. Airline operations within this segment involve complex coordination across network planning, revenue management, maintenance, and service delivery. Competitive performance is sensitive to demand conditions, cost volatility, regulatory constraints, and access to infrastructure. As a result, the midstream segment is often the focal point for assessing market power, efficiency, and the distribution of economic risk within the aviation value chain. Figure 3 captures the overall factors involved in midstream supply chain that help run the business operations of civil aviation business.

Airports and airside service providers function as essential facilities within the aviation ecosystem, enabling aircraft movements and passenger and cargo handling. This segment includes airport operations, ground handling, air navigation services, and aviation security, many of which exhibit natural monopoly characteristics or operate under exclusive or concession-based arrangements. Despite the recovery of passenger traffic in several regions, airport and airside services continue to face financial and operational pressures arising from capital intensity, labor costs, and regulatory obligations. Their pricing structures and service quality have a direct impact on airline costs and market entry conditions, making this segment particularly relevant for competition and regulatory scrutiny.

Figure 3: Midstream Supply Chain

Source: Author's research

1.2.3 Downstream: Distribution and Customer Interface

The downstream segment (Figure 4) connects aviation service providers with end users through a range of direct and indirect distribution channels. These include airline-owned sales platforms, intermediaries such as travel agents and online travel agencies, and global distribution systems that aggregate and distribute inventory. This segment plays a central role in price transparency, market access, and consumer choice. Increasing digitalization has shifted competitive leverage toward control over customer data, booking platforms, and loyalty ecosystems. As distribution costs and contractual arrangements can materially affect airline margins and consumer outcomes, downstream markets warrant careful assessment from both competition and consumer protection perspectives.

Figure 4: Downstream Supply Chain

Source: AI created image

1.2.4 Cross-Cutting Support Activities

Other than the various levels of mainstream supply chain, cross-cutting support activities enable the effective functioning of all levels of the aviation supply chain and increasingly influence competitive outcomes. These activities include digital infrastructure of reservation systems and GDS connectivity; safety and security systems duch as ICAO standards, national aviation regulations, flight operations standards, and security compliance; workforce training including pilots and cabin crew, air traffic controllers, engineers, technicians, and ground handling staff; marketing and customer experience managemenet such as marketing and customer experience management; logistics coordination including spare parts, fuel supply, catering, and inventory management; financial risk management, such as foreign exchange volatility risk and insurance; and sustainability governance including ESG

reporting. From a regulatory perspective, these functions are not merely operational supports but critical determinants of market resilience, compliance, and long-term efficiency. Investments in digital systems, safety management, and environmental stewardship affect cost structures, access to finance, and regulatory approvals, while human capital constraints and cybersecurity risks can pose systemic challenges. Accordingly, cross-cutting activities play a strategic role in shaping both market performance and public-interest outcomes in civil aviation.

1.3 Global Market Trends in Aviation Value Chain

The global aviation value chain faced a turbulent 2024, recording an economic loss of approximately USD 14 billion, compared with a USD 6 billion loss in 2023 and a pre-pandemic average of USD 10 billion (2012–2019)[3]. While air passenger traffic has fully recovered to pre-pandemic levels, the overall industry performance remained below its cost of capital, reflecting uneven recovery and persistent headwinds such as geopolitical tensions, rising operating costs, and supply chain constraints.

1.3.1 Performance across Subsections of the Value Chain

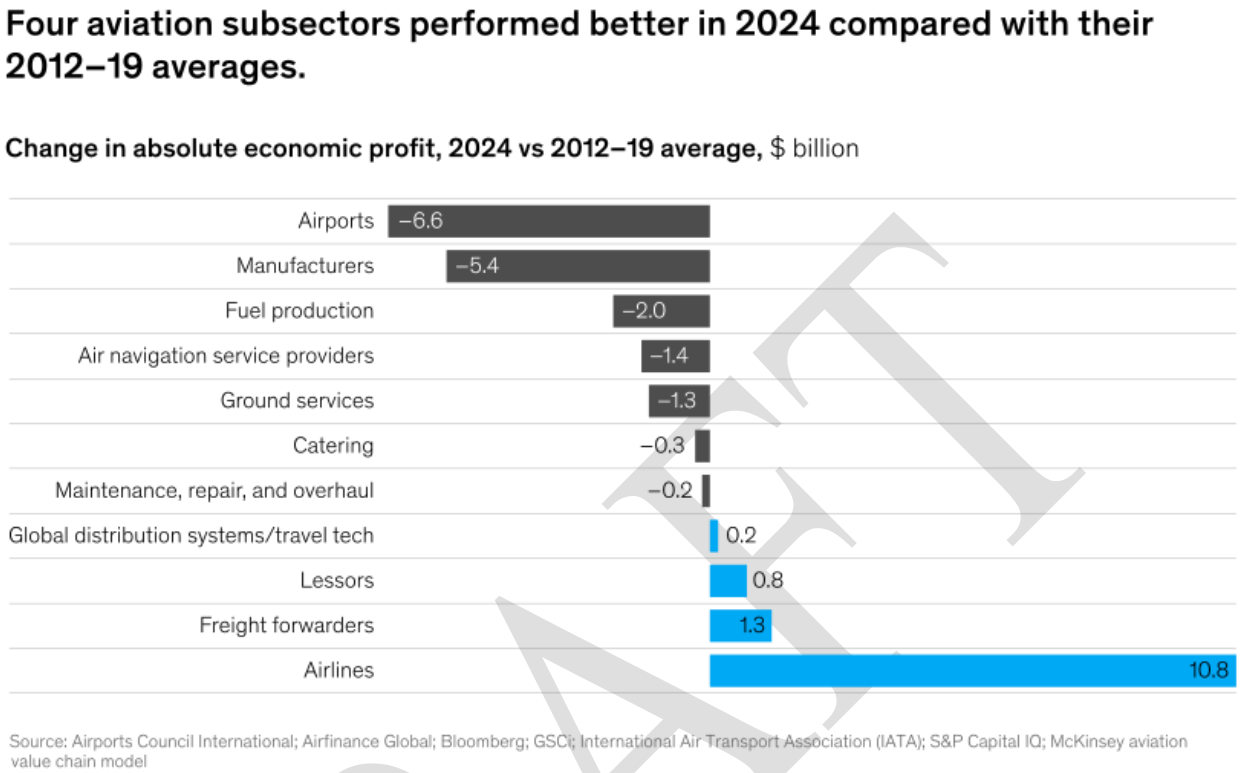
According to the Mckinsey research report [3], the aviation value chain comprises 11 key subsectors which showed the following performance in 2024:

i. **Airlines**: Passenger demand grew 10.6%, outpacing capacity expansion of 8.8%, while cargo revenue remained ~150% of 2019 levels despite falling yields.
ii. **Airports**: Suffered the largest losses among subsectors, totaling USD 4 billion, primarily driven by Asia-Pacific. Europe and other regions produced positive economic profits.
iii. **Aircraft and Engine Manufacturers** (OEMs): Continued to face challenges, recording significant losses.
iv. **Aircraft Lessors**: Profitable, benefiting from stable leasing demand.
v. **Freight Forwarders:** Achieved strong economic profits, supported by robust cargo flows.
vi. **Global Distribution Systems (GDS)**: Profitable, reflecting strong travel technology demand.
vii. **Catering Suppliers**: Recovered to positive profit after recent downturns, linked to higher passenger volumes.
viii. **Ground Handling Services**: Partially recovered but still posted USD 270 million loss (-0.7% of revenue), affected by rising labor costs.
ix. **Maintenance, Repair, and Overhaul (MRO)**: Performance varied; some recovery noted, though constrained by labor and supply costs.
x. **Air Navigation Service Providers**: Performance mixed, reflecting regional differences in traffic and investments.
xi. **Jet Fuel Producers and Other Travel Tech Providers**: Some segments created value, while others faced pressure from rising costs and market fluctuations.

The international report by McKinsey & Company [3] indicates that with respect to value creation, six out of eleven subsectors generated positive economic profit in 2024, while the remaining five, including airlines, airports, and OEMs, drove the overall industry loss. (Figure 5) Regionally, Asia-Pacific airports were the primary contributors to the global loss, while Europe and other regions showed resilience. North American low-cost carriers faced profitability pressures due to narrow unit-cost advantages and competitive network carriers. Subsections closely tied to passenger or cargo volumes, such as catering and GDS, benefited from traffic recovery, while ground handling lagged due to labor-intensive cost structures. Despite losses, segments such as freight, leasing, and GDS demonstrate

potential for stable returns. Strategic innovation, cost optimization, and regional adaptation remain critical for navigating post-pandemic turbulence [3].

Figure 5: Aviation Sub-sectors Highlights of 2024



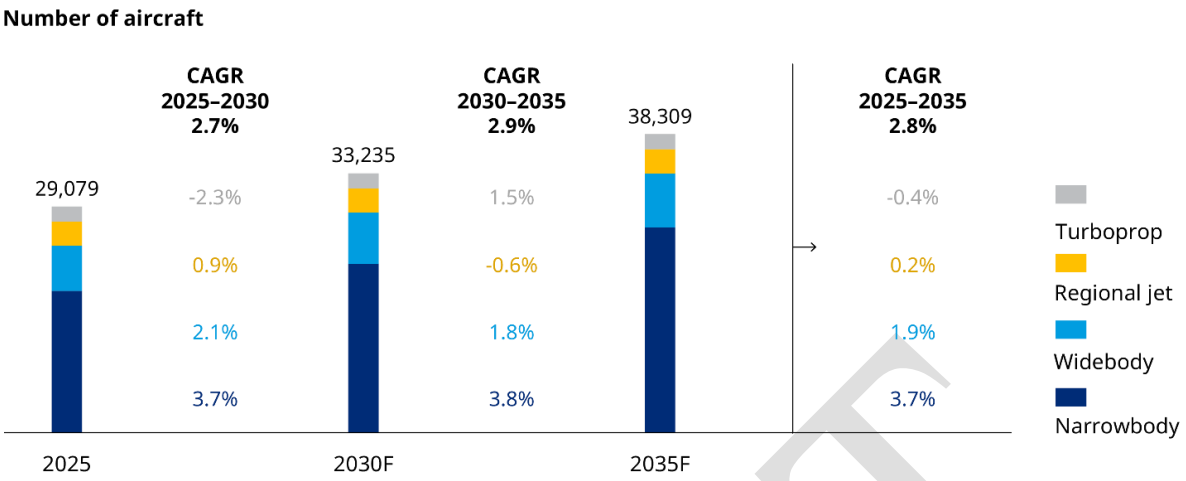
Source: As cited by https://www.mckinsey.com/industries/travel/our-insights/which-aviation-subsectors-are-flying-high-and-which-face-turbulence#/

1.3.2 Air Fleet Market Outlook (2025–2035)

According to a report by IATA and Oliver Wyman [4], as of 2025, the global commercial aircraft fleet is entering a renewed growth phase, driven by record passenger demand that has fully surpassed pre-pandemic levels. The worldwide fleet is projected to expand from just over 29,000 aircraft in 2025 to around 38,300 by 2035, representing a 32% increase (CAGR 2.8%) [4]. However, this growth remains structurally constrained by persistent aircraft production shortfalls, supply-chain disruptions, and regulatory bottlenecks, resulting in a historically high backlog of more than 17,000 aircraft orders [5]. Narrowbody aircraft will dominate future deliveries, increasing their share from 62% to 68%, reflecting airline preference for fuel-efficient, high-frequency operations.

While North America remains the largest market, fleet growth is increasingly concentrated in India, China, and the Middle East, signaling a shift in global aviation dynamics. Despite rising demand, the slower pace of fleet renewal has pushed airlines to operate older aircraft longer, affecting fuel efficiency and sustainability outcomes.

Figure 6: Global fleet forecast by aircraft class, 2025–2035



Source: IATA Report [4]

1.3.3 The Power of Lessors

As per 2023 market analysis by IATA [6], a long-term structural shift in the global airline industry from aircraft ownership toward leasing as the dominant fleet strategy. The share of leased aircraft has risen from about 10% in the 1970s to 58% by the end of 2023, with the most rapid expansion occurring between 1980 and 2010, when leasing first exceeded ownership [6]. The global market size of this segment is reported to be USD 181.75 Billion [7]. While leasing initially expanded in North America following deregulation, its strongest adoption is now seen in Europe, Asia Pacific, and Latin America, where close to 70% of aircraft are leased, compared with around 40% in North America [6],[7]. This regional divergence reflects differences in access to capital, airline financial performance, and legacy fleet structures, with higher leasing shares in most regions facilitating greater fleet flexibility and faster renewal. With nearly 60% of the global fleet now being leased rather than owned, lessors like AerCap, BOC Aviation, and AVOLON have become the "secret drivers" of the industry. In 2026, lessors are critical for airlines in low-to-medium income countries that lack direct access to massive capital for fleet modernization. They even manage the entire lifecycle of an aircraft, often dictating which MROs are used to maintain the residual value of the assets.

The global aviation leasing market is expected to expand to o USD 401.67 billion through the early 2030s, with projected CAGR ranging from about 7% to 12% [6],[8],[7], driven by airlines' need for flexibility and the high capital cost of aircraft ownership. Growth is led by Asia-Pacific, particularly India and China, followed by Latin America, the Middle East & Africa, North America, and Europe, reflecting rising air travel demand across regions[7]. Key drivers include fleet modernization, greater operational flexibility, rising e-commerce and cargo demand, and persistent aircraft delivery delays from OEMs, which are reinforcing leasing as a core fleet strategy [8].

1.3.4 MRO Super-Cycle and Market Outlook (2025–2035)

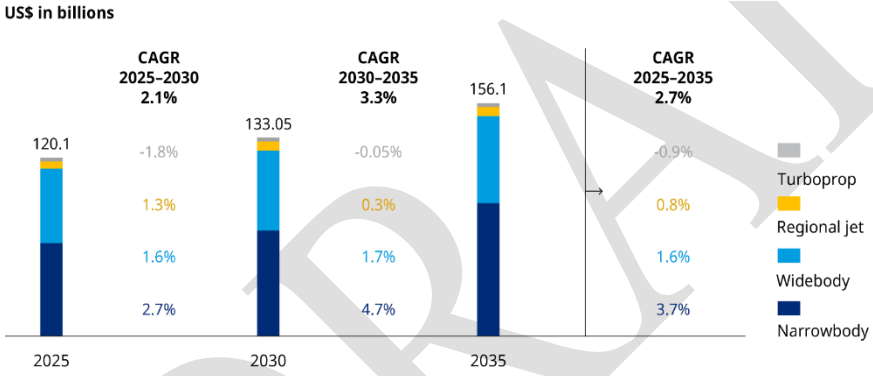
The Maintenance, Repair, and Overhaul (MRO) sector is currently in a "super-cycle," with the global market estimated at around USD 88.69 billion in 2026. Original Equipment Manufacturers (OEMs) like Boeing, Airbus, Rolls-Royce, and GE are increasingly moving into the aftermarket, with 78% of executives identifying this as the industry's top disruptor. The constrained supply of new aircraft and

the resulting increase in average fleet age are driving a strong upcycle in the global Maintenance, Repair, and Overhaul (MRO) market. Due to a massive backlog of aircraft and production delays, airlines are forced to keep older planes flying longer, which significantly increases the fuel cost and demand for heavy maintenance and engine overhauls [9].

As per the IATA and Oliver Wyman's report [4], in 2025, the MRO market was expected to reach US$119 billion, exceeding its pre-pandemic peak by 12%, and is projected to grow at a CAGR of 2.7% to approximately US$156 billion by 2035. The average global fleet age has risen to 13.4 years, while aircraft utilization is intensifying, with total flight hours projected to exceed 112 million annually by 2035. Additional pressure stems from unplanned engine inspections, durability issues, and regulatory directives affecting major engine platforms.

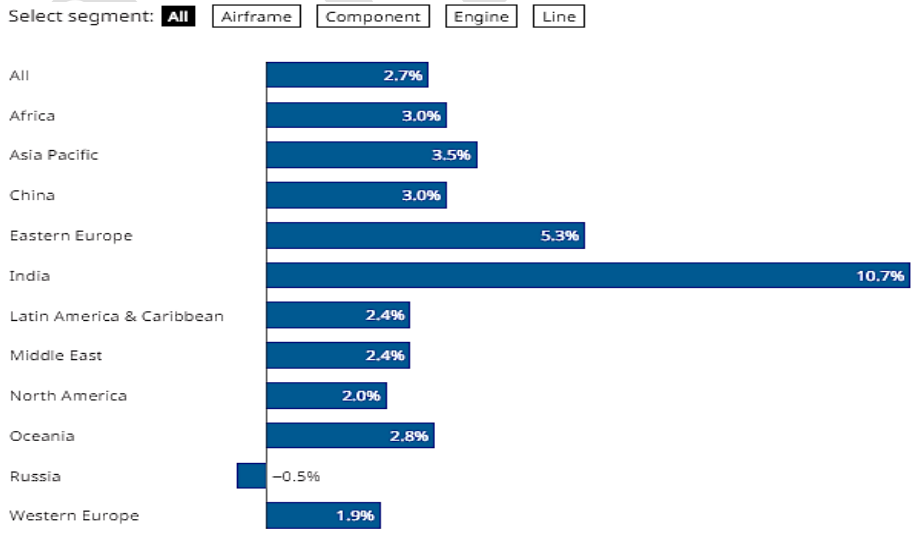
Regionally, MRO demand is rising fastest where fleets are aging or expanding rapidly, including North America, Europe, and Asia-Pacific, making MRO a critical resilience pillar of the aviation value chain amid ongoing production and labor constraints. The MRO growth rates indicate strong regional divergence, with India (10.7%) and Eastern Europe (5.3%) driving expansion, while mature markets such as North America and Western Europe grow slowly and Russia contracts. Overall MRO growth of 2.7% reflects rising maintenance demand in high-growth aviation markets, alongside capacity and fleet maturity constraints in developed regions[4].

Figure 7: MRO demand forecast by aircraft class, 2025–2035



Source: Oliver Wyman analysis[10]

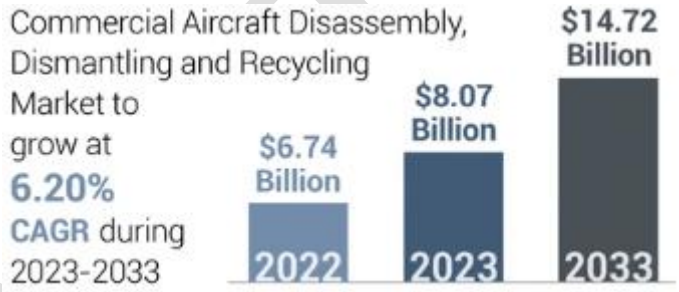
Figure 8: Annual MRO growth by Geographic Segments



Source: Oliver Wyman analysis[10]

1.3.5 Commercial Aircraft Disassembly, Dismantling and Recycling Market Outlook

According to Fortune Business Insights [11], the global commercial aircraft disassembly, dismantling, and recycling market was valued at USD 6.74 billion in 2022 and is projected to grow from USD 8.07 billion in 2023 to USD 14.72 billion by 2033, registering a CAGR of 6.2%. Growth is driven by rising aircraft retirements, circular economy practices, and increasing demand for Used Serviceable Material (USM), the largest application segment. North America dominated the market with a 38.28% share in 2022 (USD 2.58 billion), supported by large fleet renewals and strong MRO activity, while Asia-Pacific is the fastest-growing region due to expanding airline fleets and new dismantling facilities. Globally, around 400–450 aircraft are dismantled annually, and the market has gained further momentum post-COVID-19 as airlines accelerated fleet restructuring, with nearly 25% of the global commercial fleet inactive in 2021, significantly boosting recycling and component reuse activity[11]. Key drivers supporting the growth of this sector include the circular economy, expanding capabilities in reuse and refurbishment of aircraft components, stricter government regulations, and the rising number of retired commercial aircraft. In addition, this sub-sector is increasingly shaped by innovation in materials recycling and the adoption of robotics and advanced automation, which are emerging as major industry trends.

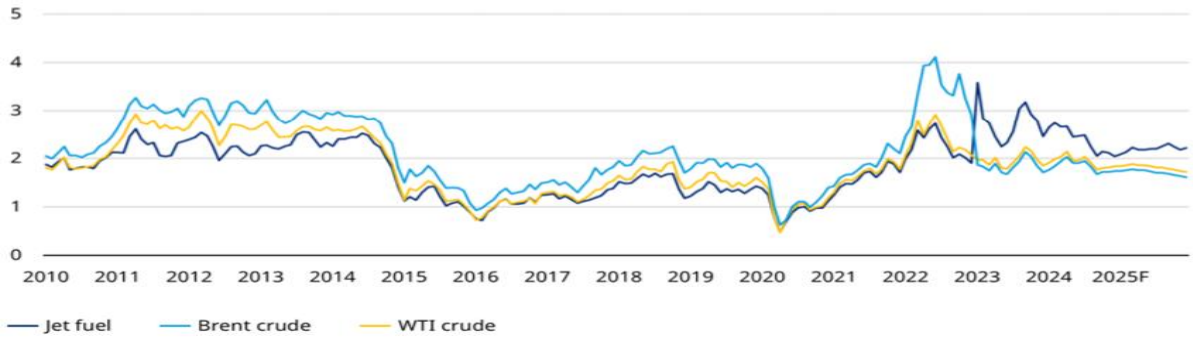


Source: [11]

1.3.6 Jet Fuel Market:

Jet fuel prices declined in 2024 from their 2022 peak and are expected to remain subdued through 2025 amid weak global GDP growth and excess oil supply[12]. Fuel nevertheless is considered the largest expense accounting for nearly 20-30% of total airline operating costs[4]. Global fuel efficiency stagnated in 2024, compared with the historical 1.5-2% annual efficiency gains achieved from 1999 to 2019 through fleet renewal[4]. Unlike earlier periods of falling fuel prices, such as 2010–2014, airlines are unlikely to pass cost savings on to passengers due to capacity constraints and rising non-fuel costs[12]. Looking ahead, the shift toward sustainable aviation fuel (SAF) poses a significant cost challenge, as SAF is two to five times more expensive than conventional jet fuel, with estimates suggesting fuel expenses could rise to as much as 45% of total airline costs highlighting the need for policy support and infrastructure investment to balance affordability, efficiency, and decarbonization goals [12].

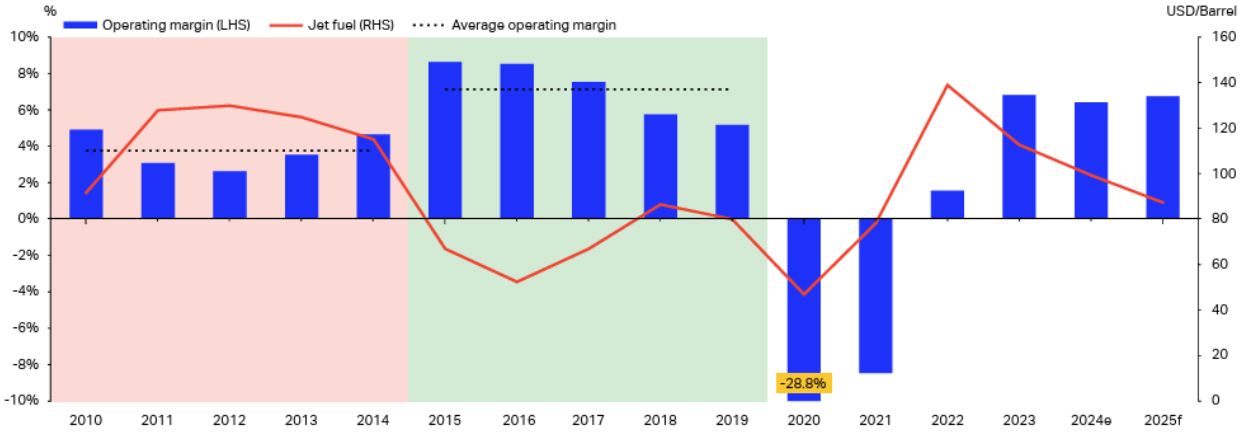
Figure 9: Spot prices of crude oil and jet fuel, 2010-2025F (USD per gallon)



Source: US Energy Information Administration as cited by [12]

According to IATA[13], Jet fuel prices were projected to fall from USD 139 per barrel in 2022 to around USD 87 per barrel in 2025, helping airlines improve profitability. Historically, each 10% drop in jet fuel price has led to a 4–5% decline in passenger yields, though current capacity constraints may limit this effect.

Operating (EBIT) margin of the global airline industry, average jet fuel price, and average operating margin



Source: IATA Sustainability and Economics using data from Airfinance Global as cited by IATA Report [13]

1.3.7 AI and Civil Aviation:

The global Artificial Intelligence (AI) in aviation market is expanding rapidly, reflecting the sector's accelerating shift toward automation and data-driven operations. Valued at approximately USD 1.7 billion in 2025, the market is projected to grow to around USD 4.8-4.9 billion by 2030, registering a strong compound annual growth rate (CAGR) of about 22-23% during 2026-2030[14],[15]. North America currently leads the market, reflecting strong digital infrastructure, advanced airline networks, and sustained investment in AI technologies while Asia Pacific remains the fastest-growing region[14],[15]. Data-driven platforms (e.g., Airbus Skywise, Boeing AnalytX) for predictive maintenance are now central to the MRO software market, which is projected to grow to $7.48 billion by 2026[16].

AI applications are most prominent in flight operations, maintenance, and air traffic management. Machine learning-based software solutions are dominating adoption due to their ability to process real-time operational and sensor data for predictive maintenance, fuel optimization, dynamic route planning, and disruption management. For instance, airports are increasingly leveraging AI for crowd management, biometric security, baggage handling, and energy optimization. On the other hand, airlines use AI-driven analytics for dynamic pricing, personalized services, and fleet utilization, collectively improving operational resilience and sustainability. AI-enabled route optimization has demonstrated tangible fuel savings, such as hundreds of thousands of gallons saved by major airlines within months of deployment[17]. For passengers, AI enables seamless, personalized experiences through biometric identification and instant-response chatbots.

Despite significant benefits, challenges such as data security concerns, high implementation costs, and the need for evolving regulatory frameworks (e.g., certification of self-learning algorithms by agencies like the EASA and FAA) require careful management as the industry moves towards a more AI-

integrated future. Empirical evidence shows tangible benefits, including significant fuel savings, reduced delays, and improved fleet utilization. At the same time, growth is constrained by regulatory uncertainty, data security concerns, high implementation costs, and limited trust in safety-critical AI systems, particularly regarding certification of adaptive algorithms. International policy discourse, including ICAO deliberations[18], emphasizes a human-centred, safety-driven integration of AI, addressing risks of over-reliance, cybersecurity, accountability, and human–machine interaction, while promoting global regulatory coordination for CNS/ATM modernization and emerging air mobility.

The regional adoption trends indicate that North America and Europe lead the AI adoption due to advanced infrastructure, regulatory support, and strong technology ecosystems. Whereas, Asia-Pacific is the fastest-growing region, driven by smart airports and expanding air travel demand. Interestingly, Middle East is Leveraging AI to position itself as a next-generation global aviation hub[19]. For developing aviation markets such as Pakistan, AI adoption is expected to be gradual and targeted, focusing on fuel-efficiency tools, predictive maintenance for aging fleets, smart airport solutions, AI-enabled revenue management, and emissions monitoring, supported by partnerships with global technology providers and phased implementation aligned with regulatory capacity and cost considerations.

1.4 Rationale of the Study

Passenger air transport, both domestic and international, forms the core of this sector, supplemented by air cargo and a range of ancillary services such as ground handling, maintenance, repair and overhaul (MRO), inflight catering, and aviation fuel supply. However, Pakistan's civil aviation market shows a mixed trend. While regional peers depicting revolutionary progress, Pakistan remains far behind in the race. Considering the China-Pakistan Economic Corridor (CPEC) and a large number of Pakistani nationals working as an international labour force in other countries, Pakistan's strategic location between major economic corridors offers significant room for growth. Despite these opportunities, gaps in infrastructure planning, skilled workforce development, and regulatory alignment with international standards highlight a pressing need for structured research to support coherent sectoral reform.

Pakistan's civil aviation sector stands at a critical inflexion point, shaped by a convergence of domestic policy shifts, global aviation trends, and increasing demand for connectivity. Despite being an essential driver of economic activity, the sector faces several issues, particularly in terms of its regulatory support, market structure, and investment readiness.

This research seeks to analyse the structure, supply chain, and competitive dynamics of Pakistan's civil aviation sector, with a particular focus on the economic and regulatory environment and any distortions that may hinder fair competition. The study further aims to unpack how competition is evolving in domestic and international markets, what barriers exist for market entry and sustainability, and how governance structures affect economic efficiency and consumer welfare. The urgent need for evidence-based policymaking is further underscored by recent developments, such as the privatization of national carrier, operationalization of the new Gwadar airport, the 2023 Civil Aviation Act, and the separation of regulatory and service functions within the Pakistan Civil Aviation Authority (PCAA) as Civil Aviation Authority (CAA), Pakistan Airports Authority (PAA), and Bureau of Air Safety Investigation (BASI). Furthermore, as of November 2024, the European Union Aviation Safety Agency (EASA) lifted its four-year ban on Pakistan International Airlines (PIA), allowing it to resume direct flights to Europe (e.g. Paris) in early 2025. Subsequently, on July 16, 2025, the United Kingdom (UK)'s Air Safety

Committee removed Pakistan from the UK Air Safety List, ending a nearly five-year prohibition and paving the way for Pakistani carriers to apply for UK operating permits.

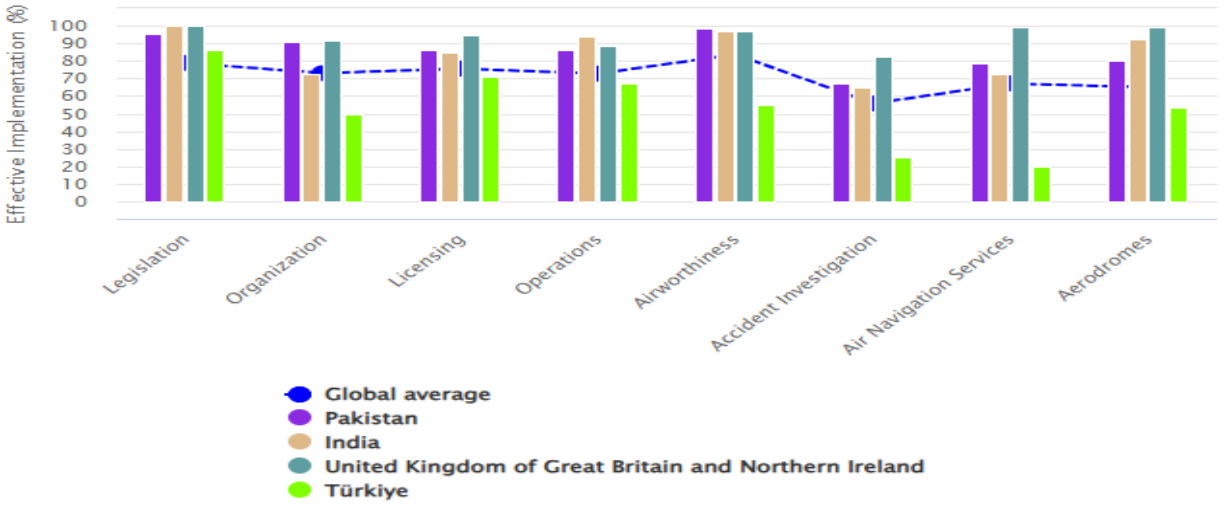
The past bans and inefficiencies had put immense pressure on the administrative part of the sector, which served as a motivator. With the commendable efforts of involved government and private entities, Pakistan has now significantly improved its rankings above global averages as per the International Civil Aviation Organisation's safety audit of Universal Safety Oversight Audit Programme (USOAP) 2024 findings, as shown in Figure 1. In 2024, Pakistan achieved historic milestones related to the international concerns about regulatory and service provider roles separation, as well as air safety measures improvement. Now the question arises whether the civil aviation industry players, specifically the airlines, are ready and competitive enough to meet this pace. Whether the reforms are fully operational and beneficial for the sector, and what other issues remain that hinder the industry's competitiveness and progress. To address these questions, the present study tries to provide a topical review of the post-reforms current competition landscape of the industry.

These recent critical changes in the sector's regulatory and market framework, history of state-owned and private airlines, and the importance of the sector for an economy's growth, global connectivity, and related sectors' progress, such as tourism and cargo, make it relevant to comprehensively understand the civil aviation sector and underlying bottlenecks to promote fair competition for all players.

Building upon prior assessments of Pakistan's aviation landscape, notably the World Bank and Competition Commission of Pakistan (CCP) report titled Strengthening Competition Policy Implementation in Pakistan (2019), this study provides a contemporary and in-depth analysis of the air passenger market. While the previous report focused primarily on identifying bottlenecks and proposing broad, pro-competitive policy solutions, our current research deepens this analysis by providing updated market data, recent Herfindahl-Hirschman Index (HHI) calculations, and a granular Market Concentration and Performance Analysis Tool (MCPAT) and Political, Economic, Social, Technological, Environmental, and Legal (PESTEL) framework assessment based on current secondary and primary data embedded in stakeholder feedback. This report offers fresh perspectives on emergent issues, efficiency disparities among major carriers, and specific, actionable recommendations tailored to the post-2019 aviation environment, thereby offering a comprehensive continuation of the critical discourse on the sector's development.

The present study is the first of its kind to comprehensively examine Pakistan's civil aviation sector by integrating long-term quantitative analysis with qualitative stakeholder insights. To the best of the author's knowledge, no publicly available study by any organisation was found that systematically combines nearly two decades of passenger traffic data with in-depth qualitative interviews of key private sector participants and government stakeholders. By linking historical market dynamics with forward-looking growth projections and institutional perspectives, this study provides an original, evidence-based framework for understanding structural trends, competitive outcomes, and future policy implications in Pakistan's civil aviation sector.

Figure 10: Safety Audit Results - USOAP



Source: International Civil Aviation Organisation[20]

1.5 Scope of the Study

This study assesses competition in Pakistan's civil aviation sector, focusing on scheduled commercial air passenger services. It covers airline operations, market structure and competition, regulatory bottlenecks, financing, and relevant airport infrastructure, using passenger traffic data to contextualise market performance.

1.6 Objectives of the Study:

The study's objectives are to:

1. examine the market structure and the role of scheduled commercial airlines operating in Pakistan.
2. assess competition in Pakistan's civil aviation sector by identifying barriers and challenges based on primary data collected from airlines, travel agents, and other stakeholders.
3. analyse political, economic, social, technological, environmental, and legal factors influencing market dynamics, including the roles of government bodies, financial institutions, and national/international organisations.
4. benchmark Pakistan's aviation sector against international peers to identify gaps and opportunities.
5. develop evidence-based policy recommendations grounded in stakeholder responses to foster a transparent, competitive, and growth-oriented market environment.

1.7 Methodology of the Study:

This study adopts a mixed-methods research design, integrating deductive and inductive approaches across qualitative and quantitative components. Primary and secondary data were collected through publicly available data, literature reviews, semi-structured surveys, and interviews with key stakeholders.

1.7.1 Data Collection

a) Secondary Data

Secondary sources included laws, regulations, past sector reports, air traffic data (passenger, cargo, and mail) for domestic and international operations, airport infrastructure data, accident statistics, and publicly available macroeconomic and policy information. This data highlighted the significant role of international airlines and cross-border agreements in shaping Pakistan's civil aviation sector.

b) Primary Data

Primary data was collected between September and October 2025 using semi-structured questionnaires and interviews with:

- Domestic and international airlines
- Government organisations, including sector regulators
- Banks and financial institutions
- Industry associations and experts
- Academic and policy specialists

Banks were included to assess sectoral financing and economic readiness, while government agencies provided insights on regulatory compliance and operational oversight. Private-sector associations contributed perspectives on competitive constraints and reform needs. The overall response rate was 53%, and responses were analysed thematically.

1.7.2 Data Analysis

The Market Competition and Performance Assessment Tool (MCPAT) was used to evaluate market structure, conduct, performance outcomes, policy environment, and entry/exit barriers. Market concentration and share analyses identified segments with monopolistic or oligopolistic characteristics. Strategic and environmental scanning was conducted using:

- PESTEL Analysis: Political, Economic, Social, Technological, Environmental, and Legal factors influencing the sector.
- SWOT Analysis: Internal strengths and weaknesses, external opportunities and threats.

The study uses HHI, which is a commonly used measure of market concentration, developed independently by Albert O. Hirschman and Orris C. Herfindahl[21], [22]. It is calculated by summing the squares of the market shares of all firms in an industry. It helps assess the level of competition, with higher HHI values indicating a more concentrated, and potentially less competitive, market structure. Historical air traffic data spanning 19 years was processed using Microsoft Power BI and Excel to identify trends, growth patterns, and structural shifts. International benchmarking with countries such as the UAE, Malaysia, UK, and India informed evidence-based recommendations. This integrated methodology enabled a holistic assessment of competition, operational efficiency, and sectoral challenges, forming the basis for actionable, evidence-driven recommendations to enhance Pakistan's civil aviation sector.

2. Regulatory & Institutional Framework

2 Regulatory and Institutional Framework

2.1 National Regulatory Framework

2.1.1 Historical Development

Pakistan's civil aviation framework is rooted in the Civil Aviation Ordinance of 1960, enacted to implement obligations under the Chicago Convention on International Civil Aviation. In 1982, the Pakistan Civil Aviation Authority Ordinance established the Civil Aviation Authority (CAA) as an autonomous body responsible for regulating, overseeing, and promoting civil aviation, ensuring services are safe, efficient, and well-coordinated. Before this, the Civil Aviation Department under the Ministry of Defence managed aviation matters.

The CAA consolidates regulation, operations, and development under one institution, covering flight standards, pilot licensing, aerodrome and airspace management, aircraft airworthiness, aeromedical services, and commercial air transport. However, combining regulatory and operational functions has been criticised for conflicts of interest, as highlighted by both domestic stakeholders and the International Civil Aviation Organisation (ICAO).

Traditionally, civil aviation governance has focused on air transport, air navigation, and airport management. While centralisation enabled strong oversight, it created inefficiencies because the CAA simultaneously acted as regulator, service provider, and promoter. By the 1990s and 2000s, domestic and international bodies emphasised the need to separate regulatory responsibilities from operational functions to align Pakistan with global best practices.

2.1.2 National Aviation Policy:

To address this conflict of interest, successive governments introduced reforms through the National Aviation Policy (NAP) 2015 and NAP 2019, both of which acknowledged the need for structural separation but did not result in full implementation.

The NAP 2019, approved by the Federal Cabinet in March 2019, explicitly stated that…

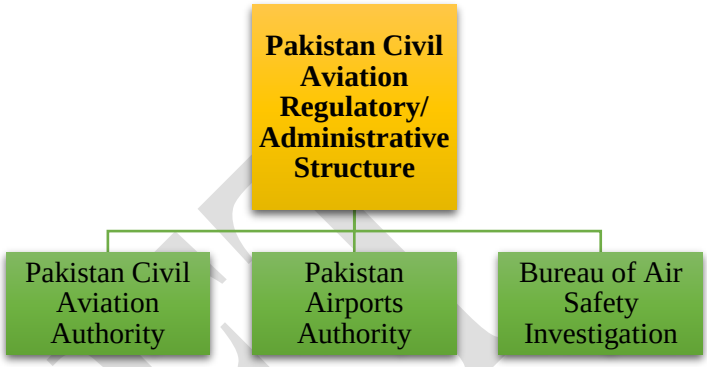
"the role of PCAA as a regulator shall be made independent of service providers with financial and administrative autonomy within a period of two years. By setting up a Regulatory Cell within PCAA, organizational change modalities and structure of the Regulator shall be achieved with minimal adverse collateral disadvantage …"[23].

In line with this NAP, the Aviation Division submitted a proposal to the Federal Government for the separation of the CAA's regulatory and service-provider functions. The Federal Cabinet subsequently gave its approval in principle for this restructuring, marking the first formal step toward segregating the dual roles of the PCAA, but it did not result in full implementation.

The breakthrough came with the NAP 2023, which established a new segregated institutional framework for civil aviation. In this regard, parliament enacted the Pakistan Civil Aviation Authority Act, 2023, which redefined the Authority's mandate. Under this Act, the CAA was renamed with a revised mandate as Pakistan Civil Aviation Authority (PCAA), exclusively responsible for all the civil aviation regulatory functions, including licensing, safety oversight, airworthiness certification, and airspace management under the Ministry of Aviation[24]. The airport operations management and safety investigations were assigned to separate statutory bodies.

Owing to these regulatory reforms, the federal government practically restructured the aviation sector administration in 2024–25, transferring airport management to the Pakistan Airports Authority (PAA) and accident investigations to the Bureau of Aircraft Safety Investigation (BASI) (Figure 2). The PCAA continued to function as the national aviation regulator with its mandate grounded in the 2023 Act.

Figure 11: Pakistan Civil Aviation Administrative



a) Pakistan Civil Aviation Authority (PCAA):

Now functions solely as the independent regulator guided by the Pakistan Civil Aviation Act, 2023[25], responsible for safety oversight, security, licensing, and compliance with ICAO standards and recommended practices (SARPs).

b) Bureau of Air Safety Investigation (BASI):

Assigned the crucial role of independently investigating aircraft accidents and incidents, thereby separating safety investigations from regulatory and operational functions under the Pakistan Air Safety Investigation Act, 2023[26].

c) Pakistan Airports Authority (PAA):

A newly formed body responsible for managing, operating, and developing the country's airports and air transport services, including passenger handling, ground operations, and infrastructure development. PAA is established under the Pakistan Airports Authority Act, 2023[27].

Historically, airport operations in Pakistan have undergone several institutional shifts. In the early 1980s, the government established the Pakistan Airports Authority (PAA) to manage airports separately from regulatory functions. However, with the promulgation of the Pakistan Civil Aviation Authority Ordinance, 1982, the PAA was merged into the newly created PCAA, which consolidated regulation, air navigation, and airport management under one body. Although this centralisation initially improved resource coordination, it later drew criticism for blurring operational and regulatory roles, contrary to ICAO's principle of keeping service provision and oversight separate. To address these concerns, Parliament enacted the Pakistan Airports Authority Act, 2023 (Act XLV of 2023)[27], re-establishing the PAA as an independent statutory authority responsible solely for airport management. The Act granted the PAA a broad mandate, covering airport operations, passenger services, terminal and infrastructure management, ground-handling and cargo facilities, on-airport air navigation services, and commercial utilisation of airport land, including public-private partnership (PPP) driven development and non-aeronautical revenue expansion. Since its reinstatement in 2023, the PAA has launched modernisation projects, most notably the rollout of biometric e-gates at Islamabad, Lahore, and Karachi, to improve facilitation, enhance security, and strengthen compliance with ICAO standards. The revival of the PAA marks a significant shift in Pakistan's aviation governance by clearly separating airport operations (PAA), regulation (PCAA), and investigation (BASI), thereby promoting professional management, transparency, and improved competitiveness of Pakistan's airport system.

2.1.3 Civil Aviation Supervision

Civil aviation in Pakistan has historically been supervised by the MoD, which managed all aviation affairs until 2013, when the sector was separated and placed under an independent Ministry of Aviation[28]. This standalone ministry operated from 2013 until early 2025, overseeing regulatory, operational, and policy functions for the aviation sector.

As part of a major federal rightsizing initiative introduced in 2025, the government reversed this earlier separation. On 14 January 2025, the Federal Cabinet approved the merger of the Ministry of Aviation back into the Defence Division, which was formally notified through S.R.O. 83(1)/2025 dated 4 February 2025[29]. From February 2025 onward, all aviation-related correspondence and functions have been placed under the administrative control of the MoD. This move restores the pre-2013 supervisory structure.

Figure 12: Pakistan Civil Aviation Regulatory Reform Timeline

During deliberations on restructuring, the government had initially considered establishing a comprehensive Ministry of Transport by merging the Aviation, Railways, and Communications divisions. Although aligned with Pakistan's National Transport Policy vision for long-term intermodal coordination[30], the proposal was ultimately rejected due to anticipated administrative overlap, fragmentation of functions, and implementation complexity. Instead, the Cabinet opted for the more immediate step of consolidating aviation under Defence[31]. The merger is part of the government's broader rightsizing agenda, which aims to reduce ministries from 42 and abolish 400 attached departments by June 30, 2025, as part of Rs. 900B in expenditure cuts.

2.2 International Administrative Framework

Pakistan's civil aviation sector operates under a framework influenced by several international regulatory bodies and agreements to ensure safety, security, and operational compliance. Key organisations include ICAO, which sets global safety and operational standards; IATA, which provides industry best practices and commercial guidelines; and the International Federation of Air Traffic Controllers' Associations (IFATCA) for air traffic management standards. Pakistan is also bound by bilateral air service agreements (BASAs) with partner countries, Chicago Convention provisions, Montreal and Warsaw Conventions on liability and air transport, and relevant International Labour

Organisation (ILO) guidelines affecting aviation personnel. These frameworks collectively govern air traffic rights, safety standards, passenger protection, and liability rules, aligning Pakistan's aviation operations with global norms.

2.3 Financial Requirements for Air Service Licenses

The data presented in Table 1 outlines the minimum financial requirements (Paid-Up Capital and Initial Cash Security Deposit) in Pakistani Rupees (PKR) for acquiring various Air Service Licenses in Pakistan, as well as several important caveats for license holders. The requirements vary significantly depending on the class or category of air service operation. This data provides the baseline regulatory framework for financial viability in the aviation sector.

Table 1: Financial Requirements for Air Service Licenses

S. No.	License	Class or Category	Paid-Up Capital (PKR)	Initial Cash Security Deposit (PKR)
1	Regular Public Transport (RPT)	Passengers and Cargo	300 million at the time of application, built up to 600 million before issuance of the license	100 million
2	Tourism Promotion & Regional Integration (TPRI)	Passengers and Cargo	50 million	10 million
3	Charter	Class-II	100 million	20 million
4	Charter	Class-I	50 million	10 million
5	Aerial Work	Class-II	50 million	10 million
6	Aerial Work	Class-I	20 million	10 million
7	Flying School	Class-II	20 million	10 million
8	Flying School	Class-I	10 million	3 million
9	Ground School	N/A	2 million	1 million
10	Private Air Operations	Class-II	N/A	10 million
11	Private Air Operations	Class-I	N/A	5 million
i) Paid-up capital should be loss-free. Any losses incurred are to be covered through capital injection to meet the above-stated caveats.				
ii) Only issued, subscribed & paid-up capital would be considered against the above-stated requirements.				
iii) Owner's equity (net worth) shall not be negative. The minimum equity (net worth) to assets ratio should be at least 5%.				
iv) Submission of Audited Financial Statements and other relevant documents as required by the Authority will be mandatory within 120 days of completion of every financial year.				

Source: Data provided by CAA

2.4 Aircraft Registration, Induction, and Retirement Age Conditions

The regulatory framework governing aircraft induction and retirement in Pakistan is presented in Table 2, which reflects a risk-based and category-specific approach, balancing safety considerations with market entry and operational flexibility.

Table 2: Conditions for Aircraft Registration, Fleet Size and Age

S. No.	Category of Operations	Maximum Induction Age and Operational Life at Induction	Maximum Operation or Retirement Age
1	Regular Public Transport (RPT)	18 Years + Minimum 50% Operational life remaining	22 years
2	Cargo RPT Charter	Minimum 35% of Operational life remaining	OEM Recommended Age or Cycles
3	Pressurised – Passengers Charter Aerial Work Private Aircraft	18 Years + Minimum 35% Operational life remaining	OEM Recommended Age or Cycles
4	Pressurised – Passengers TPRI	18 Years + Minimum 35% Operational life remaining	24 years
5	Unpressurized TPRI Aerial Work Charter Flying School Private Aircraft	18 years+ Minimum 35% of Operational life remaining OR Minimum 50% of Operational life remaining	OEM Recommended Age or Cycles

Source: Data provided by CAA

The data from the CAA establishes the maximum age limits for aircraft being inducted into service and their final operational/retirement age, varying by the category of operations. It specifies two critical age parameters for all aircraft operating within Pakistan under different license types:

- Maximum Induction Age: The maximum chronological age an aircraft can be when it is first registered or inducted into an airline's fleet. This is set at 18 years for most passenger and private aircraft operations.
- Maximum Operation or Retirement Age: The absolute chronological limit an aircraft can be operated before it must be removed from service in that specific category.

Further critical analysis of the data is presented in Chapter 6. A list of all other relevant legislation, statutory regulatory orders, and policies is provided in Appendix A.

3. The Evolution of Pakistan's Aviation Industry

3 The Evolution of Pakistan's Civil Aviation Sector

The Pakistan Civil Aviation Act (2023) defines civil aviation as the "*use of **aircraft** for transport of passengers, goods and mail and for other non-military uses".* The Act further elaborates an aircraft as *"any machine which can derive support in the atmosphere from the reactions of the air, other than the reactions of the air against the earth's surface, and includes a balloon, whether captive or free, airship, kite, glider, any other flying machine and an unmanned **aircraft**"*[25].

As described earlier in chapter 1, the civil aviation sector includes a range of services and subsectors. However, for this study, the scope is limited to *scheduled commercial air passenger services*. The assessment focuses on the market structure related to this segment, which is shaped primarily by two core components: scheduled airlines and airports.

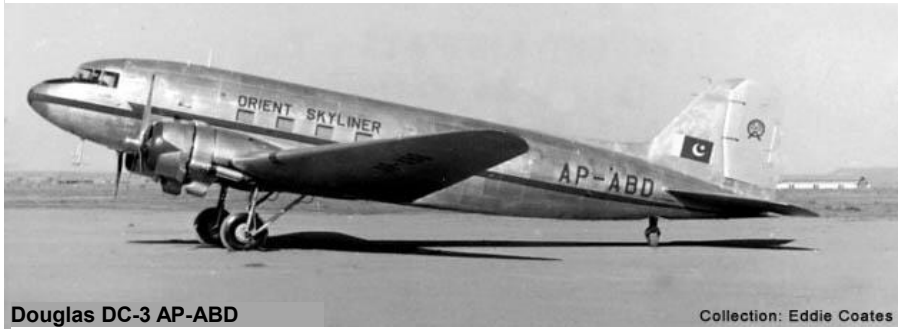
3.1 Scheduled Airlines

The scheduled airline services market offers three main services: air passenger, air cargo, and airmail. These are divided into domestic and international categories. Market players, which can be either state-owned or private, compete within these segments based on their service scope and licensing. The ownership structure directly influences the competitive dynamics. A brief history of Pakistan's airlines is presented below.

3.1.1 1947-1955 Foundation of Pakistan's Civil Wings

As the subcontinent stood on the threshold of partition, Pakistan's founding leadership foresaw a crucial need for reliable air connections to bind the two geographically separated wings of the emerging state. In 1946, Quaid-e-Azam Muhammad Ali Jinnah entrusted Mirza Ahmad Ispahani and his industrialist peers were capable of bridge this divide by establishing the first Muslim airline in the British Raj[32].

Figure 13: Orient Skyliner Douglas DC-3



Source: Ed Coates

This initiative led to the incorporation of **Orient Airways Limited** in *October 1946* in Calcutta under the British Raj, earning distinction as the only Muslim-owned airline in British India. With Ispahani as Chairman and Air Vice Marshal O.K. Carter as General Manager, Orient acquired surplus Douglas DC-3 aircraft from the United States and launched its first international service, Calcutta to Akyab (Sittwe) to Rangoon, in June 1947.

Following independence, Orient Airways, alongside British Overseas Airways Corporation (BOAC) chartered aircraft, assumed a humanitarian role by operating relief flights to manage one of history's largest mass migrations, which stood out as the earliest cross-border service managed by a carrier

registered in the pre-partition British Raj. In 1949, Orient Airways became the first Asian airline to introduce Convair CV-240 aircraft, a significant upgrade over the DC-3 with pressurised cabins for improved passenger comfort. These aircraft were deployed on major routes linking Karachi with Delhi, Calcutta, and Dhaka. By the close of 1949, its fleet had expanded to ten DC-3s and three Convair CV-240s, reflecting adaptation to the urgent civil aviation needs of the nascent country.

Figure 14: Orient Skiliner Convair 240-7

AP-AEF Convair 240-7

Source: Ed Coates

Despite this progress, rising competition in the early 1950s, particularly from the BOAC, placed the airline under financial pressure. To keep operations viable, the Government of Pakistan stepped in with subsidies, allowing Orient Airways to compete and maintain essential air services[32]. The impressive early expansion of Orient Airways laid the essential groundwork for the eventual establishment of PIA in the mid-1950s, as the government sought to build a state-backed national carrier capable of fulfilling the country's strategic and developmental ambitions.

3.1.2 Pakistan International Airlines Corporation (1955-Present)

Inception and Early Operations: After Pakistan's independence in 1947, Orient Airways played a critical role in transporting refugees and establishing connectivity between East and West Pakistan. Recognising the strategic importance of a national airline, the Government of Pakistan passed the PIAC Ordinance in January 1955, merging Orient Airways into the newly established Pakistan International Airlines Corporation (PIAC). This state-owned enterprise (SOE) became the country's flag carrier and symbolised national aspirations for global presence.

PIA's fleet has varied significantly over the decades, historically including iconic aircraft such as the Boeing 707, 747, Airbus A300, and Fokker F27s. Its current operational fleet primarily comprises Airbus A320s and some Boeing 777 wide-body aircraft. As a state-owned entity, its ownership and strategic direction were controlled by the Government of Pakistan.

PIA has faced persistent and significant challenges throughout its history, including substantial financial losses, heavy debt burden, managerial instability, political interference, and an ageing fleet. These issues have led to frequent government bailouts, operational suspensions on key international routes (such as Europe and the UK), and ongoing investigations into governance and safety standards. The airline underwent a critical privatisation process in 2025 directed by the Government of Pakistan which aimed at stabilising its financial future and restoring operational viability. Further details about PIA are discussed as a case study under a separate section.

3.1.3 A Glimpse of the History of Past Private Players

Along with the historic rise and fall of the flag carrier, other private players are also part of Pakistan's commercial civil aviation history. To date, a number of private airlines have started operations in Pakistan, out of which only four are present, and the rest of them have shut down due to the various

challenges faced by them. A brief history of these airlines is presented to reflect on the barriers that hindered their competitiveness in the industry.

a) Orient Airways (1947–1955)

Established in 1947, Orient Airways was Pakistan's first private airline, operating a fleet of Douglas DC-3 aircraft for domestic flights. Despite initial success, the airline faced financial difficulties from competition and costs. In a pivotal moment for Pakistan's civil aviation, Orient Airways merged with other regional entities in 1955 to form PIA, providing the foundational infrastructure, fleet, and expertise for the new national flag carrier[33].

b) Pak Airways (1948–1949)

Pak Airways (also known as "Pak Air") was a short-lived private airline that operated from 1948 with a fleet of Douglas DC-3 aircraft. It focused on domestic services between cities like Karachi, Lahore, and Delhi. The airline faced significant safety issues, being involved in a series of four air crashes in its brief existence. The final crash near Karachi in December 1949, which resulted in 26 fatalities[34] and the deaths of high-ranking officials, led to the cancellation of its license and subsequent closure[34].

c) Hajvairy Airlines (1991–1993)

Founded in 1991, Hajvairy Airlines operated a small fleet for domestic services within Pakistan. The airline faced financial and operational challenges, leading to its shutdown in 1993[35]. Its brief existence highlighted the difficulties encountered by private carriers in Pakistan's competitive aviation market.

d) Aero Asia International (1993–2007)

Established in 1993 by the Tabani Group, Aero Asia International operated as a low-cost carrier with a fleet of various older jet and turboprop aircraft for domestic and international flights. In 2006, it was acquired by the British Regal Group[36]. The airline faced financial difficulties, managerial issues, and safety concerns, leading to its suspension by the Civil Aviation Authority (CAA) in 2007. Its closure underscored the importance of regulatory oversight and financial stability for private carriers.

e) Shaheen Air International (1994–2018)

Founded in 1994 by the Shah family, Shaheen Air International grew to be Pakistan's second-largest airline[37], operating a diverse fleet of Boeing 737s and Airbus A330s for domestic and international services. The airline faced significant financial difficulties, including substantial debts and unpaid salaries, which ultimately led to its cessation of operations and liquidation in 2018. Its closure underscored the substantial financial challenges inherent in Pakistan's private aviation sector.

Shaheen Air Fleet

Aircraft Type	Historic
Airbus A300	2
Airbus A319	8
Airbus A320	9
Airbus A330	7
Boeing 737	29
Boeing 767	1
Total	56

Source: https://www.airfleets.net/flottecie/Shaheen%20Air.htm

f) Bhoja Air (1993–2000, 2012)

Bhoja Air was founded in 1993 for domestic operations, suspended services in 2000 due to financial issues, and relaunched in 2012 with a small Boeing 737 fleet under the Bhoja Group[38]. Shortly after restarting operations, Flight 213 crashed near Islamabad in April 2012, killing all 127 passengers[39]. The incident led the CAA to immediately suspend the airline and raised serious concerns about safety standards and regulatory oversight in Pakistan's aviation sector.

g) Air Indus (2013–2015)

Air Indus began operations in 2013 as a low-cost domestic carrier, operating a small Boeing 737 fleet[40] under investor leadership by Abdul Wahab. After two aircraft were damaged in the 2014 Karachi terrorist attack, its fleet dropped below the minimum requirement set by the NAP 2015. Consequently, the CAA suspended its license on June 30, 2015[41]. The airline's closure highlighted gaps in security preparedness and the need for stronger, forward-looking aviation policies.

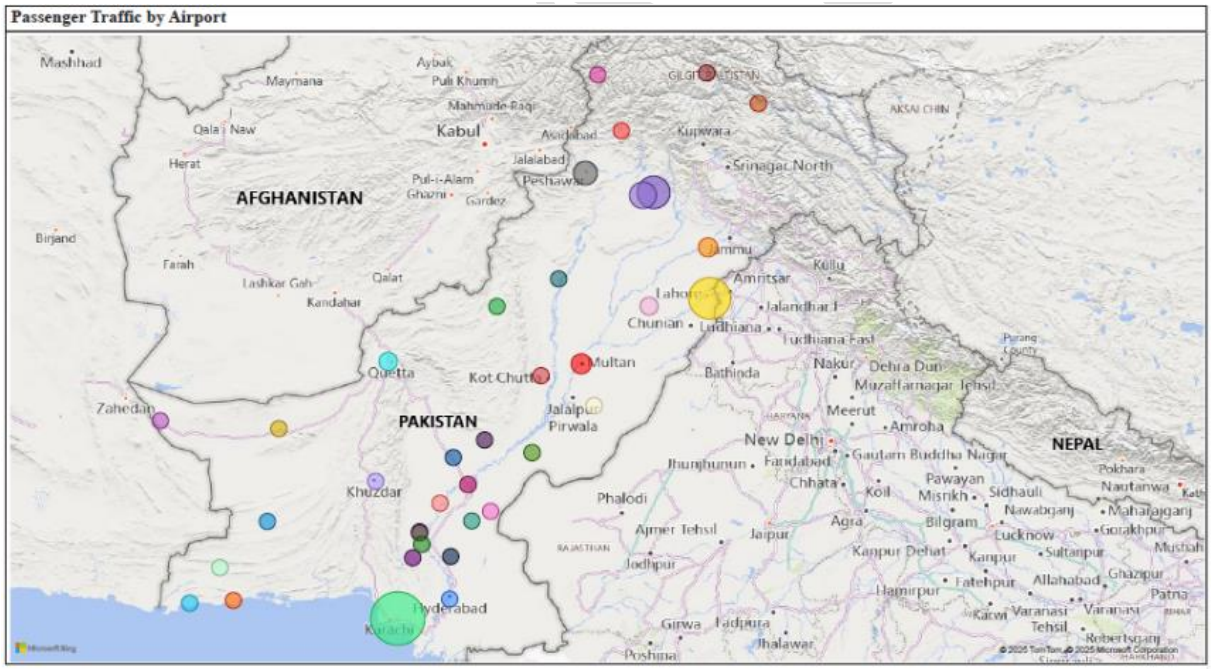
3.1.4 Present Airlines

As of September 2025, Pakistan's scheduled domestic air passenger market has been served by PIA, Air Blue, Air Sial, SereneAir, and Fly Jinnah. A detailed assessment of their operations, market shares, and competitive dynamics is presented in the following chapter on the air passenger market.

3.2 Airports

Pakistan has 36 operational airports and airstrips, including 11 international and 26 domestic facilities, according to CAA air traffic data for 2023–2024[42]. Except for Sialkot International Airport, the only privately operated facility, all scheduled-service airports are government-managed. The map in Figure-6, (Power BI [43] visualisation) shows airport locations and relative passenger traffic from 2006-07 to 2023-24, highlighting Karachi, Lahore, and Islamabad as the country's busiest hubs.

Figure 15: Airport Location and Traffic Bubble Map



Source: Author's geographic analysis of CAA Airport traffic data (2006-07 to 2023-24)

Over the past 19 years, available data indicates the utilization of 49 airports and airstrips across Pakistan. Among these, the highest number was located in Sindh (15), followed by Balochistan (12). However, traffic data for 2024–25 shows that only 36 of these facilities were active in terms of commercial and non-commercial aircraft

Province	Active < 100 Com	Active < 1000 Com	Active Com	Active NC	Total
Sindh	15	4	1	1	3	15
Balochistan	12	4	2	1	4	12
Punjab	10	2		4	2	10
Khyber Pakhtunkhwa	6	1		1	2	6
Azad Kashmir	2					2
Federal	2			1	1	2
Gilgit-Baltistan	2		1	1		2
Total	**49**	**11**	**4**	**9**	**12**	**49**

movements. Of these active airports and airstrips, Sindh accounted for 9, Balochistan 11, Punjab 8, Khyber Pakhtunkhwa 4, the Federal Capital 2, and Gilgit-Baltistan 2, while Azad Kashmir recorded no aircraft movements during the period. Notably, aircraft movement levels remained limited across a significant number of these facilities: 11 airports recorded fewer than 100 aircraft movements, 4 recorded fewer than 1,000 movements, and only 9 airports handled more than 1,000 movements. In addition, 12 of the operational facilities were used exclusively for non-commercial activities.

This distribution highlights a considerable degree of underutilization within the airport network, where a large number of operational facilities experience minimal air traffic. Such low movement levels suggest inefficiencies in infrastructure utilization and point toward the need for strategic assessment of airport roles, connectivity planning, and potential consolidation or repurposing of underused facilities..

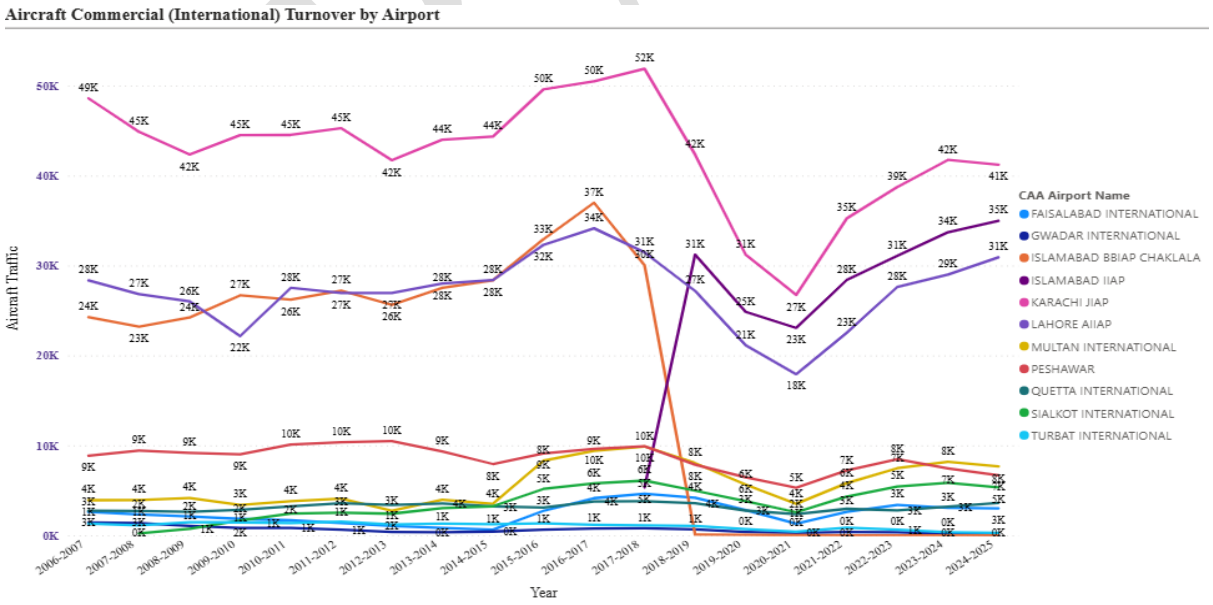
3.2.1 Airport Traffic Analysis

Airport traffic is analysed by aircraft movements and passenger traffic for the past 19 years from 2006-07 to 2024-25.

a) Aircraft Traffic:

Pakistan's commercial civil aviation market has an aircraft turnover of 2.478M, with 1.165M for the domestic market and 1.313M for the international market. Jinnah International Airport remained the hub of aircraft traffic with almost . Other major airports were Islamabad International Airport along with Benazir Bhutto International Airport (BBIA) (the old airport of Islamabad / Rawalpindi, which has now been closed for commercial operations), collectively representing the federal region turnover), and Allama Iqbal International Airport. The graphs below show the aircraft turnover trends over past 19 years.

Figure 17: Aircraft Movement Trends over 19 years

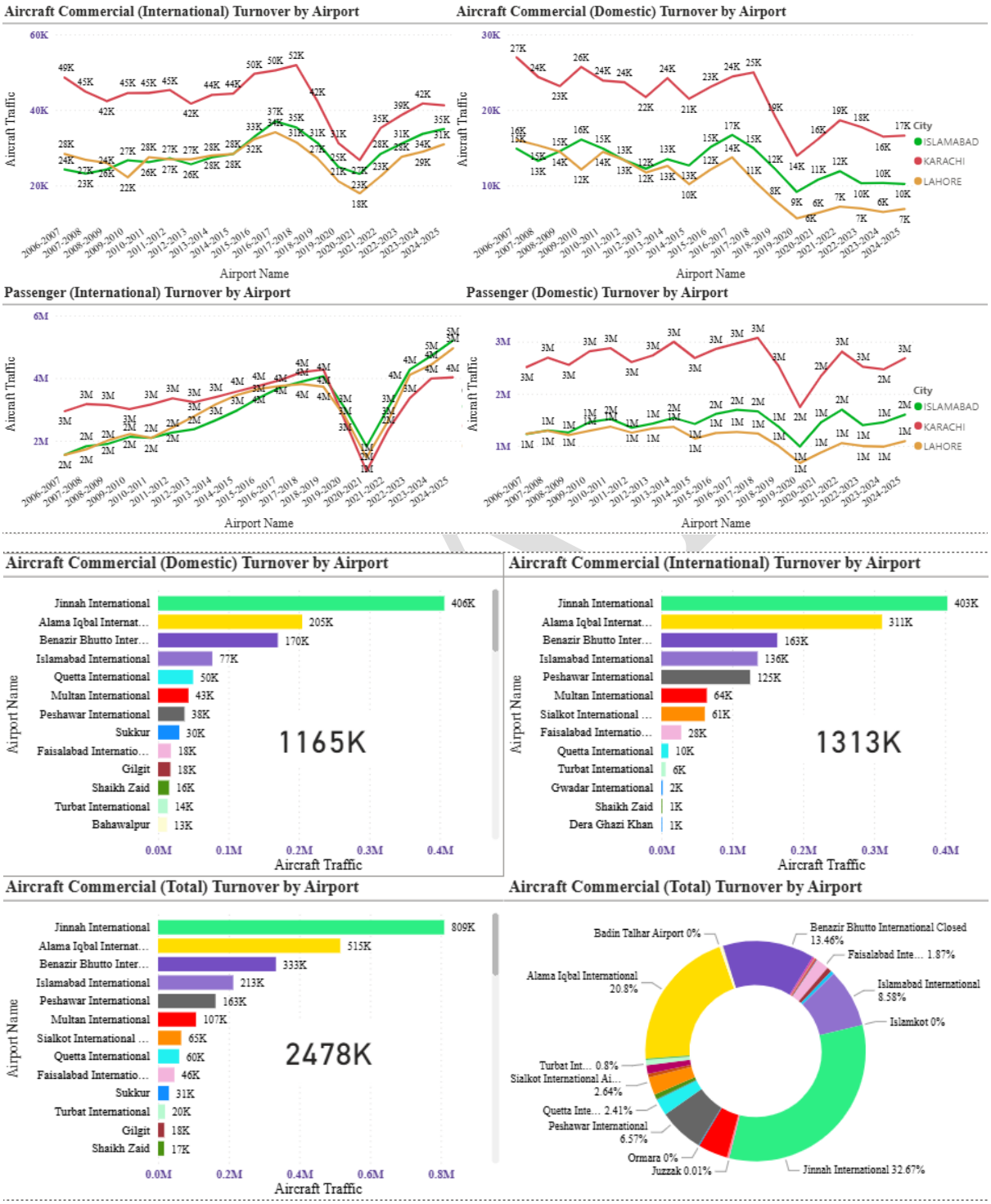


Source: Author's analysis of CAA traffic data

In Pakistan, generally the airport to city ratio is 1:1 and no city is having more than one airport. Due to the closure of BBIA in Rawalpindi, the region-wise graphical analysis is presented to mitigate the differences in data due to shift of traffic from BBIA to Islamabad International airport.

The graphs highlight that Karachi, Islamabad, and Lahore are the major regions where international passenger traffic has gradually increased for Islamabad as compared to historic leader Karachi region. Overall, the aircraft movement show a decreasing trend in the past 19 years with a stagnant domestic passenger market.

Figure 17: Aircraft Traffic by Area and Airport 2006-07 to 2024-25



Source: Author's calculation based on CAA traffic data

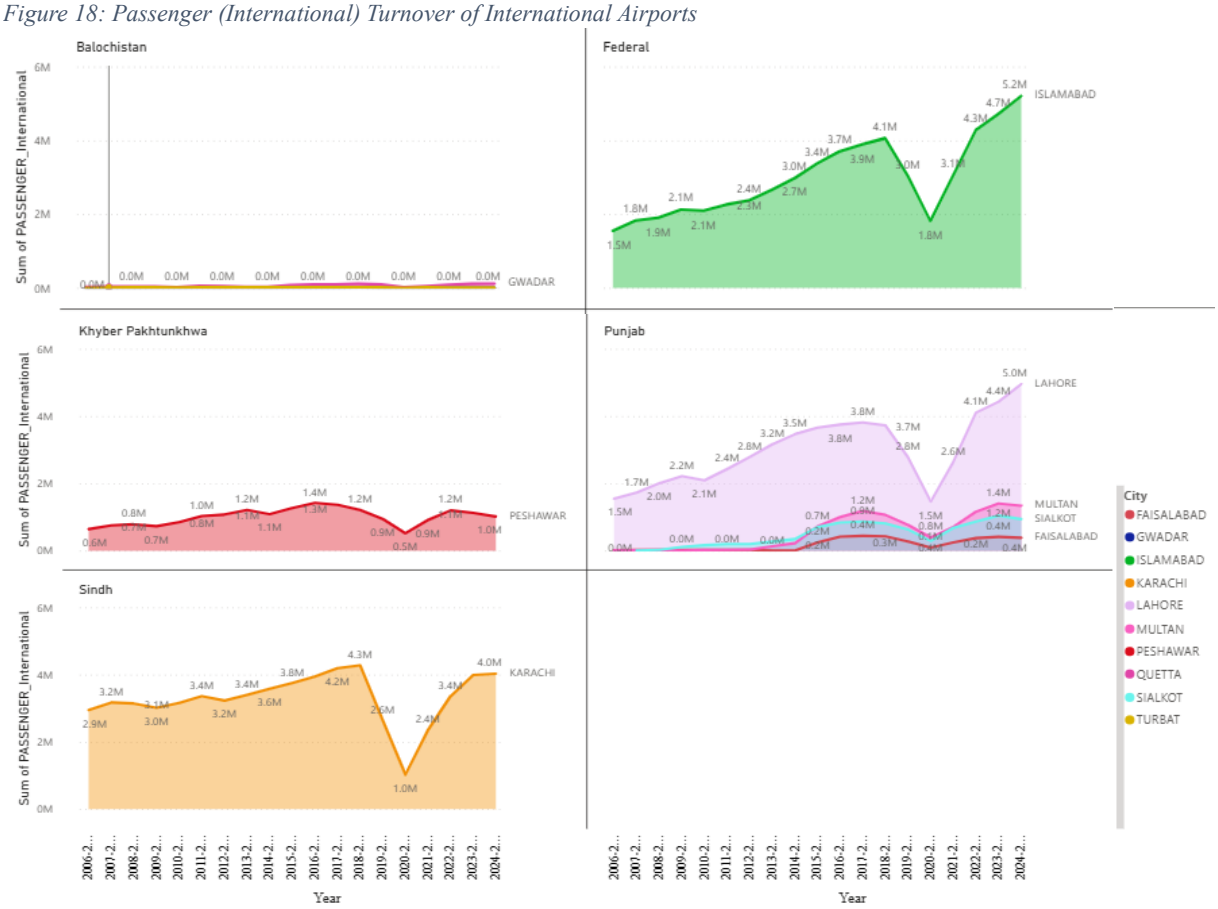
b) *Air Passenger Traffic:*

Passenger traffic distribution further reflects a pronounced regional asymmetry in aviation activity. During the period under review, Sindh handled approximately 115 million passengers, followed by Punjab with 107.9 million, the Federal Capital with 84 million, Khyber Pakhtunkhwa with 23 million, and Balochistan with only 1.96 million passengers, while Azad Kashmir recorded no passenger traffic. Notably, despite having comparatively fewer airports than Sindh, Punjab handled almost a similar magnitude of passenger traffic, indicating a higher concentration of traffic at a limited number of facilities.

Province	Sum of PASSENGER_total
Sindh	115032395
Punjab	107943055
Federal	84340653
Khyber Pakhtunkhwa	23181597
Balochistan	8168620
Gilgit-Baltistan	1965508
Azad Kashmir	0
Total	340631828

This pattern reinforces the earlier observation of underutilized airport infrastructure across several regions. While a few major hubs, particularly in Sindh, Punjab, and the Federal Capital, account for the bulk of passenger traffic, several airports in regions such as Sindh, Balochistan and parts of Khyber Pakhtunkhwa experience very limited activity. The disparity suggests a need for more targeted policy focus to improve connectivity and stimulate demand in underserved regions while reassessing the strategic utilization of airports with p ersistently low traffic volumes. The following figure also depict the utilization and presence of international airports in provinces.

Figure 18: Passenger (International) Turnover of International Airports



3.2.2 Global Experience with Airport Privatization: Implications for Pakistan

a) Global evolution of airport privatization

Over the past three decades, airport ownership and management models worldwide have undergone a structural transformation. Governments have increasingly moved away from fully state-operated airport systems toward private sector participation, primarily to improve efficiency, enhance service quality, and mobilize private capital for infrastructure development. According to the *Annual Privatization Report 2024 – Aviation* [44], approximately 43% of global air passenger traffic is now handled by airports with some form of private sector involvement, reflecting the normalization of privatization and PPP arrangements in aviation infrastructure [44].

This trend is no longer limited to advanced economies; emerging and developing countries have increasingly adopted privatization frameworks as part of broader infrastructure and fiscal reform agendas [44].

b) Predominance of concession-based P3 models

The report highlights that long-term concession-based PPP models have become the preferred form of airport privatization globally, replacing earlier models of outright asset divestment. Under these arrangements, governments typically retain ownership of airport assets while granting private operators the right to finance, operate, expand, and commercially manage airports for periods ranging from 25 to 99 years [44].

This model is prevalent across Europe, Latin America, Asia-Pacific, and the Middle East. Countries such as Brazil, Greece, the Philippines, and Saudi Arabia have adopted concession frameworks that combine operational responsibility with mandatory capital investment obligations and performance benchmarks [44].

c) Performance outcomes of privatized airports

Empirical evidence summarized in the report suggests that airports with private participation often outperform fully state-run airports in terms of service quality, operational efficiency, and financial sustainability. Many of the world's top-ranked airports, including Heathrow, Zurich, Vienna, Copenhagen, and Rome, operate under privatized or corporatized structures with significant private sector involvement [44].

From a financial perspective, investor-owned airport groups generated approximately USD 38.9 billion in revenues in 2022, demonstrating the commercial viability of airport assets when managed under market-oriented frameworks [44]. Additionally, the emergence of large airport operator groups managing multiple airports has enabled economies of scale, improved access to financing, and cross-subsidization of smaller or regional airports [44].

d) Post-COVID resurgence of airport privatization

Following the sharp decline in air travel during the COVID-19 pandemic, the global airport privatization market has experienced a strong recovery. The Annual Privatization Report 2024 [44] notes that by 2024, passenger traffic had largely returned to pre-pandemic levels, restoring investor confidence in the aviation sector. According to the said report, despite pandemic-related disruptions, airport PPP transactions amounted to USD 17.7 billion in 2023, indicating renewed momentum in privatization activity. Recent transactions increasingly focus on terminal expansions, greenfield airport

developments, refinancing of existing concessions, and bundled regional airport packages, particularly in emerging markets ([44], pp. 18–19).

3.2.3 Pakistan in the global privatization context

Most airports function as state-owned entities under the Civil Aviation Authority (CAA), similar to PIA. The key exception is Sialkot International Airport, which is privately developed and operated. Pakistan is now advancing plans to outsource operations of Islamabad International Airport, Jinnah International Airport and Allama Iqbal International Airport under models such as management contracts and long-term commercial concession agreements. The aim is to enhance operational efficiency, service standards, infrastructure investment and revenue generation. In 2025, Pakistan initiated a government-to-government (G2G) agreement to outsource the management of Islamabad International Airport to the UAE, aiming to improve operational efficiency and attract foreign investment[45]. While ownership remains with Pakistan, the move raised concerns regarding long-term control, revenue implications, and national interest, issues examined through stakeholder feedback and secondary data in this report. According to some reports, the Cabinet Committee on Inter-Governmental Commercial Transactions approved the shift to a G2G model, which was considered by the critics as bypassing the usual open tender process to fast-track the arrangement [46]. However, after initially considering G2G arrangements [47], the government has now shifted to an open, competitive bidding process to ensure transparency and equal opportunity for domestic and international investors, clarifying that no prior lease agreement had been signed [48].

The Annual Privatization Report 2024 [44] specifically references Pakistan's initiative to privatize Islamabad International Airport through a 15-year PPP concession. The proposed scope includes terminal modernization, apron development, parking facilities, cargo handling, and maintenance, repair, and overhaul (MRO) services. This approach aligns Pakistan with prevailing international practice, particularly among countries that have opted for concession-based models to modernize aviation infrastructure while retaining public ownership of strategic assets.

Global experience suggests several lessons that are directly relevant for Pakistan. First, concession-based PPP models provide a politically and institutionally viable pathway for airport reform without permanent asset divestment. Second, successful privatization frameworks integrate operational responsibility with clearly defined investment obligations and service quality standards. Third, revenue sharing mechanisms, rather than fixed concession fees, are increasingly used to align public and private incentives and safeguard government revenue during periods of traffic growth [44].

Finally, the global experiences underscore the importance of independent economic and safety regulation to ensure that privatization delivers efficiency gains while protecting consumer interests, a consideration of particular relevance for Pakistan's ongoing aviation sector reforms

4. Air Passenger Market

4 Air Passenger Market

This chapter offers a focused assessment of Pakistan's air passenger market, covering both domestic and international segments. Using secondary data, it maps the market structure, evaluates carrier participation, and applies concentration measures, including the HHI, to gauge competitive intensity. The analysis highlights a highly concentrated domestic market and an international market characterised by multiple operators but shaped by established traffic patterns and bilateral arrangements. This chapter is limited to descriptive market diagnostics; all operational issues, stakeholder perspectives, and related recommendations are examined in the subsequent chapter.

4.1 Domestic Air Passenger Market

4.1.1 Market Structure

Current Pakistani players in the commercial civil aviation industry include PIA, Air Blue, Serene Air, Air Sial, and Fly Jinnah, which operate scheduled flights on domestic and specific international routes. These carriers compete on price, punctuality, and service quality.

a) Pakistan International Airlines (PIA) (Previously State-owned Entity)

PIA (1955) is the national flag carrier and previously state-owned entity (SOE), with a fleet of ~21 current aircraft and operations across domestic and international markets. Despite being the most recognisable brand, PIA has struggled with operational inefficiencies, excessive debt (Rs. 740B as of 2023), workforce redundancy, and safety-related restrictions in key markets like Europe (EU).

b) Air Blue (Private)

Air Blue was established in 2003 and commenced operations on 18 June 2004, making it one of Pakistan's early private airlines. It began service with three leased Airbus A320 aircraft on routes such as Karachi–Lahore and Karachi–Islamabad, quickly positioning itself as a competitor to the national flag carrier. As a technology-forward innovator in Pakistan's aviation sector, Air Blue introduced online e-ticketing and other digital services early on, signalling a new era in local air travel[49]. As of 2024, Air Blue operates a fleet of 11 aircraft. Through consistent performance and customer-focused operations, Air Blue remains one of the key private carriers supporting the growth and modernisation of Pakistan's air travel industry.

c) Serene Air (Private)

Serene Air is a private Pakistani airline that commenced operations in January 2017, quickly establishing a strong presence in the domestic and international markets. The airline operated a modest fleet, which included two Airbus A330-200s and one Boeing 737-800, with the current chief executive officer being Dr Yunchun Yang. The company faced a significant operational hurdle when its Air Operator Certificate (AOC) license was reportedly suspended on October 03, 2025, with expectations of reviving the operations[50]. This suspension was a result of the airline's inability to maintain the minimum required number of operational aircraft; the short fleet underwent essential safety checks simultaneously, leaving no serviceable planes available to fly[51]. Despite this regulatory challenge, Serene Air has generally maintained a steady role in enhancing connectivity through its focus on service quality and competitive pricing within Pakistan's aviation industry.

d) Air Sial (Private)

Air Sial was established in 2015 by the Sialkot Chamber of Commerce and Industry with the vision of enhancing regional connectivity and supporting business travel needs. The airline officially commenced operations on December 25, 2020, initially offering domestic flights before expanding into international routes. Its creation marked a significant milestone for Sialkot's business community, reflecting the city's entrepreneurial spirit and contribution to Pakistan's aviation development. As of 2025, Air Sial operates a fleet of seven Airbus A320-200 aircraft, each with a capacity of 180 passengers. The airline continues to perform successfully, steadily expanding both its domestic and international route networks. Through competitive pricing and reliable services, Air Sial has strengthened its position in Pakistan's aviation market and contributed to increasing connectivity within the region.

e) Fly Jinnah (Private)

Fly Jinnah was established as a joint venture between Pakistan's Lakson Group and the UAE's Air Arabia Group, officially announced in September 2021. The airline commenced operations in October 2022, initially offering domestic flights across major Pakistani cities. Its entry marked the introduction of a new low-cost carrier model in Pakistan's aviation industry, aimed at providing affordable and reliable air travel options to a wider customer base. As of 2025, Fly Jinnah operates a fleet of six Airbus A320 aircraft. The airline continues to operate successfully, steadily expanding its domestic route network and attracting price-sensitive travellers. By promoting cost-effective air travel and operational efficiency, Fly Jinnah has increased competition in Pakistan's aviation market and contributed to the diversification and modernisation of the country's airline industry.

Table 3 presents a comparative view of Pakistan's domestic airlines fleet data with age, which helps understand the overall quantity and age of the aircraft.

4.1.2 Newly Established Pakistani Airlines

a) Air Karachi (Private)

Air Karachi, launched in November 2025 and led by retired Air Vice Marshal Syed Imran Majid Ali, adopts a lean, efficiency-focused model inspired by AirSial[52]. The airline has secured its Regular Public Transport (RPT) license from the PCAA, signed a maintenance and operations agreement with PIA[53], and plans to begin domestic flights on March 23, 2026. It will initially operate three to five leased Airbus A320-family aircraft, with plans to expand to routes such as Jeddah, Riyadh, and Dubai after completing the mandatory first year of domestic operations. While aiming to enhance regional connectivity and competition, the airline currently holds no market share (as of June 2025) and faces key challenges related to regulatory compliance, securing its announced PKR 5B investment, and finalising aircraft leases, all within Pakistan's historically volatile private aviation environment.

b) Air Punjab (SOE)

Air Punjab, approved in April 2025 at the direction of Chief Minister Punjab, is planned as Pakistan's first provincial airline, initially serving domestic routes within Punjab, starting with Lahore-Islamabad, and later expanding internationally. Launched alongside the federal government's PIA privatisation efforts, the new SOE currently holds no market share (as of June 2025). The airline plans to begin operations with four to five leased Airbus aircraft[54] but faces major pre-operational challenges, including securing its estimated PKR 10B funding[55], meeting regulatory requirements, and recruiting senior management. While the initiative aims to improve regional connectivity and economic activity,

it has also drawn public scrutiny for introducing a new government-backed airline at a time when the national carrier is being privatised.

Table 3: Domestic Airlines Fleet Data

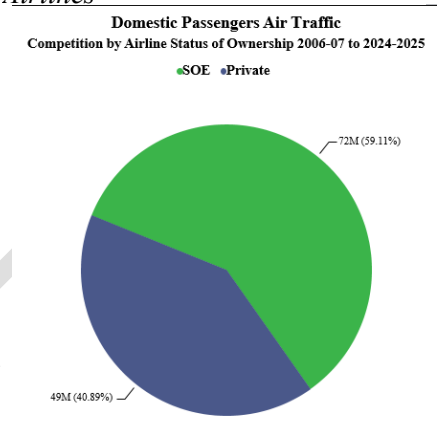
Aircraft	Airline	PIA [56]	Air Blue [57]	Serene Air[58]	Air Sial[59]	Fly Jinnah [60]	Total
	Code	Pakistan	PA ED ABQ	ER SEP	PF SIF	9P FJL	
	Callsign	PK PIA	Pakblue	Serene	Air Sial	Fly Jinnah	
	Type	Active	Active	Non-operational	Active	Active	
Airbus A330	Wide-body (Medium/Long-haul)			2			**2**
Average Age				18 years			
Airbus A320	Narrow-body (Short/Medium range)	12	5	1	7	6	**31**
Average Age		15.1 years	13.8 years	15 years	16.1 years	10 years	
Airbus A321	Narrow-body (Short/Medium range)		6				**6**
Average Age			8.7 years				
ATR 42/72	Turboprop (Short-haul)	2					**2**
Average Age		19 years					
Boeing 777	Wide-body (Long-haul)	7					**7**
Average Age		19.3 years					
Boeing 737 NG / Max	Narrow-body (Short/Medium range)			1			**1**
Average Age				8.8 years			
Total Aircrafts with Domestic Players		**21**	**11**	**4**	**7**	**6**	**49**
Aggregate Avg. Age		**17.8**	**11.3**	**13.9**	**16.1**	**10.0**	

Source: airfleets.net[61]

4.1.3 Domestic Market Share

During the past 19 years (from 2006-07 to 2024-25), the domestic market served 121M passengers starting from 6.07M in 2006-07 to ~6.3M in 2024-25 as per data collected from the archives of CAA[42].

Figure 19: Domestic Passenger Air Traffic Share of SOE vs Private Airlines

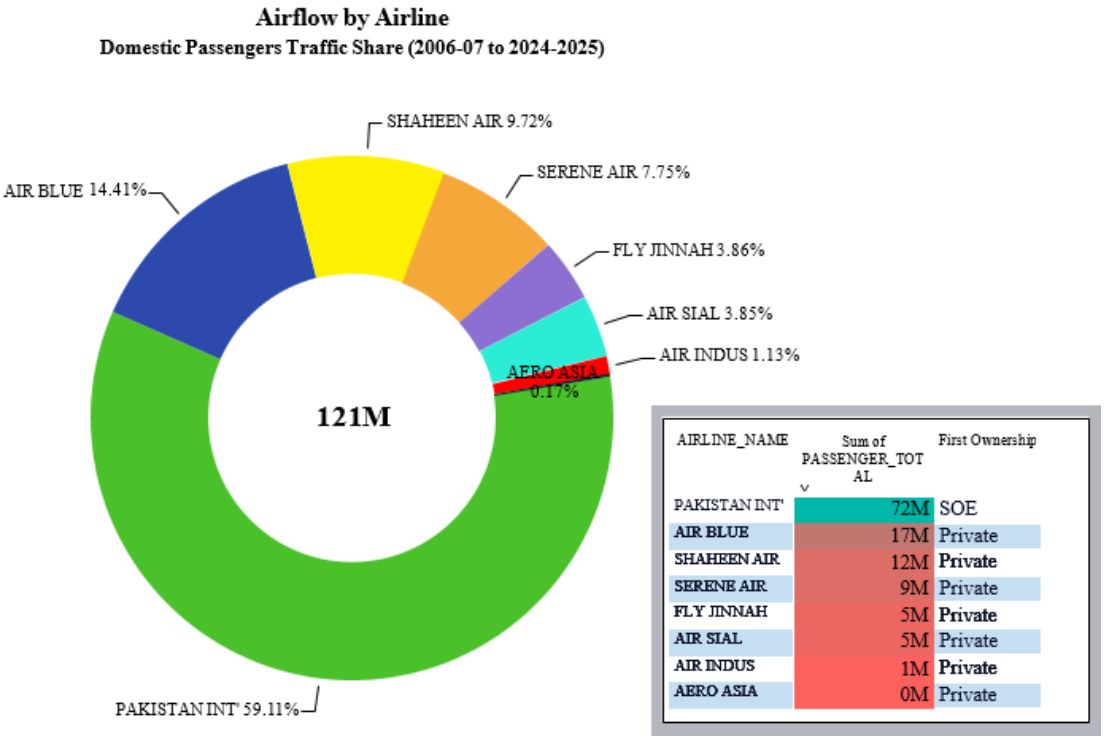


Source: Author's Calculation based on CAA Data

a) Historic Market Share

Domestic passenger traffic in Pakistan has been predominantly led by PIA as a state-owned entity which maintained a strong position. From 2006-07 to 2024-25, SOE held an aggregate of around 59.11% of the domestic market share, while private airlines accounted for 40.89%. Among the private carriers, Air Blue and Shaheen Air established notable positions, holding approximately 14.41% and 9.72% of the market share, respectively. However, Shaheen Air closed its operations in late 2018 due to financial difficulties and other challenges.

Figure 20: Domestic Passenger Traffic Share by Airline (2006-07 to 2024-25)

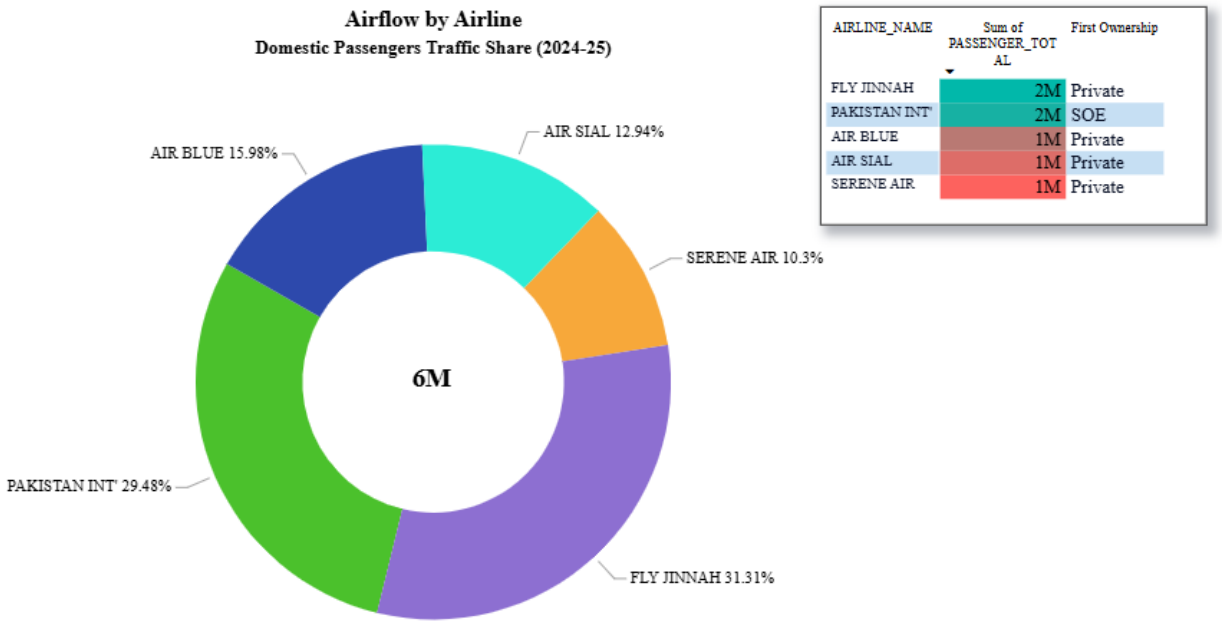


Source: Author's Calculation based on CAA Data

b) ***Domestic Market Share for 2024-25***

As per the latest figures for 2024-2025 (Figure 11), the domestic market served ~6.3M passengers and showed Fly Jinnah as the major player with almost 31% share, followed by PIA, Air Blue, Air Sial and Serene Air with 29%, 16%, 13%, and 10% market shares respectively.

Figure 21: Domestic Passengers Traffic Share 2024-25



Source: Author's calculation based on CAA Data

c) ***Herfindahl-Hirschman Index (HHI) of the Domestic Market***

The calculated HHI of 2378.281 based on the market share for 2024-25 for the domestic passenger airline industry signifies a high level of market concentration. According to the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) horizontal merger guidelines, this figure places the market squarely in the "highly concentrated" status (HHI values above 1800) [62].

Table 4: HHI Calculation for Domestic Market

Airline	Share %age	Squared
Fly Jinnah	31.31	980.3161
PIA	29.48	869.0704
Air Blue	15.98	255.3604
Air Sial	12.94	167.4436
Serene Air	10.3	106.09
Total HHI Value		**2378.281**

Source: Author's Calculation based on CAA Data

Such concentration is a critical indicator for regulatory scrutiny, as established in numerous economic studies. Research has consistently demonstrated that high HHI values correlate with reduced competitive pressure, potentially enabling dominant firms to exert greater pricing power and limit

consumer choice [63]. Consequently, this market structure of domestic air passengers in Pakistan challenges the assumptions of perfect competition and necessitates a closer examination of potential oligopolistic behaviours and their impact on consumer welfare and market efficiency.

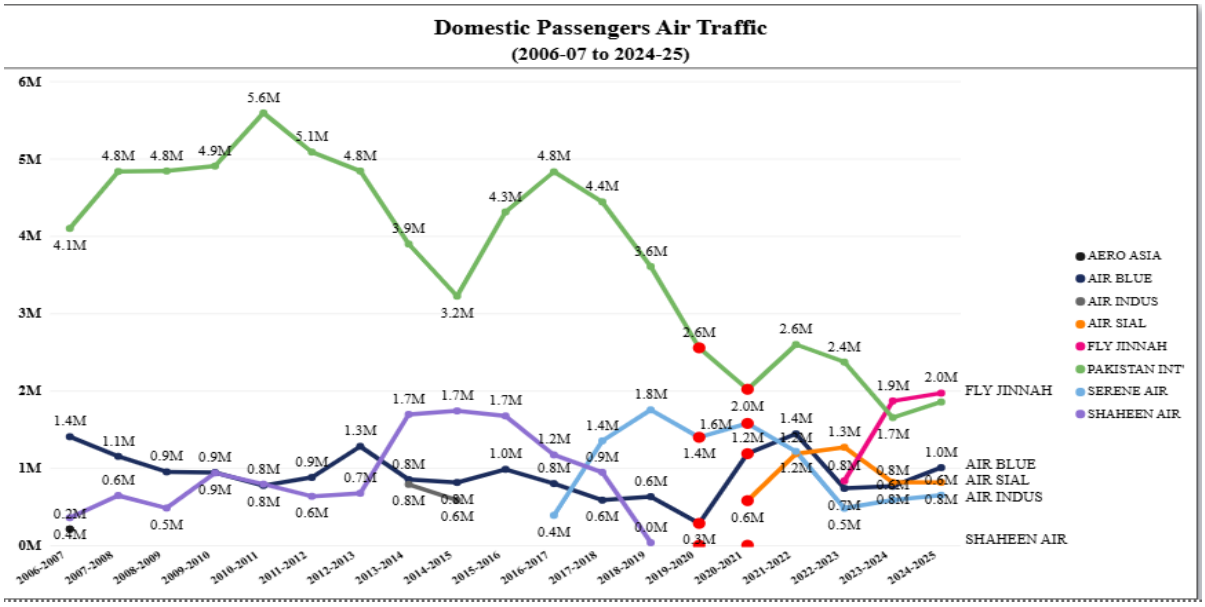
d) Timeline and Trends

Over the years, domestic air travel has shown fluctuating trends (Figure 12), reflecting sensitivity to economic conditions, fuel costs, and regional travel demand. Although growth has been relatively slow, data for 2024-25 [42] showed domestic passenger volumes could reach 6.3M, bringing the cumulative total from 2006-07 to 2024-25 to about 121M passengers.

Since 2006-07, the domestic aviation industry in Pakistan has experienced volatile market conditions, characterised by mixed trends in airline operations, which highlights the inherent challenges of this risky business environment. The period has seen the closure of several private airlines, namely Aero Asia International, Air Indus, and Shaheen Air International.

Shaheen Air, which commenced operations in 1994, became one of the leading private carriers in Pakistan after the national flag carrier, PIA, began operating both domestic and international routes. However, it faced significant financial challenges, ultimately ceasing all operations in October 2018 due to substantial unpaid government dues and regulatory issues. Aero Asia, founded in 1993, had a significant market presence as a low-cost carrier but faced management and safety issues, leading to the suspension of its operations by the CAA in March 2007. Air Indus began operations later, in July 2013, but its operations were suspended in July 2015 because it failed to meet the regulatory requirement of maintaining a minimum of three airworthy aircraft after two of its planes were damaged in a terrorist attack at Karachi Airport in June 2014.

Figure 22: Domestic Passenger Airlines Timeline



Source: Author's calculation based on CAA data

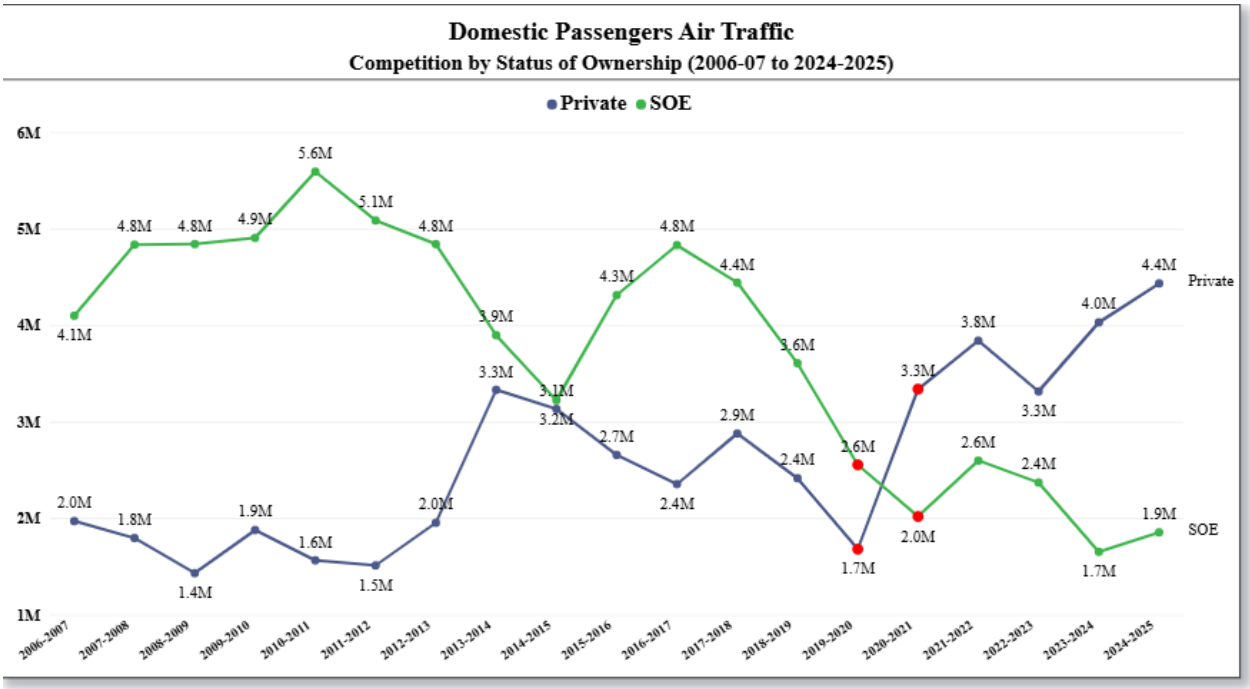
In contrast, Air Blue, which started operations in May 2004, has demonstrated remarkable resilience and is the only private airline from that era that has continued to operate for over a decade. Despite experiencing typical industry fluctuations, Air Blue has sustained its business, growing its network and maintaining a strong domestic market position. Even though the SOE, PIA, continued to hold the largest

market share, private airlines have outperformed SOE in the long run within the domestic air passenger market.

e) *Impact of the COVID-19 Pandemic on the Domestic Segment*

The Pakistani domestic aviation market has experienced significant upheaval and transformation since the Coronavirus Disease 2019 (COVID-19) pandemic. While the national flag carrier, PIA, demonstrated a notable decline, private domestic airlines have shown considerable growth. This reflects a broader shift in market dynamics and passenger confidence, where private carriers have effectively capitalised on the post-pandemic recovery and PIA's persistent operational challenges.

Figure 23: Domestic Passenger Air Traffic Timeline SOE vs Private Trend



Source: Author's calculation based on CAA data

Already facing long-standing financial and operational issues, PIA's performance worsened during and after the pandemic[64]. For instance, the airline reported a gross loss of Rs 10.59B and an operating loss of Rs 17.56 billion for the period ending September 2021[65]. The grounding of its flights on key international routes, particularly to Europe, further exacerbated its financial woes and diminished its market share.

PIA, the national carrier, faced significant, long-standing financial and operational challenges, showing a general downward trend in performance that persisted both before and after the COVID-19 pandemic[66], as shown in Figure 13, where red points indicate the COVID-19 period. The vacuum created by PIA's struggles and the earlier closure of competitors like Shaheen Air, Aero Asia, and Air Indus allowed private airlines to expand their market presence.

Air Blue has shown strong resilience, becoming Pakistan's second-largest carrier with about 10% passenger market share. Serene Air also grew after Shaheen Air's exit but faced setbacks, with its AOC suspended in October 2025 for not maintaining the required fleet size. The post-COVID market introduced new competition through Fly Jinnah, a low-cost joint venture with Air Arabia, which quickly captured 31% of domestic traffic in 2024–25[42], reflecting increasing foreign (especially Middle Eastern) penetration in Pakistan's aviation sector. Overall, the post-COVID period marked a major shift:

private airlines recovered rapidly and expanded their market presence, while PIA continued its decline, signalling a consumer shift toward more reliable and efficient private carriers.

4.1.4 Domestic Market Operational Efficiency Analysis

a) Overview of Operational Scale

The domestic aviation market in Pakistan was overwhelmingly dominated by PIA, which accounted for 845,737 total services (departures and arrivals combined) between 2006-07 and 2024-25[42]. This represents the largest share of domestic movements by a considerable margin. However, the airline's operational scale does not translate into corresponding efficiency. With an average of only 85 passengers per flight, PIA's passenger-to-service ratio is the lowest among major domestic carriers, despite operating the highest number of flights. This imbalance suggests that a large proportion of PIA's services may be running with low passenger loads, highlighting inefficiencies in route planning, load management, or aircraft deployment.

Table 5: Airline Efficiency Analysis (19 years, 2006-07 to 2024-25)

Airline Name	Avg. Passenger Traffic per Flight (Persons)	Avg. Cargo Traffic per Flight (MT)	Avg. Mail Traffic per Flight (MT)
Aero Asia	98	1.90	0.00
Air Blue	144	0.63	0.00
Air Indus	99	0.37	0.00
Air Sial	171	1.08	0.00
Fly Jinnah	154	0.73	0.00
Pakistan Int'	85	0.77	0.01
Serene Air	155	1.40	0.00
Shaheen Air	130	1.04	0.20
Grand Total	102	0.81	0.02

Source: Author's own calculation based on CAA Data

b) Passenger Efficiency

Private airlines demonstrated significantly higher passenger efficiency compared to the state-owned PIA. Air Sial records the highest passenger efficiency in the domestic market, averaging 171 passengers per flight, indicating strong demand alignment and effective utilisation of available capacity. Serene Air and Fly Jinnah follow closely with 155 and 154 passengers per flight, respectively, reflecting robust performance even with smaller operational footprints. Air Blue, one of the largest private carriers, maintains a solid efficiency ratio of 144 passengers per flight, balancing both scale and load optimisation.

In contrast, PIA's relatively low efficiency indicates underutilization of available capacity, likely resulting from the operation of smaller regional aircraft on low-demand routes or excessive frequency on certain sectors without proportional passenger uptake. The data collectively show that while PIA dominated by service count, private airlines achieve higher productivity per flight, indicating superior commercial and operational planning. The disparity in efficiency can be partially explained by differences in fleet composition and aircraft utilisation strategies. Most private domestic airlines, including Air Blue, Serene Air, and Air Sial, operate modern narrow-body aircraft such as the Airbus A320 family, which are optimised for medium-density routes and can carry 170-180 passengers efficiently. These carriers maintain lean operations and typically deploy aircraft on routes that match demand patterns, leading to higher average load factors.

PIA, however, operates a more diverse and older fleet that includes smaller regional aircraft alongside standard narrow-bodies, which affects its load and fuel efficiency. Furthermore, as the national carrier, PIA is often obligated to maintain connectivity with remote or low-demand destinations for public service reasons, further diluting its average load performance. Compared to Middle Eastern and Gulf carriers, which predominantly use wide-body aircraft with capacities of 300-500 passengers, Pakistani airlines are structurally limited by aircraft size and route profile, making direct comparisons less favourable but still indicative of relative underperformance.

c) ***Domestic Market Insights***

Across the domestic market, the average passenger efficiency stands at 102 passengers per flight, while the average cargo efficiency is 0.81. Within this context, Air Sial, Serene Air, and Fly Jinnah emerge as efficiency leaders, achieving strong passenger and cargo ratios through targeted operations and optimised fleet use. In contrast, PIA's vast service network, while reflecting its national mandate, reveals operational inefficiency and potential overcapacity in several domestic routes.

The findings suggest that strategic route rationalisation, fleet modernisation, and enhanced cargo integration could significantly improve the performance of underachieving airlines. For PIA in particular, aligning capacity with demand, optimising flight frequencies, and leveraging partnerships for freight logistics could be key steps toward improving operational efficiency and financial sustainability in the domestic market.

4.1 International Air Passenger Market

The Pakistani carriers operating in the international air passenger market till Sep-2025 were PIA, Air Blue, Air Sial, Fly Jinnah, and Serene Air, while Serene Air has halted its operations as of Dec-2025.

Several foreign carriers are operating in Pakistan's international air passenger market, which mainly includes state-owned Middle Eastern carriers. The airlines having a large share in Pakistan's market are briefly described below.

Table 6: Details of Major Foreign Airlines Operating in Pakistan

Airline (Country)	Ownership Structure	Primary Fleet Types	Operational Focus in Pakistan
Emirates (UAE - Dubai)	State-Owned	Airbus A380, Boeing 777 All Wide-body	Global connectivity via Dubai hub; high frequency; VFR market
Etihad Airways (UAE - Abu Dhabi)	State-Owned	Airbus A350, Boeing 787 Mixed (Wide & Narrow body)	Premium service, global connectivity via Abu Dhabi hub; VFR market
flydubai (UAE - Dubai)	State-Owned (LCC)	All-Boeing 737 (800/MAX) Narrow-body	Cost-effective access to Dubai from major & secondary Pakistani cities
Air Arabia (UAE - Sharjah)	Publicly Listed (LCC)	All-Airbus A320 Family Narrow-body	Budget travel via Sharjah hub; strategic JV with Fly Jinnah
Qatar Airways (Qatar)	State-Owned	A350, A320 Family, B777 Mixed (Wide & Narrow body)	Premium global connectivity via Doha hub; fierce competition with Emirates
Saudia (Saudi Arabia)	State-Owned	A320, A330, Boeing 777 Mixed (Wide & Narrow body)	Religious tourism (Hajj/Umrah), expatriate labour traffic, and unique demand
flynas (Saudi Arabia)	Private (LCC)	All-Airbus A320 Family Mixed (Mainly Narrow-body)	High-frequency, low-cost flights to Saudi Arabia for pilgrims/expats
flyadeal (Saudi Arabia)	State-Owned (LCC)	All-Airbus A320 Family All-Narrow-body	New entrant in Pakistan in 2025, low-cost point-to-point services for Umrah/Hajj/business
Kuwait Airways (Kuwait)	State-Owned	A320, A330, A350, B777 Mixed (Wide & Narrow body)	Connecting Pakistan to Kuwait; serving labour/expatriate communities
Gulf Air (Bahrain)	State-Owned	A320/A321neo, B787 Mixed (Wide & Narrow body)	Long-standing history; connecting Pakistan to Bahrain via a hub

Source: Publicly available information

4.1.1 International Market Share

a) Historic Market Share

Pakistan's international air passenger market has served over 220M passengers from 2006-07 to 2024-25. The sector has seen many international airlines entering and exiting the market, with Middle Eastern and Gulf airlines being the persistent major players in the long run. International passenger traffic from and to Pakistan has consistently outpaced domestic travel growth, underscoring the country's robust air connectivity with key global regions, particularly the Middle East, Gulf states, and Europe.

b) International Market Share for 2024-25

The Pakistani international passenger market experienced substantial growth between the fiscal years 2006–07 and 2024–25[42], expanding from 6.75M to 17.98M total passengers served. The number of active airlines also increased during this period, rising from an initial 28 carriers to 40 carriers in 2024–25. This market growth has been accompanied by a significant shift in market share dynamics, primarily characterised by the declining position of Pakistani national carriers and the increasing dominance of airlines based in the Middle East.

c) Herfindahl-Hirschman Index (HHI) of the Domestic Market

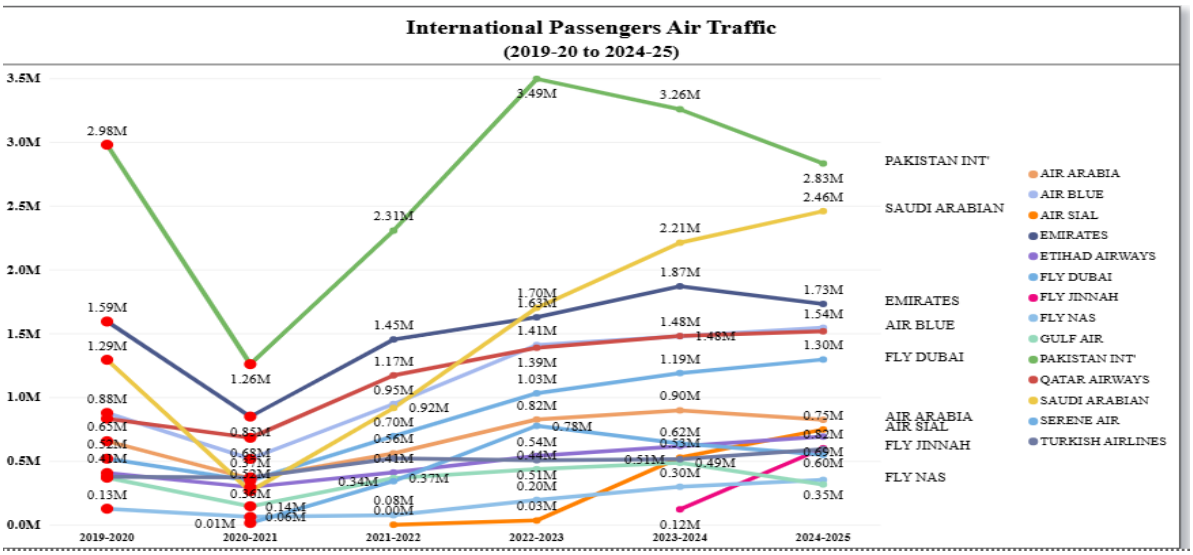
The international market's aggregate HHI of 827 reflects a low overall concentration level, meaning that, at a broad, sector-wide view, the market appears competitive and fragmented. Under DOJ/FTC standards [62], an HHI in this range indicates that no single airline holds dominant market power at the aggregate level. The HHI calculation for the participating 40 airlines is presented in Appendix-B.

d) Impact of the COVID-19 Pandemic

Graphical analysis of post-COVID-19 pandemic data (Figure 14) indicates a notable shift in market dynamics, characterised by the sharp increase in market share held by foreign carriers, particularly Saudi Arabian Airlines.

During this same period, PIA experienced a significant loss of market share. Similarly, private Pakistani aviation players continue to lag substantially behind their Middle Eastern competitors, highlighting the exacerbated competitive imbalance in the post-pandemic recovery phase.

Figure 24: International Passenger Air Traffic Trend after COVID-19



Source: Author's calculation based on CAA data

4.1.2 Total Passenger Market Share

Overall, the stats about total passenger market share based on the data[42] indicate that Pakistani players have a very small share in the international passenger market (Figures 16 & 17), and the four private players majorly hold share in the domestic market due to the capital and infrastructure limitations, as well as market security from international players.

Figure 25: International Passenger Traffic Airlines Share (2006-07 to 2024-25)

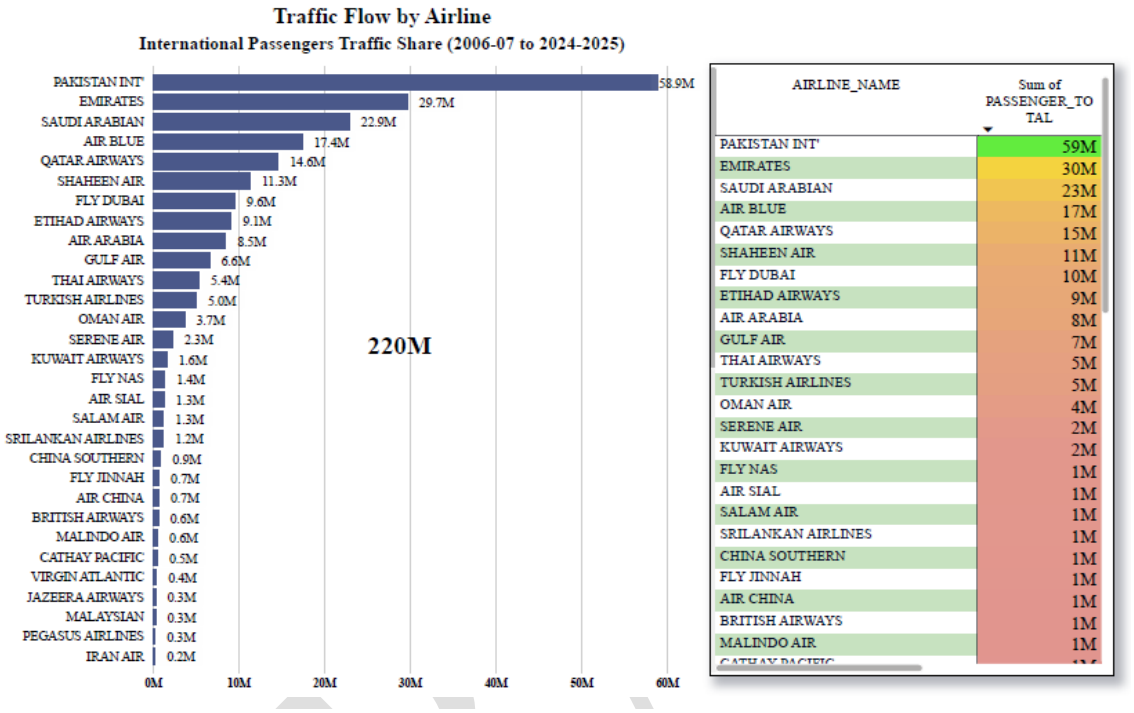
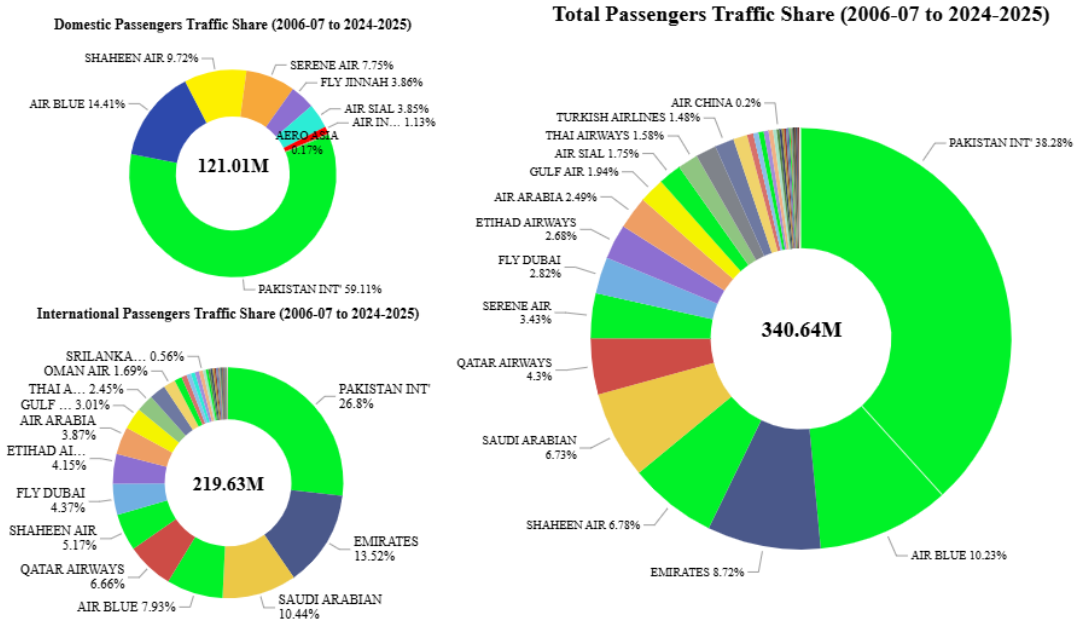
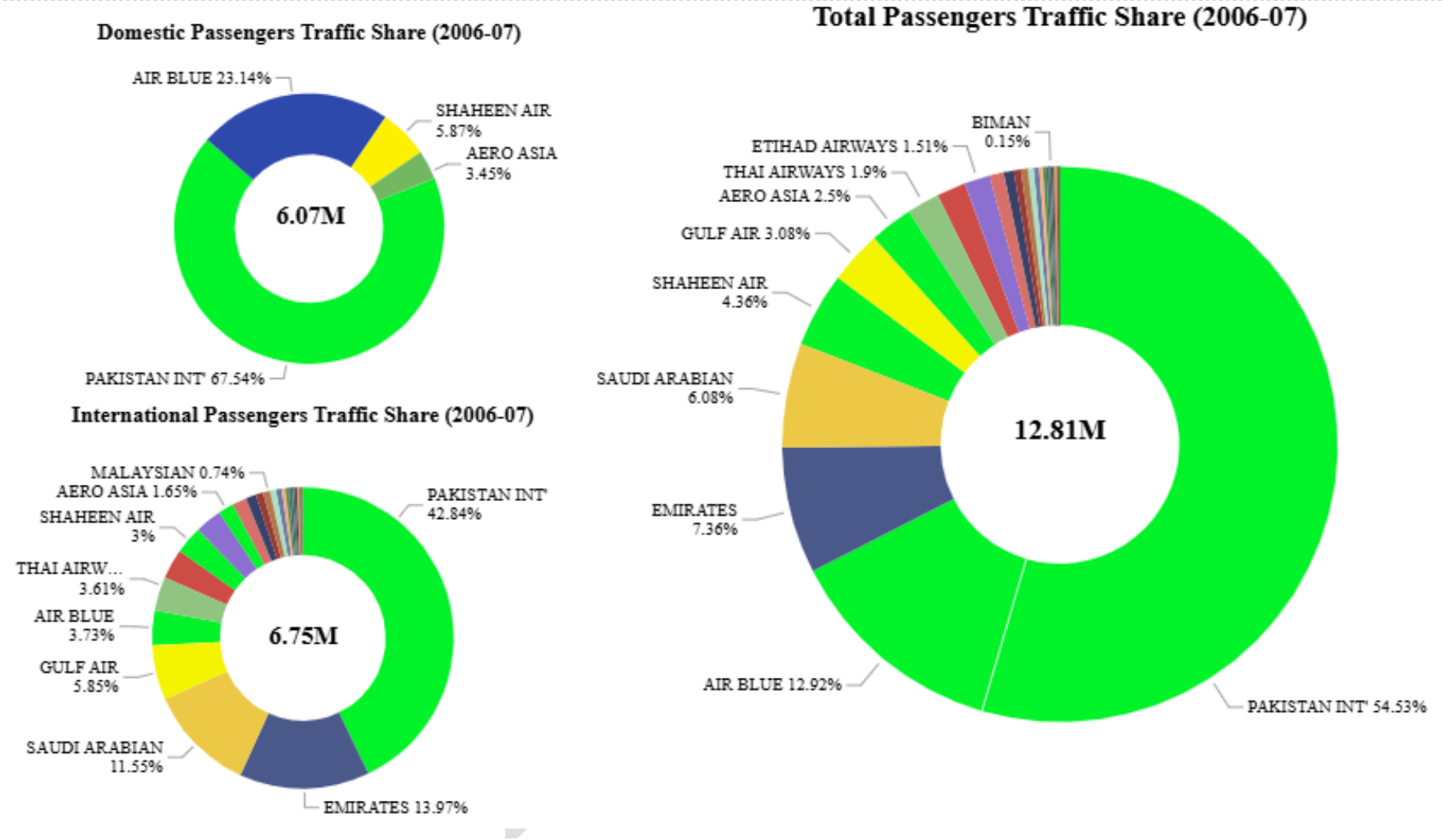


Figure 26: Passenger Market Overview of 19 Years (2006-07 to 2024-25)



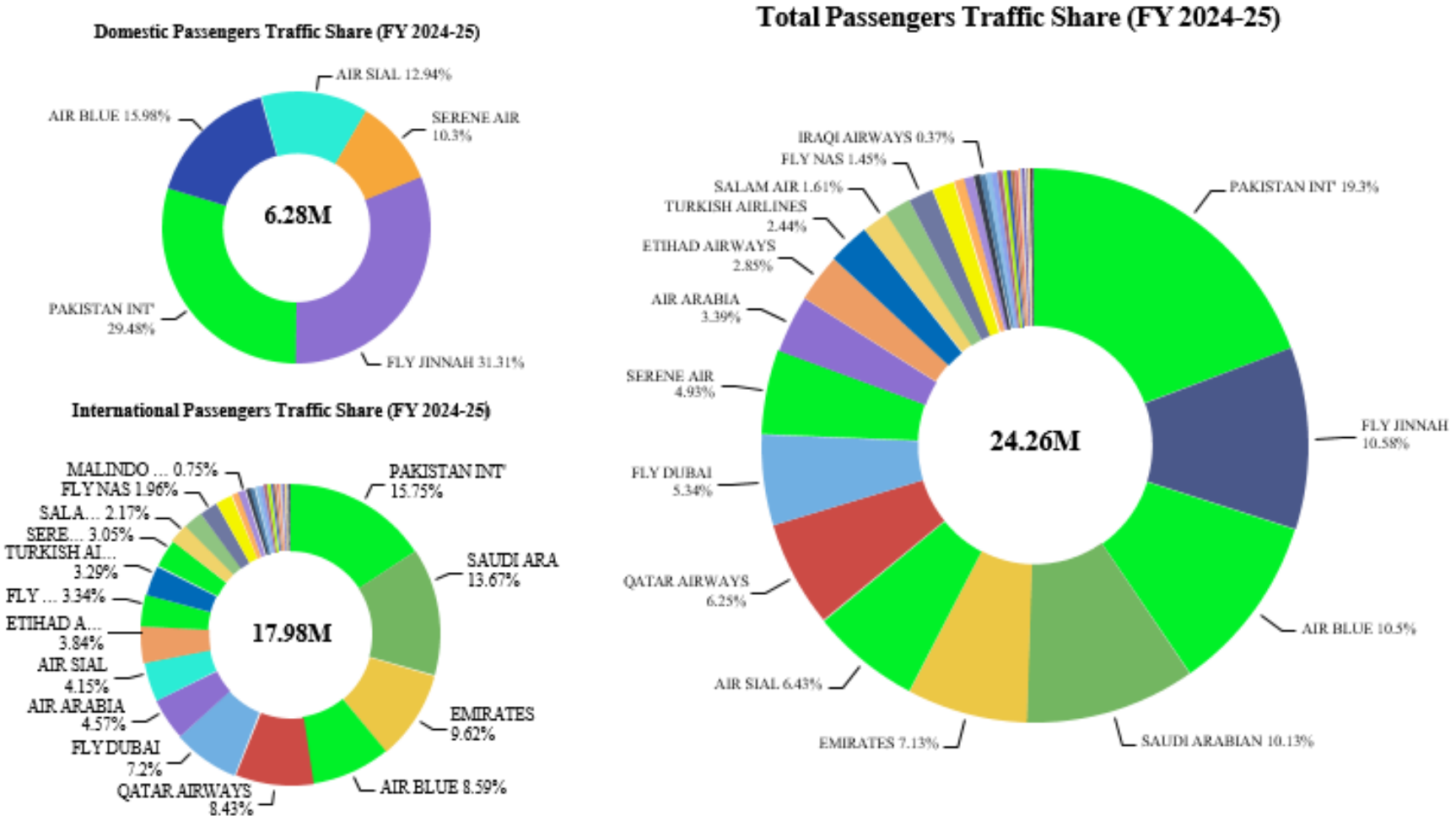
Source: Author's calculation based on CAA data

Figure 2725: Passenger Market Stats for 2006-07



Source: Author's calculation based on CAA data

Figure28: Passenger Market Stats for 2024-25



Source: Author's calculation based on CAA data

4.1.3 International Market Operational Efficiency Analysis

a) Overview of Operational Scale

In the international aviation market, PIA remained the largest operator in terms of flight movements, with 348,823 services (departures and arrivals combined) from 2006-07 to 2024-25[42]. However, this numerical dominance did not translate into operational efficiency. Despite handling the highest number of services, PIA's passenger efficiency ratio stands at only 169 passengers per flight, significantly below major international competitors. By contrast, airlines such as Emirates and Saudi Arabian Airlines manage similar or fewer total flights yet achieve far greater efficiency ratios of 278 and 271 passengers per flight, respectively. This pattern highlights a clear imbalance between PIA's operational scale and its ability to maximise passenger load per service, suggesting weaker capacity utilisation and demand alignment across its routes.

Table 7: International Market Airline Efficiency (19 years, 2006-07 to 2024-25)

Airline Name	Total Services Departed	Total Services Arrived	Avg. Passenger Traffic per Flight (Persons)	Avg. Cargo Traffic per Flight (MT)
Pakistan Int'	175640	173183	169	2.4
Air Blue	53646	53680	162	0.4
Emirates	53493	53506	278	10.3
Saudi Arabian	42254	42189	271	4.1
Qatar Airways	39617	39589	185	6.9
Shaheen Air	38034	37633	150	0.6
Fly Dubai	34214	34222	140	0.7
Air Arabia	31830	31862	133	1.2
Etihad Airways	29185	29187	156	4.3
Gulf Air	22589	22615	146	3.3
Oman Air	14391	14389	129	2.2
Thai Airways	13267	13219	203	11.3
Turkish Airlines	12783	12787	197	10.3
Kuwait Airways	7018	7014	115	3.5
Fly Nas	6603	6605	104	0.7
Dhl Aviation	6481	6474	0	17.5
Serene Air	6006	5992	193	1.3
Srilankan Airlines	5735	5735	106	4.0
Salam Air	4276	4272	148	0.6
Air Sial	3933	3934	166	0.4
Air China	3835	3836	91	4.8
China Southern	3640	3640	127	2.4
Cathay Pacific	3138	3141	83	7.6
Fly Jinnah	2575	2576	140	1.0
Malindo Air	2292	2292	122	0.2
British Airways	1588	1595	201	5.7
Kam Air	1501	1501	80	0.0
Jazeera Airways	1419	1420	113	2.0
Malaysian	1438	1269	117	8.9
Virgin Atlantic	1088	1088	192	6.9
Iran Air	992	992	123	0.7

Source: Author's own calculation based on CAA Data

b) *Passenger Efficiency*

The international data strongly emphasise the superior operational performance of Gulf-based and other foreign carriers serving Pakistan. Emirates, with roughly the same number of services as Air Blue, transports 29.7M passengers, achieving one of the highest passenger-to-service ratios in the dataset. Saudi Arabian Airlines follows closely, supported by strong demand on religious and labour routes, maintaining an average of 271 passengers per flight. Qatar Airways and Turkish Airlines also demonstrate strong passenger efficiency, with 185 and 197 passengers per flight, respectively, reflecting effective network planning and use of high-capacity aircraft on profitable routes.

In contrast, PIA's significantly lower figure indicates suboptimal utilisation, potentially resulting from operating a large number of smaller or under-booked flights. While PIA maintains extensive route coverage, its low efficiency underscores challenges in route profitability and passenger yield optimisation compared to the capacity-rich and demand-driven operations of the Gulf carriers.

c) *Fleet and Aircraft Capacity Considerations*

Differences in aircraft size and fleet composition are central to explaining the efficiency gap. Most Pakistani airlines operate narrow-body aircraft, such as the Airbus A320 family or Boeing 737s, which typically carry between 150 and 180 passengers and have limited cargo capacity. In contrast, Middle Eastern carriers like Emirates, Qatar Airways, and Saudi Arabian Airlines rely heavily on wide-body aircraft such as Boeing 777s, Airbus A350s, and A380s, aircraft capable of carrying 300–500 passengers and several tons of cargo per flight. This disparity in aircraft capacity naturally skews efficiency ratios, as the Gulf carriers' larger aircraft enable higher average loads per flight even with fewer total services. Furthermore, PIA's obligation to serve politically or socially significant routes with lower commercial viability, coupled with its older fleet composition, contributes to reduced operational productivity compared to its international competitors.

d) *International Market Insights*

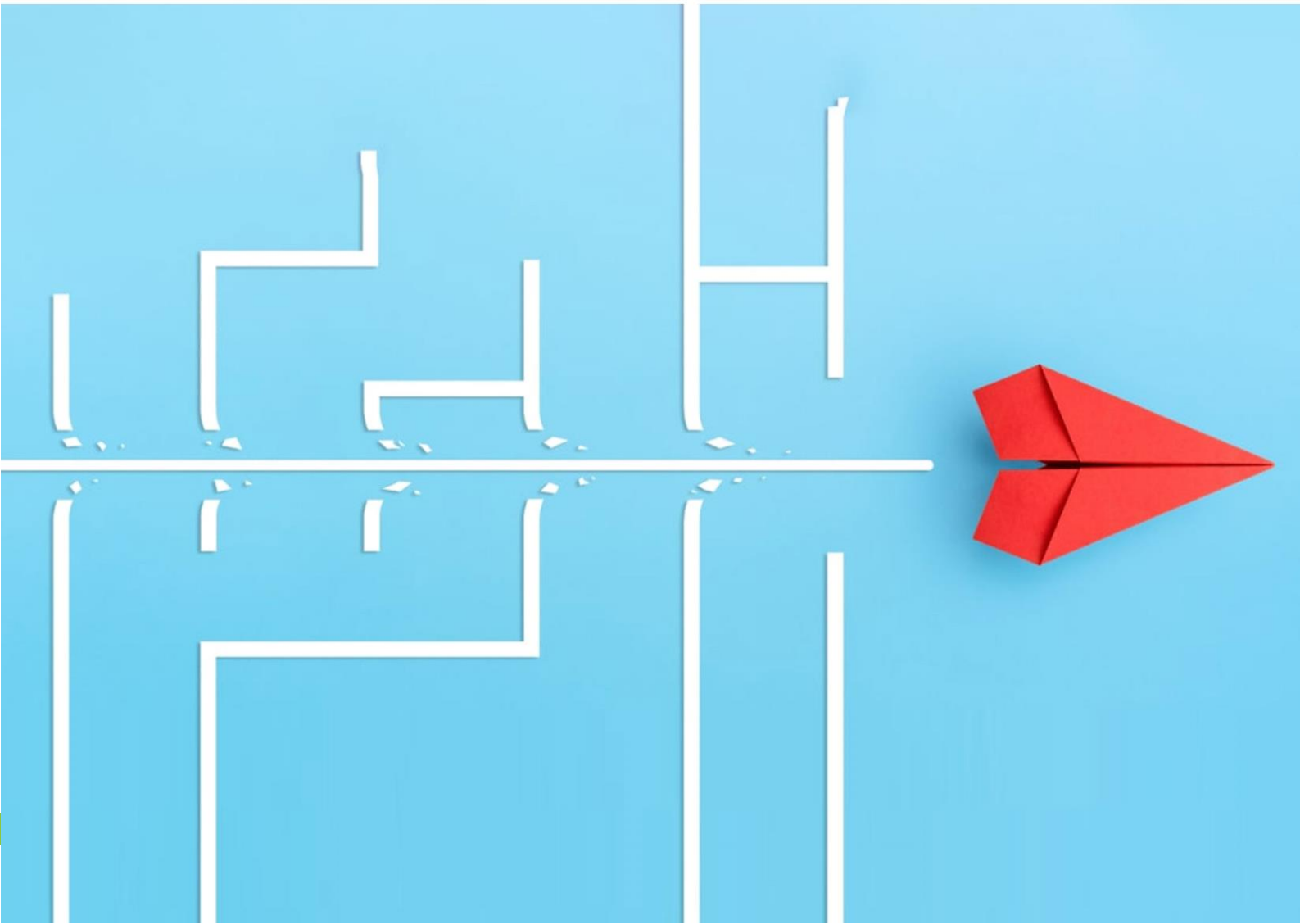
Overall, the data illustrate a pronounced efficiency divide between Pakistani and foreign carriers in the international market. While PIA continues to lead in total service count, it remains less efficient in both passenger and cargo operations. Foreign airlines, particularly those from the Middle East, combine strategic route planning, larger aircraft, and high load factors to achieve superior utilisation and profitability.

The international market aviation data for 2024-25 [42] underscores the widening performance gap between Pakistani carriers and leading global airlines operating in Pakistan. Among domestic operators, PIA remains the largest in terms of total international services, operating 32,285 flights and carrying 4.68M passengers, yet its passenger efficiency ratio of 145 passengers per flight lags behind competitors such as Air Blue (176) and Air Sial (172). In contrast, Middle Eastern airlines, notably Emirates (312 passengers per flight), Qatar Airways (258), and Turkish Airlines (225), demonstrate substantially higher efficiency, reflecting the use of wide-body fleets and high load factors on long-haul routes. These carriers also dominate cargo operations, with Emirates alone moving over 67,000 tons of freight, translating to an exceptional cargo efficiency of 12.11, compared to PIA's 1.38. Such disparities reveal Pakistan's dependence on foreign carriers for both passenger and cargo connectivity, highlighting structural inefficiencies in fleet size, aircraft type, and route economics among local airlines. While Pakistani operators like Fly Jinnah and Air Sial show improving performance trends, the overall market share and operational leverage remain skewed toward Gulf carriers, whose larger aircraft capacity and integrated logistics networks grant them a decisive competitive edge.

The evidence suggests that for Pakistan's flag carrier and private airlines to enhance their competitiveness, fleet modernisation, route rationalisation, and cargo integration must become strategic priorities. Aligning operations with demand patterns and optimising aircraft deployment could help bridge the efficiency gap and improve Pakistan's overall position in the international aviation market.

Overall, the comparative efficiency analysis reveals that while international carriers such as Emirates, Qatar Airways, and Turkish Airlines achieve higher passenger and cargo yields per service, Pakistani airlines, particularly PIA and Air Blue, lag due to lower fleet utilisation, limited aircraft capacity and efficiency. This gap underscores the pressing need for fleet modernisation to enhance operational productivity and competitiveness in both passenger and cargo segments. However, modernisation efforts remain constrained by rising global leasing rates, high capital costs of aircraft acquisition, and limited access to structured aviation financing in Pakistan. Without financial mechanisms such as government-backed credit facilities, tax incentives, or partnerships with development finance institutions, domestic carriers will continue to struggle in renewing their fleets and competing with well-capitalised international players. Therefore, a policy-driven financing framework is essential to facilitate modernisation and ensure the sustainable growth of Pakistan's aviation sector.

5. Stakeholders' Perspective on the Civil Aviation Sector



5 Stakeholders' Perspective on the Civil Aviation Sector

The following chapter presents the issues and recommendations exactly as identified by stakeholders through the primary data collected for this study. All findings are based on qualitative inputs gathered from semi-structured surveys and interviews with domestic airlines, foreign carriers, travel agents, and other sector participants. To ensure analytical structure, the issues and recommendations were organised and interpreted using the PESTEL framework, which enabled a systematic categorisation of stakeholder perspectives across political, economic, social, technological, environmental, and legal dimensions. The broader competitive context was informed by the MCPAT framework (Measuring Competition in Passenger Air Transport), which guided how stakeholder-reported challenges relate to overall market dynamics. This chapter, therefore, reflects the views and experiences shared by respondents and does not attribute responsibility or endorse any position; the chapter's role is limited to organising, analysing, and presenting the primary data within an established analytical structure.

The chapter presents the viewpoint of stakeholders in two sections, consisting of the issues and recommendations described by the i) internal stakeholders and ii) external stakeholders.

5.1 Barriers and Recommendations by Internal Stakeholders

This subsection focuses on insights gathered directly from internal stakeholders of the aviation sector, including domestic and foreign airlines as well as travel agents. These participants are closely involved in the day-to-day operations, decision-making, and business generation within the industry, providing a ground-level perspective on operational, financial, and market-related challenges. Their feedback forms the basis for identifying practical barriers and formulating targeted recommendations that address competitive dynamics, service efficiency, and market sustainability from an insider's viewpoint.

5.1.1 Political Barriers

a) Weak, Uncoordinated, and Non-Strategic Policy Framework

- As per domestic airlines, Pakistan's aviation ecosystem lacks a unified national vision, with agencies like the CAA, PAA, and FBR operating in isolation rather than toward a shared goal.
- Foreign carriers add that inconsistent policy application and unclear directives create operational uncertainty and discourage long-term planning.

b) Insufficient Stakeholder Engagement in Policy Development

- Across domestic airlines, foreign carriers, and travel agents, there is broad agreement that policymaking is top-down and non-consultative.
- Travel agents similarly report that key policies, such as NAP 2023, were formulated without proper stakeholder consultation, making them disconnected from market realities.
- The absence of structured stakeholder engagement results in policies that lack industry support and fail to address real operational challenges.

c) Regulatory Disparities and an Uneven Playing Field

- Domestic airlines consistently highlight that they face heavier regulatory burdens, including strict financial monitoring, outdated equity thresholds, and high security deposits.
- In contrast, foreign carriers are subject to minimal financial scrutiny and can begin operations after simple registration and slot allocation, creating a structural imbalance that disadvantages local operators.

d) Outdated and Irrelevant Financial Assessment Frameworks

- Domestic operators point out that CAA's financial criteria, such as capital adequacy requirements, are outdated and do not reflect current accounting standards or aviation cost structures.
- Requirements such as PKR 600 million equity are insufficient to safeguard stakeholders like travel agents, who routinely sell far more value in advance tickets.

e) Long-Term Policy Bias Favouring Foreign Carriers

- Domestic airlines report that historical concessions granted to foreign carriers, especially Gulf airlines, have allowed them to dominate Pakistan's international market.
- The implementation of open-sky policies has diverted significant revenue and foreign exchange away from local carriers and toward foreign hubs, while Pakistan's older fleet and limited capacity further deepen the competitive gap.
- This growing reliance on foreign carriers also presents potential geopolitical risks and future exposure to cartel-like behaviour.

f) Ineffective Regulatory Oversight and Weak Enforcement by the CAA

- Travel agents uniformly describe the CAA as unresponsive, passive, and unwilling to act against unethical practices, despite repeated complaints. They also note exclusion from policy forums, with mechanisms like the Agency Passenger Joint Conference (APJC) perceived as skewed toward airline interests.
- Domestic airlines add that the regulator's approach is compliance-heavy yet ineffective, with outdated rules enforced without regard to practical industry needs.

g) Coordination Failures During Peak Travel Seasons

- Foreign carriers point out that approvals for seasonal increases, such as Hajj, Umrah, and Eid, are cumbersome and delayed, despite existing bilateral arrangements.
- Travel agents also highlight government miscommunication during Hajj operations, which has previously left 67000 pilgrims affected due to delayed quota approvals.

h) Connectivity Limitations and Route Management Gaps

- Foreign airlines report that Pakistan's limited frequencies and route options restrict its integration into global aviation networks.
- Some carriers advocate for route expansion through bilateral liberalisation, while others suggest focusing on improving service quality and sustainability over route quantity.
- Domestic operators also note that airlines with small fleets often abandon domestic routes after receiving international permissions, affecting domestic connectivity.

5.1.2 Economic Barriers

a) Macroeconomic & Financial Pressures

Domestic Airlines highlighted the following broad economic issues:

- Domestic airlines report that 60-70% of their entire cost structure is dollar-denominated, including fuel, maintenance, aircraft leases, spare parts, and pilot salaries, making PKR depreciation severely destabilising for their operating costs.

- They highlight heavy domestic taxation, noting that airlines pay 18% sales tax on fuel, procurement, and services, and that some international return tickets carry a tax component of nearly 70%, while foreign carriers operating in Pakistan pay none of these taxes domestically.
- Domestic carriers emphasise that the cost of capital in Pakistan is prohibitively high, with local financing rates at 13-14% against a profit margin of 3-4%, rendering fleet expansion and long-term investment non-viable. In contrast, foreign competitors access financing at 2-3%. They further note that banks' risk-averse lending practices and complex loan recovery mechanisms restrict airlines' access to credit.
- They point to the absence of aviation-specific financial products, including instalment-based travel financing and tailored lending tools, as well as low banking penetration, which limits market expansion since banks primarily focus on large, low-risk corporate clients.
- Domestic airlines also underline the issue of continuous capital outflow, noting that foreign airlines fully repatriate their earnings, which not only drains Pakistan's foreign exchange reserves but also limits reinvestment and long-term aviation sector development.

b) *Market Structure, Competition & Predatory Behaviour*

Domestic Airlines also highlighted the gross root facts and economic factors that impact their competitiveness:

- Domestic airlines report an uneven playing field against state-backed foreign carriers, specifically Middle Eastern carriers, which benefit from subsidies, low fuel prices, superior infrastructure, and 0% VAT or very low tax advantages which local operators cannot match.
- They highlight the hub-dominance strategy of foreign carriers such as Emirates, Qatar, Etihad, and Turkish Airlines, whose integrated aviation-tourism ecosystems allow them to operate Pakistan routes at near-cost to feed their hubs.
- Domestic players flag predatory pricing and anti-competitive penetration, citing ultra-low Umrah fares (e.g., below 200 Riyals) and FlyAdeal's below-cost sales that erode their market share.
- They note that foreign investments creating feeder airlines inside Pakistan, such as Air Arabia's Fly Jinnah, divert revenue offshore and squeeze out domestic growth.
- Domestic airlines warn that low entry barriers (only 2-3 leased aircraft plus deposits) lead to overcrowding, unsustainable margins, and frequent failures of local startups lacking deep capital.
- They further state that hub blocking by Middle Eastern carriers siphons Pakistan's passenger traffic to foreign hubs, making direct long-haul routes to Europe commercially unviable for domestic operators.

On the other hand, the demand side stakeholder, i.e., the travel Agents, also highlighted SME and consumer-level economic issues, which are concisely presented below.

- Travel agents report unequal pricing and discriminatory fare structures, as airlines offer cheaper fares and better terms on their own websites compared to Global Distribution Systems (GDS), undermining agents' competitiveness.
- They highlight exclusive corporate deals that bypass agents, where airlines provide hidden discounts, extra baggage, and preferential terms to corporates even when base fares are identical.
- Agents describe an unfair competitive position, where airlines act simultaneously as suppliers and competitors while offering zero commission and unequal pricing terms to agents.

- They point to the unjustified continuation of the fuel surcharge, which remains permanently embedded in fares despite no longer being warranted.
- Travel agents note severe domestic market volatility driven by the financial weakness of local airlines, with fares swinging from extremely low ("train ticket level") to very high (e.g., Rs. 100,000), making planning impossible for agents and consumers.
- They emphasise market dominance by Middle Eastern airlines, intensified by the withdrawal of major European carriers and the lack of reciprocal rights for PIA and domestic carriers, which leaves these foreign carriers controlling most international traffic.
- Agents highlight unfair payment cycles, where they are required to remit to airlines within five working days, while their own clients often delay payments for months, increasing financial exposure.
- They flag regulatory and forex remittance barriers, especially the non-notification of SBP Para 45C, which blocks legal hotel and tour remittances and forces agents toward informal channels with associated anti-money laundering (AML) risks.
- Travel agents describe a high tax burden on tickets, including FED, airport charges, and service fees that inflate fares and suppress demand.
- They further state that agents are forced to act as tax collectors without any commission or compensation, often using their own capital to meet tax remittance deadlines.

c) Structural & Operational Barriers

Domestic airlines highlighted that:

- Pakistan's point-to-point, low-yield market structure restricts profitability, making international performance benchmarks such as 3-4 per cent profit margins and 6-7 per cent return on investment unattainable due to an inherently unsustainable business model and persistently thin margins.
- They further noted limited access to tourism-driven demand, as Pakistan's non-tourism-led economy forces airlines to rely primarily on work and pilgrimage travel, which provides very low yield.

Foreign airlines highlighted that:

- They face unpredictable pricing inputs, as exchange rate instability, volatile fuel pricing, and varying local charges create uncertainty in cost planning.
- They experience limited demand diversity, with the market dominated by visiting-friends-and-relatives and labour traffic, while weak branding, marketing, and destination promotion reduce demand elasticity.
- They also emphasised operational dependence on a weak domestic ecosystem, where the lack of tourism integration and limited local connectivity diminish Pakistan's attractiveness as a multi-destination or layover market.

d) Infrastructure and Operational Constraints

- Foreign airlines stated that Pakistan's airport infrastructure, ground handling, and administrative processes are significantly less efficient than regional competitors, resulting in operational delays, coordination gaps, and limited facilities that undermine Pakistan's regional competitiveness.

- Both domestic and foreign airlines highlighted that terminal facilities are underperforming, citing shortages of check-in counters, insufficient e-gates, outdated baggage-handling systems, and mixed passenger flows, all of which increase operational burdens and reduce service quality.
- Airlines further noted that ground-handling constraints and peak-hour bottlenecks, stemming from shared resources and limited equipment, reduce turnaround efficiency and negatively impact punctuality.

5.1.3 Social Barriers

a) Visa Restrictions, Tourism Barriers, and Market Development

- Domestic airlines highlight that stringent and inconsistent visa regimes, such as the UAE's cancellation of Pakistani tourist visas and complex application procedures, have reduced leisure and tourism travel volumes and made key international routes commercially less viable.
- Foreign airlines emphasise that weak tourism marketing and insufficient visa facilitation, even with e-visa improvements, limit Pakistan's ability to attract international travellers. They note that longer visa durations, consistent destination marketing, and coordinated tourism-airline initiatives could significantly increase traffic volumes.

b) Reputation Damage, Regulatory Fallout, and Public Distrust

- Domestic airlines report that the public disclosure of "fake licenses" created severe reputational harm, resulting in a five-year ban on Pakistani carriers and shifting expatriate and general passenger traffic to foreign airlines.
- Domestic airlines also highlight that public misperception regarding airlines profiting from exchange rates fosters distrust, as airlines themselves do not set these rates but are subject to financial intermediary calculations.

c) Fragmented Market and Service Limitations

- Domestic airlines point out that the highly fragmented passenger segments, including diaspora, labour travellers, and pilgrims, require differentiated products. Limited fleet diversity prevents airlines from tailoring services profitably for these niches, creating perception gaps in quality and competitiveness.
- Travel agents report that most domestic aircraft are older A320 or 737 models, whereas international carriers operating similar routes use modern wide-body aircraft, leading to a noticeable service quality gap.
- Travel agents also note neglect of northern tourism routes such as Skardu and Gilgit, where unsuitable aircraft reduce connectivity and limit potential growth.

d) Consumer Protection, Refund Issues, and Compensation Problems

- Domestic airlines identify that inconsistent refund practices, with some carriers offering refundable tickets with penalties and others strictly non-refundable options, create confusion for consumers and difficulties for travel intermediaries.
- Travel agents emphasise that consumer protection is weak in force majeure situations, citing the Hajj 2025 case where 67,000 passengers were denied visas but were unable to obtain refunds due to non-refundable ticket policies. Travel agents further highlight that domestic airlines, specifically Fly Jinnah, have inadequate delay compensation policies, providing vouchers only for delays exceeding five hours, while international norms compensate

passengers monetarily for delays of one to one-and-a-half hours, leaving time-sensitive travellers unprotected.

e) Airport Infrastructure, Passenger Experience, and Operational Bottlenecks

- Foreign airlines report that Pakistan's major airports, including Karachi, Lahore, and Islamabad, suffer from overcrowded and outdated facilities with insufficient check-in counters, immigration desks, boarding gates, aero-bridges, and seating, leading to congestion from entry to boarding.
- Travel agents describe substandard airport maintenance, particularly at Karachi Airport, which appears neglected and outdated, with runways incapable of handling larger aircraft such as the A380, limiting Pakistan's potential as a regional hub and reducing overall passenger experience.

5.1.4 Technological Barriers

a) Immigration and Border Management

- Domestic airlines highlight that the Immigration Border Management System (IBMS) is a major operational bottleneck. Security checks and data reconciliation are inefficiently managed, sometimes completing only after passengers have boarded. This can lead to flights having to return to the gate to offload flagged passengers, causing frequent delays and increased operational costs. Airlines also report that airport staff for these processes are insufficient, forcing carriers to deploy their own extra staff to manage boarding.
- Foreign airlines also note that immigration processing is a major bottleneck because IBMS reconciliation procedures start only after all passengers have cleared immigration, causing frequent flight delays.

b) Airport Infrastructure and Safety Technologies

Foreign airlines identify several technological and operational constraints at airports:

- Bird hazards, particularly in Lahore during the monsoon season, cause runway curfews lasting up to three hours. Airlines recommend adopting internationally recognised bird-dispersal systems and permanent mitigation technologies to reduce disruptions.
- Secondary airports, including Multan, Sialkot, Peshawar, Bahawalpur, and Faisalabad, lack infrastructure and facilities comparable to primary airports. Airlines emphasise the need for improved parking stands, check-in areas, and boarding gates to support operational resilience, regional connectivity, and point-to-point international traffic, while alleviating congestion at major airports like Karachi, Lahore, and Islamabad.

c) Digital Distribution and Pricing Inefficiencies

Travel agents report that airlines' dual digital systems create unfair competitive advantages. The Global Distribution System (GDS) often shows higher fares than airlines' proprietary New Distribution Capability (NDC) systems or websites. Additional direct-booking bank discounts (10-15%) allow airlines to undercut their own agents, undermining fair competition and reducing agents' revenue potential.

5.1.5 Environmental Barriers

a) Urban Airport Locations and Operational Risks

Domestic airlines highlight that the location of major airports within city limits, such as Karachi and Lahore, creates significant operational and safety challenges. Proximity to populated areas and nearby food sources attracts birds, leading to frequent bird strikes, flight delays of up to three hours, aircraft engine damage, and substantial financial losses. Islamabad Airport is the only major airport strategically located outside the city, demonstrating a gap in urban planning for other hubs.

b) Sustainability and Environmental Standards

Foreign airlines emphasise that sustainable aviation practices, such as sustainable aviation fuel (SAF), carbon reduction initiatives, and green airport operations, are critical to meeting global Environmental, Social, and Governance (ESG) commitments. They encourage Pakistan to adopt international sustainability standards and implement supportive policies to enable green aviation practices.

c) Low Priority of Environmental Issues

Travel agents report that environmental concerns are currently not a priority within their operational or strategic focus.

5.1.6 Legal Issues

a) Bilateral Agreements and Market Access

Domestic airlines report that legacy bilateral agreements with Middle Eastern carriers create long-term challenges. These agreements often grant foreign airlines increased flight frequencies, unrestricted passenger numbers, and access to additional services like cargo handling, prioritising immediate financial or political gains over the national aviation industry's health. The resulting operational disparities, such as Gulf carriers operating significantly higher weekly flights to Pakistan than Pakistani airlines are allowed abroad, have created an unlevel playing field, allowing foreign airlines to dominate the domestic market.

b) Regulatory Gaps and Oversight Failures

Travel agents highlight that Pakistan suffers from significant regulatory inertia and a lack of enforcement. Non-implementation of key provisions in the Competition Act 2010 and Civil Aviation Rules (177, 178, 199, 200, 202) has allowed airlines to operate without fare caps, refund obligations, or oversight, creating an unregulated monopolistic market. Domestic airlines note that unclear processes around slot allocation reduce transparency, although no explicit unfair practices were reported by foreign airlines.

c) Consumer Protection and Refund Challenges

Travel agents report systemic failures in protecting consumers and SMEs:

- Airlines enforce highly restrictive and inconsistent refund policies, even under government-level visa denials or significant flight delays, offering vouchers instead of monetary compensation.
- Discriminatory practices are observed based on payment methods (cash, corporate guarantees vs. insurance guarantees).

- Airlines like Fly Jinnah are cited for strict bureaucratic practices and potential violations of national laws, including demanding cash security deposits from agents without being registered financial institutions.
- Taxes collected on unutilised tickets are retained by airlines, resulting in financial losses for the government and undermining consumer rights.

d) Financial Accountability and Risk Management

Travel agents highlight the absence of adequate financial safeguards: multiple airlines, including Shaheen, Aero Asia, Bhoja Air, Air Indus, Saudi Gulf, and Fly Nas, have ceased operations while holding advance payments and deposits from agents. No regulatory or governmental mechanism exists to recover these funds, leaving agents and passengers exposed to significant financial risk.

e) Price Volatility and Unregulated Market Practices

Travel agents note extreme fluctuations in domestic airfares, ranging from prices comparable to train tickets up to Rs. 100,000 per flight, driven by demand-supply gaps and foreign-backed airline dominance (e.g., Fly Jinnah/Air Arabia). The absence of regulated minimum or maximum selling prices enables predatory practices, unfair competition, and consumer exploitation.

5.1.7 Political Recommendations

a) Integrated National Aviation Strategy and Consistent Policies

- Domestic airlines recommend developing a holistic, strategic vision for civil aviation that integrates government and private sector stakeholders. This should focus on the full ecosystem, including airlines, airports, tourism, and ancillary services, to create a resilient, self-sufficient, and internationally competitive sector. Investments in tourism infrastructure (hotels, transport, attractions) are essential to ensure a sustainable business model.
- Foreign airlines support this view, emphasising the need for regulatory stability and clear implementation of national aviation plans (e.g., NAP 2023) to enable long-term route planning and investment. Foreign airlines observe that Pakistan's market is generally competitive but emphasise that predictable economic policies, stable pricing, and regulatory consistency would strengthen market attractiveness and long-term investment.

b) Bilateral Agreements, Market Access, and Capacity Management

Domestic airlines recommend strict management of open sky policies and bilateral air service agreements (BASAs) to protect the local industry. Key measures include:

- Reviewing existing ASAs to ensure reciprocal flight frequencies and slot allocations.
- Monitoring market entry of foreign airlines to prevent oversaturation and yield collapse.
- Adopting a measured protectionist approach until domestic carriers reach competitive capacity.

Foreign airlines note that bilateral agreements and MoUs shape route planning and capacity deployment. They suggest greater flexibility, clear procedures, and transparent slot coordination to streamline seasonal and strategic operations.

c) Regulatory Oversight and Fair Competition

Travel agents recommend strong regulatory intervention to ensure a level playing field:

- Prevent discriminatory pricing, exclusive discounts, or additional allowances only for direct bookings.
- Ensure corporate fares and conditions are identical across all sales channels, including agents.
- Prohibit airlines from acting as financial institutions by taking direct cash deposits from agents.

Domestic airlines suggested collaborative policy-making, including airlines, agents, and regulators, to develop practical, stakeholder-aligned monitoring mechanisms. Foreign airlines highlighted the need for a predictable and transparent regulatory environment to facilitate long-term investment, with clear rules for slot allocation, seasonal approvals, and capacity planning.

d) Fiscal and Economic Support

Domestic airlines recommend government intervention to reduce operational costs:

- Eliminate or reduce the 18% sales tax on domestic fuel, services, and local procurement to make local carriers cost-competitive.
- Stabilise the financial system, including lower policy rates from the State Bank, to reduce financing costs for domestic airlines.
- Regulate financial intermediaries (banks, payment gateways) to standardise FX conversion rates and ensure transparency.

e) Seasonal Operations and Infrastructure

Foreign airlines identify procedural bottlenecks during peak travel periods (Hajj, Umrah, Eid) and suggest streamlining approvals for additional flights and slot adjustments. They also recommend improvements in airport infrastructure, ground-handling, and inter-agency coordination to enhance operational efficiency and competitiveness.

f) Stakeholder Inclusion and Policy Implementation

Travel agents emphasise formalising inclusive policy development:

- Incorporate agents as key stakeholders in national aviation policy formulation.
- Enable structured engagement with regulatory bodies (CAA/CCP) for open dialogue and actionable recommendations.
- Reform forums like APJC to allow transparent discussions and effective problem-solving.

Domestic airlines also stress collaborative, stakeholder-centric policy-making to ensure regulations are practical, implementable, and widely accepted.

5.1.8 Economic Recommendations

a) Sustainable Growth and Strategic Planning

Domestic airlines recommend prioritising long-term, sustainable growth over short-term gains from fully open skies. Key measures include:

- Protecting domestic market conditions to enable stable business models and consistent profits.
- Adopting Strategic Business Unit (SBU) models where departments like ground handling generate revenue independently from external clients.
- Integrating airlines, airports, and tourism in a cohesive national aviation strategy to compete on total value rather than ticket price.

- Strategic investment in fleet modernisation, capacity expansion, and aligning services with international standards.

b) Financial Management and Tax Policies

Domestic airlines recommend:

- Stabilising the PKR to reduce reliance on dollar transactions and risk premiums, supporting long-term planning.
- Advocating for tax-free zones or reduced VAT, similar to competitor hubs, to create a cost-competitive environment.
- Developing risk mitigation mechanisms for banks, such as government guarantees, to encourage financing at lower rates.
- Encouraging innovative financial products (e.g., travel loans with instalments) to stimulate domestic travel demand.

Travel agents support formalising legal foreign exchange mechanisms through the SBP (Para 45C) to ensure transparency, compliance, and SME participation in international transactions.

c) Route Viability and Market Access

- Domestic airlines recommend ensuring non-profitable domestic or regional routes are financially viable through subsidies or shared responsibility, preventing PIA from bearing the full cost.
- Travel agents recommend: Focusing on commercially viable domestic and international routes (e.g., Jeddah, Madinah) with daily frequencies instead of low-frequency flights, and re-evaluating the role and compensation of travel agents to ensure fair commissions and sustainability.
- Foreign airlines highlight that Pakistan's market is point-to-point, dominated by VFR and labour mobility segments, but transit and multi-destination opportunities remain underdeveloped.

d) Price Stability and Transparent Market Practices

Travel agents emphasise the need for regulated price caps, both minimum prices to ensure cost recovery and maximum prices to prevent consumer exploitation. They also call for standardising or eliminating fuel surcharges to promote transparent fare structures and for enforcing mandated flight frequencies under all market conditions to safeguard consistent domestic connectivity. Domestic airlines add that predictable revenue flows retained within the country are essential for long-term economic sustainability and improved competitiveness.

e) Infrastructure and Operational Efficiency

Foreign airlines emphasise that Pakistan's airport infrastructure and operational systems fall short of regional standards, resulting in delays, congestion, and reduced service quality. They recommend comprehensive upgrades to terminal facilities, including check-in counters, boarding gates, and baggage-handling systems, as well as improved ground-handling coordination and adequate staffing during peak hours to ensure reliable operations. The carriers further note that sustained, strategic investment in airport infrastructure is essential for restoring competitiveness and aligning Pakistan's aviation services with global benchmarks.

Domestic airlines similarly stress the need for integrated operational planning between airports, airlines, and tourism stakeholders, arguing that coordinated development is fundamental for improving efficiency and supporting long-term sectoral growth.

f) Competitive Environment

Travel agents recommend attracting diverse international carriers to foster healthy competition and break the dominance of Middle Eastern airlines. Creating a transparent market environment where all operators comply with the same rules, promoting professionalism and fairness. Foreign airlines generally perceive the competitive landscape as equitable, but note that fiscal and procedural incentives could further motivate market participation.

5.1.9 Social Recommendations

a) Visa Facilitation and Tourism Promotion

- Domestic airlines recommend engaging in diplomatic efforts to ease visa restrictions for key markets such as the UAE to stimulate passenger demand and improve route viability.
- Foreign airlines suggest consistent visa facilitation, e-visas, extended visa durations, and stronger airline-tourism authority partnerships to boost international traffic.
- Both groups emphasise aligning aviation growth with national tourism promotion and targeted destination marketing.

b) Airport Infrastructure and Passenger Facilitation

Recommendations include modernising and expanding terminal infrastructure, adding immigration counters and screening lanes, installing aero-bridges, and creating dedicated immigration processing areas.

c) Consumer Awareness and Stakeholder Education

- Domestic airlines recommend educating travel agents and consumers about ticket pricing mechanisms (non-refundable, changeable, fully refundable) to manage expectations. Education on foreign exchange and financial processes in the airline industry is needed to improve public trust and transparency.
- Travel agents emphasise strengthening consumer protection, enforcing international best practices for compensation after delays, and ensuring clear refund policies.

d) Tailored Market Strategies

Domestic airlines advise adopting market-specific strategies, aligning fares, services, connectivity, and baggage allowances with regional demand and cultural preferences. Flexible operations and detailed market studies are essential to regain market share and improve competitiveness.

e) Communication and Operational Transparency

Travel agents recommend enhanced communication with clear deadlines, particularly for religious tourism (e.g., Hajj), to prevent miscommunication and ensure operators make informed decisions. Clear, transparent messaging from government authorities is crucial to maintain Pakistan's international reputation and manage crises effectively.

5.1.10 Technological Recommendations

a) Strengthening Security, Immigration Systems, and Data Coordination

- Domestic airlines recommend establishing robust coordination between immigration, security, and airport IT systems to eliminate IBMS-related delays and flight callbacks. They emphasise completing all security checks and data reconciliation at the initial check-in stage, preventing last-minute discrepancies after boarding.
- Foreign airlines also recommend developing robust and internationally compatible security checks with properly equipped and streamlined IBMS workstations to avoid unnecessary delays.
- Domestic airlines further highlight the need for more trained immigration and security personnel, as airlines currently deploy their own staff to compensate for shortages.

b) Modernising Airport Infrastructure and Technologies

- Foreign airlines flag recurrent bird hazards at Lahore, especially during monsoon months, leading to three-hour runway curfews, and recommend the adoption of international bird-dispersal and long-term mitigation technologies to reduce operational disruptions.
- Travel agents stress the need to rehabilitate and modernise key airports (Karachi, Lahore, Islamabad) to meet international standards, including runway expansion to accommodate wide-body aircraft such as the A380, especially at Karachi Airport, to attract more international carriers.

c) Enhancing Secondary Airports for Operational Resilience

Foreign airlines underline the importance of secondary airports (Multan, Sialkot, Peshawar, Bahawalpur, Faisalabad) as diversion points and emerging commercial nodes. They recommend strategic upgrades, including improved parking stands, check-in facilities, and boarding gates, to decentralise air traffic, strengthen regional connectivity, and improve operational flexibility during disruptions at major hubs.

d) Improving Digital Access, Transparency, and Consumer Protection

Travel agents recommend creating an open and transparent digital ecosystem where all authorised intermediaries can access airline inventory fairly. They also call for mandatory liability and insurance mechanisms to ensure consumer protection and establish a stronger claims and accountability culture within the digital aviation marketplace.

5.1.11 Environmental Recommendations

a) Airport Location Planning, Safety, and Environmental Risk Mitigation

Domestic airlines recommend that new airports be located outside densely populated areas to reduce bird-strike risks and related operational delays. They also urge the adoption of modern environmental and safety technologies at all major airports to manage wildlife hazards more effectively.

b) Development and Upgradation of Secondary Airports

Domestic airlines highlight the need to upgrade secondary airports, particularly in regions with poor road access, such as Gilgit and Skardu, to support tourism and improve regional accessibility. They further recommend enhancing road connectivity between key secondary airports, including Peshawar, Faisalabad, and Multan, and nearby major hubs like Lahore to strengthen regional logistics and mobility.

c) Alignment with International Sustainability Standards

Foreign airlines stress that global aviation is moving toward sustainable aviation fuel (SAF), carbon reduction, and broader green-airport initiatives as part of their ESG commitments. They recommend that Pakistan align its aviation policies with international sustainability frameworks and facilitate the adoption of green aviation practices through supportive regulatory measures.

5.1.12 Legal Recommendations

a) Clarifying and Strengthening the Regulatory Framework

- Domestic airlines urge the CAA to clearly define its mission and regulatory scope, balancing airline commercial autonomy (pricing, insurance, refunds) with minimum consumer protection standards.
- They recommend completing regulatory reforms (PAA-CAA bifurcation) and placing aviation under one ministry for unified strategic direction, policy coherence, and correction of past bilateral disadvantages.
- Travel agents also call for stronger regulatory enforcement, urging the CCP to proactively address market abuses, direct the CAA to implement existing rules on pricing and scheduling, and establish a permanent CCP-CAA monitoring cell for continuous oversight.

b) Ensuring Fair Market Competition and Preventing Anti-Competitive Conduct

- Domestic airlines recommend strict monitoring of predatory pricing by foreign carriers, including below-cost ticketing, and aligning interventions with evidence from international analyses (e.g., USA airlines' white paper).
- Travel agents request:
    - Mandated fare parity across all sales channels and elimination of discriminatory pricing.
    - Investigation of vertical restraints in airline-agent agreements.
    - Reinstatement of a service-based commission structure per IATA Resolution 812 to support SME sustainability.
    - Enforcement of "ethics of business" and equality, including addressing foreign airlines' disproportionate landing rights and hidden consumer incentives.

c) Foreign Investment, Market Access, and Protection of Domestic Industry

- Domestic airlines recommend regulating or prohibiting direct foreign investment by international carriers in local airlines to prevent foreign market capture.
- They further advocate pro-competition protectionist measures, inspired by India's FDI model, requiring foreign airlines to invest in local capacity building (capital investment, staff training) before repatriating profits.

d) Modernising Financial Regulatory Requirements and Ensuring Accountability

- Domestic airlines call for immediate modernisation of CAA's outdated financial fitness parameters, requiring updated capital/equity thresholds, use of contemporary standards like IFRS 16, and uniform financial monitoring for both domestic and international carriers.
- Travel agents demand:
    - Enforcement of SBP rules on remittance timing (remittance only after travel occurs).
    - Mandatory refund of all taxes for unused tickets.

- Strengthened oversight of refund policies, especially in force majeure cases (e.g., Hajj quota issues).
- Creation of government-backed financial guarantees or recovery mechanisms when airlines shut down unexpectedly.

e) Slot Allocation Transparency and Operational Fairness

Foreign airlines recommend clearer, more transparent slot allocation guidelines, noting procedural ambiguity even though no unfair conduct was alleged.

f) Mandatory Domestic Service Obligations

Travel agents recommend a regulatory requirement that all licensed airlines operate a minimum domestic frequency, regardless of international route profitability, preventing the abandonment of local routes after receiving international rights.

A summary of all the key recommendations is discussed in the conclusion chapter.

5.2 External Stakeholders' Perspectives on the Civil Aviation Industry

This subsection summarises the key issues and recommendations reported by external stakeholders connected to the civil aviation ecosystem. Their perspectives, including those of financial institutions and relevant government entities, highlight structural gaps that extend beyond airline operations and influence the wider functioning of the sector. The insights presented here reflect stakeholder-identified challenges related to financing practices, insurance requirements, administrative coordination, and regulatory alignment. The analysis distils these inputs into clear, actionable recommendations aimed at improving transparency, reducing systemic risk, and strengthening the sector's integration with national economic frameworks and international standards.

5.2.1 Financial Landscape of the Sector

a) Financial Role and Institutional Responsibilities in Pakistan's Civil Aviation Sector

Banks in Pakistan primarily facilitate FX, trade finance, and cash management for the civil aviation sector, with limited involvement in long-term financing due to a lack of specific guidelines. The existing banking framework relies on general regulations from the SBP, which limit predictability for complex projects like leasing and infrastructure development.

For sustainable growth, banks recommend aligning domestic regulations with international conventions, such as the Cape Town Convention, citing models from countries like the UAE that have successfully integrated these frameworks with central bank oversight. Additionally, banks suggest adopting digitalised approval systems for transactions, similar to those in the UAE, to enhance speed, efficiency, and regulatory coordination. These improvements would enable Pakistan's banking sector to better support its aviation industry, potentially leveraging diversified financing models like Malaysia's use of PPPs and Islamic bonds.

b) Institutional Coordination and Stakeholder Engagement

Banks in Pakistan coordinate with stakeholders like SBP, CAA, Ministry of Finance, customs, insurers, and IATA to manage credit, FX, and compliance. However, coordination is largely procedural, lacking a unified framework linking financial institutions, regulators, and government agencies, which limits a cohesive aviation finance ecosystem. For PIA, direct government involvement adds layers that delay

financial decisions. Stronger integration between regulators, banks, and aviation operators is needed. Singapore's model shows how coordinated efforts, led by the Monetary Authority of Singapore (MAS) and aligned with airport authorities and banks, create a stable regulatory environment, offer incentives, and provide access to diverse financing, supporting sustainable aviation projects. Adopting a similar approach in Pakistan could improve predictability, governance, and efficiency in aviation-related financial operations.

c) Monetary Policy and Macroeconomic Impact

Pakistani banks have limited credit exposure to aviation, primarily facilitating ticket settlements and import payments under general SBP regulations, with no dedicated framework for infrastructure or fleet financing. Airlines face high capital and operating costs, volatile fuel prices, currency fluctuations, regulatory fragmentation, and political interference, which increase operational uncertainty, deter new entrants, and destabilise existing private carriers. Access to FX through SBP-licensed dealers is often delayed by procedural approvals and currency volatility, impacting timely remittances, particularly for national carriers like PIA relying on offshore syndicated financing. Frequent policy shifts, tax changes, fuel pricing adjustments, bilateral agreements, and geopolitical developments further heighten credit risk and sector risk premiums, constraining long-term financing. Banks recommend stable, multi-year aviation policies insulated from political cycles, predictable FX access or sovereign risk insurance, structured aircraft financing guarantees, and streamlined regulations. International examples, Turkey's credit incentives for airport PPPs [67]–[69], the UAE's digitalised FX frameworks, and Vietnam's risk-sharing mechanisms, illustrate how coordinated macroeconomic and regulatory support can enhance sector resilience, attract long-term financing, and foster private investment.

d) Monetary Policy and Cost of Capital

High interest rates and persistent currency volatility increase credit risk and raise capital costs for Pakistan's aviation sector, limiting long-term bank financing and raising operational costs. This makes air travel less affordable and leaves domestic carriers disadvantaged compared to regional peers with more stable monetary environments and sector-specific support. Banks cited India and Malaysia as examples. In India, institutions leverage the GIFT City International Financial Services Centre (IFSC) to provide long-term, structured financing. Malaysia uses stable regulatory frameworks and targeted relief measures, including fee waivers and sukuk financing, to maintain sector resilience during crises. Adapting similar frameworks in Pakistan could improve access to affordable capital, stabilise financing flows, and mitigate interest rate and currency risks for airlines.

e) Regulatory Gaps, Financing Instruments, and Risk Management in Aviation

Pakistan's aviation financing faces structural and regulatory gaps. While prudentially sound, financial regulations remain largely transactional and lack specialised instruments such as aviation bonds, infrastructure funds, or export credit support, limiting development-oriented financing. Banks provide standard letters of credit, guarantees, and standbys under SBP directives, but exposure is limited due to the absence of sector-specific credit mechanisms. Uniform lending and recovery standards are applied, yet SOEs benefit from sovereign guarantees, giving them an advantage over private carriers, which face high capital costs, limited transparency, elevated credit risk, and payment delays from route losses, fuel volatility, and external shocks. Restructuring and refinancing follow commercial merit, with SOEs leveraging government-backed support, as seen in PIA's debt transfer, while private carriers follow strict repayment-based procedures.

To enhance sector competitiveness, banks recommend predictable fiscal policies, liberalised FX access, and specialised instruments such as a Civil Aviation Infrastructure Fund or Export Credit Agency (ECA)-backed risk-sharing mechanisms for aircraft and airport financing. Standardised guarantee frameworks, escrow arrangements, step-in rights, and rigorous monitoring can improve risk management. Strengthened coordination among the CAA, SBP, and commercial banks, adoption of digital forex platforms, and structured financing aligned with ESG and infrastructure mandates would enhance efficiency, predictability, and long-term sector growth. Regional examples from Malaysia, Indonesia, India, and the UAE demonstrate that combining concessional and commercial capital, governance reforms, tax incentives, streamlined regulations, fleet modernisation, and PPPs can attract private investment, maintain competitive neutrality, ensure capital stability, and support sustainable aviation development.

f) Cross-Border Financing and Fund Repatriation

Banks manage foreign financing for aviation under SBP cross-border guidelines, using syndications, guarantees, and nostro arrangements. State-owned carriers benefited from sovereign backing, while private airlines face higher perceived risk, limiting overall exposure and cautious engagement in cross-border finance. Challenges such as temporary forex shortages, procedural delays, and inconsistent access affect timely remittances for international carriers. Banks recommend adopting transparent guarantee structures, clear sovereign-support policies, and digital monitoring systems, similar to practices in India, to enhance fairness, reduce risk, improve operational predictability, and encourage broader participation of domestic banks in cross-border aviation financing.

g) Insurance and Reinsurance Payments

Banks process aviation insurance and reinsurance premiums via SBP-approved channels, but delays in regulatory approvals and inconsistent documentation can slow payments, affecting operations. Limited exposure reflects sector-specific engagement constraints. Using pre-vetted compliance checklists, standardised protocols, and direct coordination with insurance regulators can streamline processing, improve compliance, and enhance efficiency in aviation insurance payments.

h) Credit Evaluation, Default Risks, and Recovery Measures

Banks assess aviation players based on liquidity, fleet utilisation, governance, efficiency, and financial ratios, with defaults often triggered by currency volatility, fuel price fluctuations, high operating costs, mismanagement, political interference, and macroeconomic challenges. To promote sustainable lending, banks recommend risk-mitigation tools such as cash-flow prioritisation from prime routes, cash waterfall structures, and rigorous financial and operational assessments. Given the sector's systemic importance, enforcement emphasises constructive engagement over strict measures, using negotiated restructuring, phased repayments, or conditional relief to maintain operational continuity while preserving financial discipline. Adopting structured frameworks, similar to Singapore's creditor coordination model, alongside timely engagement with regulators and stakeholders, can formalise this balance in Pakistan and enhance resilience against external shocks.

i) Policy and Regulatory Reforms for Aviation Financing

Banks highlighted several structural and regulatory gaps in Pakistan's aviation financing, including the absence of sector-specific credit guarantee schemes, limited FX hedging tools, fragmented lease-backed financing frameworks, and complex SBP forex approval procedures. High import duties and restrictive cross-border financing rules further raise operating costs. Additionally, banking prudential regulations

(IFRS 9 and risk-weighted assets) limit banks' willingness to provide long-term or high-risk financing for the capital-intensive aviation sector.

Recommendations

Banks provided concrete recommendations for reform:

- **Aviation Credit Guarantee Schemes:** Establishing a sector-specific credit guarantee mechanism - supported by SBP or a public-private fund - would help mitigate perceived default risks and attract greater private sector lending to airlines and service operators.
- **Tailored Currency Hedging Instruments:** Introducing hedging products designed for aviation operators' unique FX exposure (e.g., fuel, lease payments, and maintenance contracts) would reduce volatility and improve cost predictability, especially in periods of exchange rate fluctuation.
- **Standardised Lease-Backed Financing Guidelines:** SBP-endorsed frameworks for lease-backed or asset-based financing would enable consistent risk assessment, valuation, and provisioning treatment across banks - creating a more predictable lending environment.
- **Streamlined FX Approvals:** Simplifying SBP's forex approval process for legitimate aviation payments, particularly operating leases, insurance, and maintenance contracts, would improve liquidity management and operational continuity for both local and foreign carriers.
- IFRS 9 relaxation for Bank financing and lower Risk-Weighted Assets (RWA) requirements

j) International Best Practices for Enhancing Aviation Financing in Pakistan

Pakistan's aviation financing ecosystem currently lacks specialised sector-focused units, digital trade finance platforms, green financing incentives, and independent credit assessment mechanisms. Limited adoption of international best practices constrains operational efficiency, transparency, and sustainable investment, and contributes to higher reliance on state guarantees.

Recommendations

- **Specialised Aviation Finance Units:** Establish dedicated aviation finance divisions within commercial banks, similar to Singapore, to provide sector-specific expertise, structured financing solutions, and closer coordination with leasing and maintenance providers.
- **Digital Trade Finance Platforms:** Adopt digital platforms for real-time processing of payments for aircraft parts, maintenance, and related services, as implemented in the UAE, to improve operational transparency, reduce turnaround times, and enhance regulatory oversight.
- **Green Aviation Finance Frameworks:** Introduce frameworks akin to Malaysia's Green Taxonomy to incentivise sustainable investments, including energy-efficient aircraft and low-emission infrastructure, supporting alignment with ESG and climate commitments.
- **Independent Credit Scoring for Airlines:** Develop independent credit assessment mechanisms for aviation entities, decoupled from sovereign backing, to reduce reliance on state guarantees, promote market-based financing discipline, and enhance transparency and investor confidence.
- **Additional Practices:** Encourage PPPs, tailor lending products for aviation-specific needs, expand digital payment infrastructure, and facilitate access to shared performance data, as exemplified by the Aviation Working Group (AWG), to support informed risk assessment and financing decisions.

Collectively, these measures would align Pakistan's aviation finance ecosystem with global standards, strengthen sector competitiveness, and promote a level playing field for private and public operators.

k) *Additional Issues and Recommendations for Strengthening Pakistan's Aviation Finance Ecosystem*

Pakistan's aviation sector faces structural challenges that limit sustainable private investment, including fragmented policy coordination, limited access to long-term foreign currency financing, high-perceived credit risk, procedural delays in forex and payment approvals, and insufficient integration of ESG and capacity-building measures. The absence of a cohesive national framework constrains banks' ability to provide structured, long-term financing, while private operators remain at a disadvantage compared to state-owned carriers.

Recommendations

i. Establish a National Aviation Finance & Policy Coordination Council

In Malaysia, the National Aviation Consultative Council (established under the Ministry of Transport Malaysia) centralised consultation of policy, financing, and capacity-building, resulting in improved coordination between aviation players, financial institutions and regulators[70],[71]. Integration of such a system can help Pakistan as well. In this regard, the following steps would be helpful.

- Create a dedicated platform under the SBP, Ministry of Finance, and CAA to harmonise financial, regulatory, and investment policies.
- Standardise industry baseline requirements for safety, fitness of aircraft and personnel, maintenance engineers, and critical ground operations.

ii. *Introduce Long-Term, Foreign Currency–Linked Financing Instruments*

Various shariah-compliant Islamic financing programs, such as Sukuks al Ijara, have raised billions of financing for airport expansion through asset-backed instruments, attracting domestic and international investors[72], [73].

- Deploy sukuks, infrastructure bonds, or blended-finance facilities to fund aircraft acquisition, airport modernisation, and logistics networks.
- Align financing tenors with asset life cycles to mitigate FX mismatch risks.

iii. Launch an Aviation Credit Guarantee Facility (ACGF)

The Indonesia Infrastructure Guarantee Fund (IIGF), established under the Ministry of Finance, has provided sovereign-backed guarantees for PPP infrastructure development projects, improving creditworthiness and attracting international financiers for projects[74]. As of October 2025, IIGF has extended guarantees to 55 projects, comprising 37 Kerjasama Pemerintah dengan Badan Usaha (KPBU) and 18 non-KPBU initiatives, across seven sectors: roads, electricity, telecommunications, drinking water, tourism, transportation, and energy conservation. The total investment value of these projects exceeds IDR 573 trillion[75].

- Establish a national credit guarantee or partial risk-sharing mechanism supported by multilateral agencies (e.g., International Finance Corporation (IFC), Asian Development Bank (ADB)) to reduce risk premiums and encourage medium- to long-term lending in infrastructure development, specifically related to airports expansion.

iv. Enable Regulatory Sandboxes for Digital Aviation Payments & Forex Approvals

Monetary Authority Singapore Regulatory Sandbox enabled aviation and logistics firms to pilot digital trade finance solutions, reducing international settlement processing time and improving cross-border

compliance transparency[76]. Regulatory sandboxes are considered an important digitisation step globally, benefiting a number of sectors, including transport[77].

- Implement SBP-supervised sandboxes to accelerate approval timelines for ticketing, MRO, and lease-related transactions.
- Digitise end-to-end monitoring while reducing procedural friction.

v. Promote ESG-Aligned and Green Aviation Finance

The Malaysian government has renewed support for green business development through the Green Technology Financing Scheme (GTFS) 5.0, allocating RM1.0B until 31 December 2026. The scheme supports six key sectors: energy, manufacturing, transport, building, waste, and water, and offers a 60–80% government guarantee on green component costs financed by Participating Financial Institutions (PFIs)[78]. The government has also introduced Green SRI Sukuk for this purpose[79].

- Integrate ESG criteria in aviation financing, aligned with ICAO's CORSIA framework.
- Introduce fiscal incentives for energy-efficient aircraft and green infrastructure.

vi. Develop Aviation Human Capital and Cross-Sectoral Capacity Building

Emirates Aviation University developed specialised finance-focused aviation programs such as an MBA in Aviation Management and a Bachelor of Business Administration in Aviation Management with a concentration in Accounting & Finance, strengthening sector financial governance and human capital[80].

- Institutionalise training programs on aviation finance, asset valuation, and ESG assessment through the National Institute of Banking and Finance (NIBAF) and CAA.

A cohesive implementation of these reforms would align Pakistan's aviation finance ecosystem with international standards, balancing fiscal prudence with competitiveness. By integrating policy predictability, risk-sharing instruments, ESG financing, and human capital development, Pakistan can enable structured, sustainable financing for both private and public aviation players, transforming the sector into a commercially viable and globally integrated industry.

5.2.2 Insurance Aspect

a) Lack of Adequate Insurance and Claim Mechanism

The primary issue arising from the stakeholders' response was a lack of adequate insurance and claim mechanisms in the civil aviation, specifically the air cargo sub-sector. The government stakeholders' response highlights that there is a significant regulatory fragmentation between corporate compliance and sectoral operations, which impacts the holistic governance of civil aviation entities and their insurance matters.

b) Jurisdictional Overlap and Gaps:

The SECP regulates civil aviation companies strictly as corporate entities under the Companies Act, 2017, and oversees insurance firms as licensed entities under their respective frameworks. However, government financial regulators do not oversee aviation companies' operational activities, which remain under the Civil Aviation Authority. This separation creates a gap, leaving aviation-specific insurance, risk, and compliance unaligned with corporate governance and operational safety.

c) Absence of Sector-Specific Financial and Insurance Regulations:

The stakeholder's response confirmed there are no specific regulatory requirements applicable solely to civil aviation companies beyond generic corporate compliance rules. This lack of tailored financial and insurance frameworks means the unique risks of the aviation sector may be managed solely by general insurance regulations or PCAA operational rules, rather than a coordinated financial/operational regulatory approach.

d) Siloed Privatisation Oversight:

Matters related to the privatisation of state-owned aviation entities reside instead with the Privatisation Commission and parent Ministries. This fragmented approach further supports the stakeholders' concern that the industry lacks strategic vision and integration of crucial economic arms. Such a lack of collaborative vision and inter-organisation planning can complicate the transfer of assets and regulatory compliance during major structural changes in the industry.

5.2.3 Data Governance and Systemic Landscape

Stakeholder responses highlight a critical structural issue in data availability, accuracy, and integration across the civil aviation sector. Fragmented data creates operational inefficiencies, particularly in cargo logistics, and prevents assessment of the sector's macroeconomic contribution due to missing key indicators. The following sections synthesise these findings and present actionable recommendations to improve data governance and integration.

The stakeholders' response highlights several critical issues relating to data collection, scope limitations, and the utilisation of statistics within the civil aviation sector.

a) Data Collection Challenges and Inconsistency

The key government administrator of statistical data faces a "challenging task" in collecting reliable and consistent data from industry sources. The process relies heavily on manual, intermittent follow-ups (letters, emails, telephonic conversations), indicating a lack of a formalised, mandatory, or electronic data-sharing mechanism. This ad-hoc approach can lead to delays and potential inconsistencies in reporting.

b) Limited Scope of Data Collection

The current mandate of the PBS is restricted primarily to quantitative indicators, namely, Gross Value Added (GVA) and Gross Fixed Capital Formation (GFCF) of the air transport industry. This scope means the PBS does not cover vital qualitative or subjective indicators like passenger satisfaction, regional connectivity performance, or the specific impact of low-cost carriers.

c) Absence of Comprehensive Tourism Statistics

The PBS currently does not compile statistics on tourism and related services. While air transport is crucial for tourism, the absence of a comprehensive macroeconomic framework like a Tourism Satellite Account (TSA) prevents a full estimation of the sector's indirect contribution to GDP and related industries.

d) Limitations in Employment Tracking

Due to current data collection limitations (focusing on institutional-level data), the PBS cannot fully track the employment generated by the civil aviation sector and related industries (logistics, services), restricting the ability to assess the sector's full social impact.

e) Data Accessibility and Aggregation

Data is often released as a single aggregate under the "transportation and storage industry" by default. While specific breakdowns are available on request, this lack of proactive, granular data dissemination can hinder timely use by businesses, researchers, and policymakers.

f) Gap between Data Publication and Policy Utilisation

Although the PBS compiles data to international standards for informed decision-making, there is an implicit issue that the data produced is not optimally utilised for formulating data-driven policies.

The PBS response also provides several explicit and implicit recommendations for improving data utilisation and sectoral development.

a) Implement Electronic and Real-Time Data Sharing

The most explicit recommendation is the establishment of an electronic, real-time, mutual data-sharing mechanism among all industry stakeholders. This would vastly improve the coverage, quality, and scope of air transport data in Pakistan.

b) Utilise Existing Data for Policy and Trend Analysis

Stakeholders and policymakers should leverage the long-term, consistent data series already released by the PBS (available from 2000 onwards) for informed decision-making, trend analysis, and studying growth patterns.

c) Develop a Tourism Satellite Account (TSA)

The PBS requires technical assistance and support to compile a TSA. This macroeconomic statistical framework is essential for accurately measuring the economic contribution of tourism to the national economy, providing an internationally comparable view of the sector's impact on GDP and employment.

d) Enhance Data Accessibility and Dissemination

PBS should enhance data accessibility by revising its dissemination policy to proactively release sector-specific breakdowns, such as road and air transport, rather than relying on aggregate figures. At the same time, greater emphasis is needed on formalising data-driven policymaking, ensuring that high-quality statistics produced by PBS are systematically utilised by the government in infrastructure planning and regulatory decision-making.

6. Critical Analysis of the Data and Sector Dynamics

6 Critical Analysis of the Data and Sector Dynamics

This chapter critically examines the patterns and trends identified in the preceding sections, integrating insights from both quantitative data and qualitative stakeholder feedback. Beyond presenting raw figures, the analysis interrogates underlying dynamics, structural constraints, and market behaviours to uncover the factors driving growth disparities, operational challenges, and competitive outcomes in Pakistan's civil aviation sector. By juxtaposing numerical evidence with experiential insights, the chapter aims to provide a nuanced understanding of the market's performance and the implications for policy and regulation.

6.1 Air Passenger Market Growth Analysis (2006–07 to 2024–25)

Pakistan's air passenger market expanded substantially over the 19 years, though growth patterns differed sharply between segments. International passenger traffic increased from 6.75 million in 2006–07 to 17.98 million in 2024–25, reflecting strong absolute growth driven largely by foreign carriers and long-haul demand. In contrast, the domestic passenger segment showed near stagnation, rising marginally from 6.07 million to 6.28 million, with a very low CAGR of ~0.19%, indicating structural constraints, limited network expansion, and competitive pressures. As a result, total air passenger traffic grew from 12.81 million to 24.26 million, translating into a moderate overall CAGR of ~3.42%. This divergence highlights that aggregate market growth has been overwhelmingly international-led, while domestic aviation has failed to capitalise proportionately on rising demand, underscoring imbalances in market structure and policy support.

Table 8: Air Passenger Market Growth Analysis

Segment	Base Year (2006–07) Passengers	Last Year (2024–25) Passengers	Absolute Change	CAGR
Domestic	6,066,447	6,284,765	+218,318	0.19%
International	6,745,609	17,980,170	+11,234,561	~5.30%
Total	12,812,056	24,264,935	+11,452,879	3.42%

Source: Author's calculation based on CAA traffic data
** CAGR is implied from growth over 19 years and aligns with the overall international-led expansion observed in the market.*

6.2 Critical Market Analysis

Across the interviews and sectoral consultations conducted for this study, a recurring theme consistently emerged. Stakeholders from domestic airlines, industry associations, and relevant government bodies repeatedly underscored the growing competitive weight of foreign carriers, particularly those operating from the Middle Eastern region. This emphasis did not arise from a singular viewpoint but from a wide spectrum of actors directly engaged in the operational, financial, and regulatory dimensions of Pakistan's aviation ecosystem.

Unlike most domestic industries, civil aviation functions within a globally interconnected architecture shaped by Bilateral Air Services Agreements (BASAs), geopolitical alignments, strategic partnerships, and state-level aviation policies. As a result, the competitive landscape cannot be understood merely through airline-specific market share; rather, it must be assessed in terms of country-level capacity allocation and cross-border traffic rights, which fundamentally determine how market power is

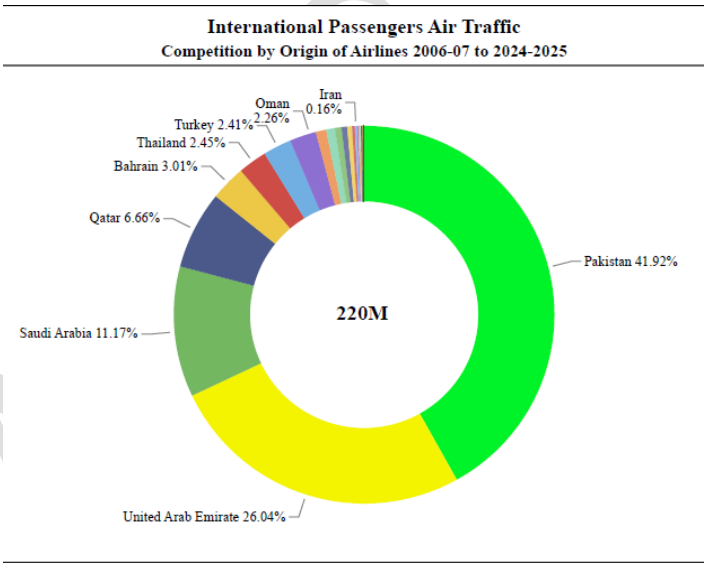
distributed. In this context, the dominance perceived by stakeholders reflects broader structural dynamics embedded in international agreements and not simply the performance of individual airlines.

Given these sector-specific realities and the consistency with which stakeholders highlighted these patterns, a critical analysis of the market becomes essential. Such analysis allows for an objective examination of the data, situating observed market outcomes within the larger institutional, political, and strategic frameworks that shape Pakistan's civil aviation sector. The purpose is not to draw predetermined conclusions, but to interpret market behaviour in light of the systemic constraints, opportunities, and asymmetries identified through both primary and secondary evidence.

6.2.1 International Market Share as Per Country:

Data on international passenger traffic from the period 2006-07 to 2024-25[42] reveals a significant imbalance in market share that underscores Pakistan's reliance on Gulf and Middle Eastern carriers. Pakistani carriers hold an aggregate share of approximately 41.92%. In stark contrast, airlines from the Gulf region dominate the remaining market, with major shares held by the UAE (26%), Saudi Arabia (KSA) (11%), Qatar (~7%), and Bahrain (3%). This heavily skewed distribution highlights the competitive pressures faced by domestic airlines and the reliance of the Pakistani international air travel market on these specific foreign operators.

Figure 26: International Traffic Share by Origin of Airlines 2006-07 to 2024-25

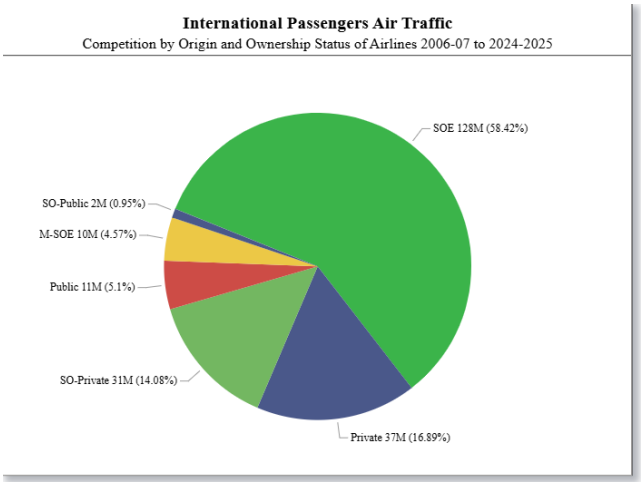


Source: Author's calculation based on CAA data

6.2.2 Competition between State-Backed vs Non-SEOs

SOEs have long raised concerns regarding their impact on the competitive landscape. While PIA is currently privatized in December 2025, several other state-owned entities continue to operate across the aviation value chain, shaping market dynamics and influencing competitive neutrality. Pakistan's international aviation market is highly concentrated, with state-owned and hybrid government-linked entities dominating nearly 78% of passenger traffic between 2006-07 and 2024-25[42]. National and foreign SOEs alone account for about 58.42%, while hybrid entities contribute roughly 20%. In contrast, purely private and public carriers, both domestic and foreign, hold only about 22% of the market (16.89% private and 5.1% public). This heavy

Figure 27: International Traffic Share by Status of Ownership of Airlines



Source: Author's calculation based on publicly available data

state presence, especially from foreign SOEs, limits the space for competitive growth among privately owned and local public airlines. Looking closely at this segregation further reveals the presence of SOEs in Pakistan's international market.

6.2.3 Historic Comparison of Market Share

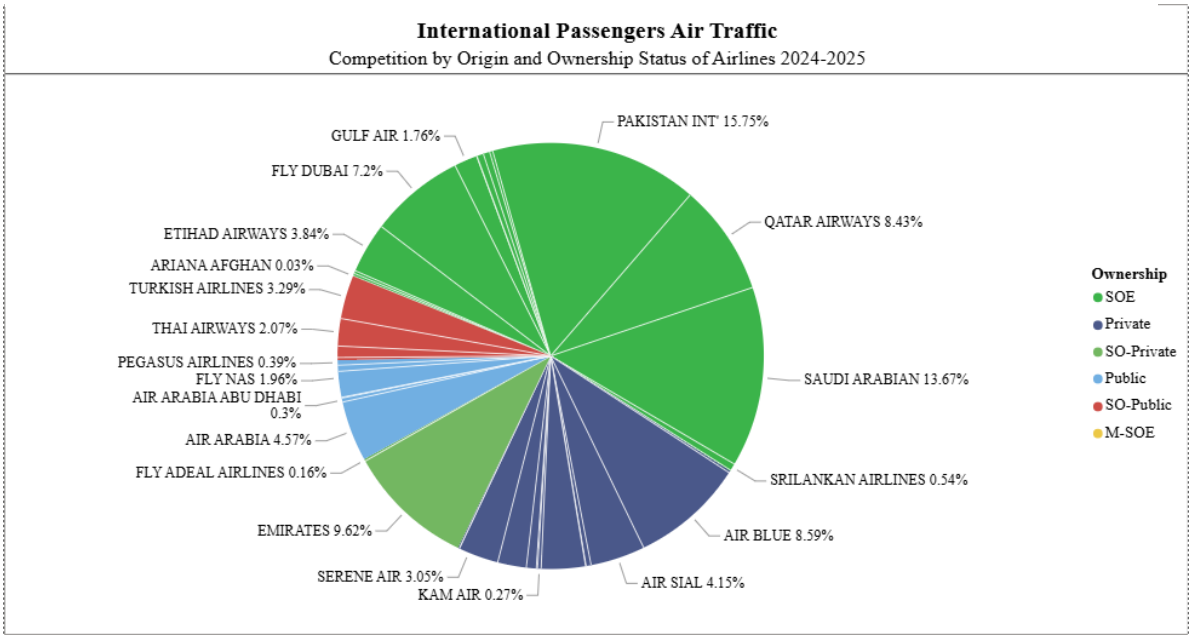
A comparative analysis of the market structure in 2006–07 and 2024–25 reveals a profound transformation.

2006–07: PIA held a dominant position with approximately 42.84% (2.9M) of the market share. Major Middle Eastern carriers (Emirates, Saudi Arabian Airlines, and Gulf Air) collectively held a 30% share.

2024–25: Despite market expansion with an increase of more than 11M passengers, PIA's share declined (2.8M) with a drastic percentage decrease to 15.75%. This period saw an influx of numerous Middle Eastern carriers into the Pakistani market, fragmenting the domestic share and consolidating regional dominance.

The holistic view presented in Figure 22 shows the strong market dominance of Middle Eastern carriers in Pakistan's international aviation sector, reflecting Pakistan's growing reliance on Gulf-based carriers operators for global connectivity. Their strategic hub locations, stronger fleets, and economic ties give them a competitive edge, creating significant challenges for Pakistani airlines and highlighting the sector's strategic vulnerabilities

Figure 28: International Market Competition Landscape



Source: Author's calculation based on publicly available data

a) Strategic and Critical Analysis of HHI for the International Market

This analysis interprets the provided HHI values to strategically assess the competitive dynamics of the international airline market, particularly from the perspective of Pakistan. The interpretation highlights critical differences between a macro-level view and a granular, origin-based analysis, revealing a high degree of market concentration despite the initially low aggregate HHI.

Initial Findings vs. Granular Realities: The initial aggregate HHI of 827.44 for a market involving 40 airlines indicates a seemingly unconcentrated, competitive environment according to standard U.S. Department of Justice and Federal Trade Commission (DOJ/FTC)[62] metrics. This macro-level figure suggests a fragmented market where no single carrier holds dominant power.

However, a strategic analysis that considers the *origin* of the airlines drastically shifts this perception. The HHI value soars to 2219.45 when market share is calculated based on country of origin (specifically Pakistan, UAE, KSA, and Qatar). This revised figure moves the market into the "highly concentrated" category (HHI above 1800) and indicates that the majority of international traffic is captured by carriers from a small number of nations.

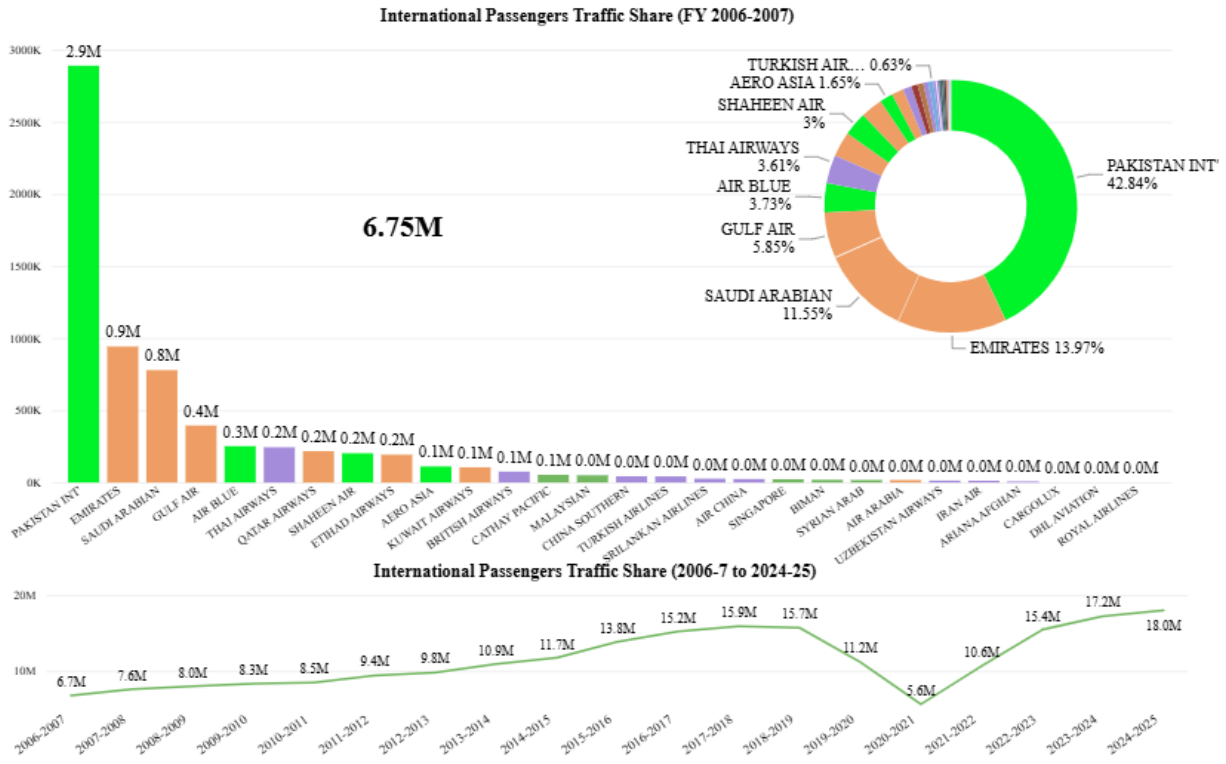
Strategic Implications: The critical analysis reveals that while the international market may appear competitive in aggregate, the specific air travel market for passengers in and out of Pakistan is highly concentrated. This indicates a significant risk of oligopolistic behaviour. The dominance of the GCC carriers suggests they possess substantial leverage over pricing, frequency of flights, and service options for Pakistani travellers. This analysis highlights key vulnerabilities:

- **Regulatory Scrutiny:** The HHI of 2219.45 warrants scrutiny from CCP, as such a high concentration can limit consumer choice and potentially lead to supra-competitive pricing.
- **National Carrier Competitiveness:** The high concentration of foreign carriers puts immense pressure on Pakistani carriers to compete, requiring strategic government intervention or policy shifts to ensure market stability and prevent foreign dominance from completely marginalising local operators.
- This breakdown underscores that standard HHI calculations must be strategically interpreted with relevant geographic and political contexts to accurately reflect actual market dynamics and competitive pressures.

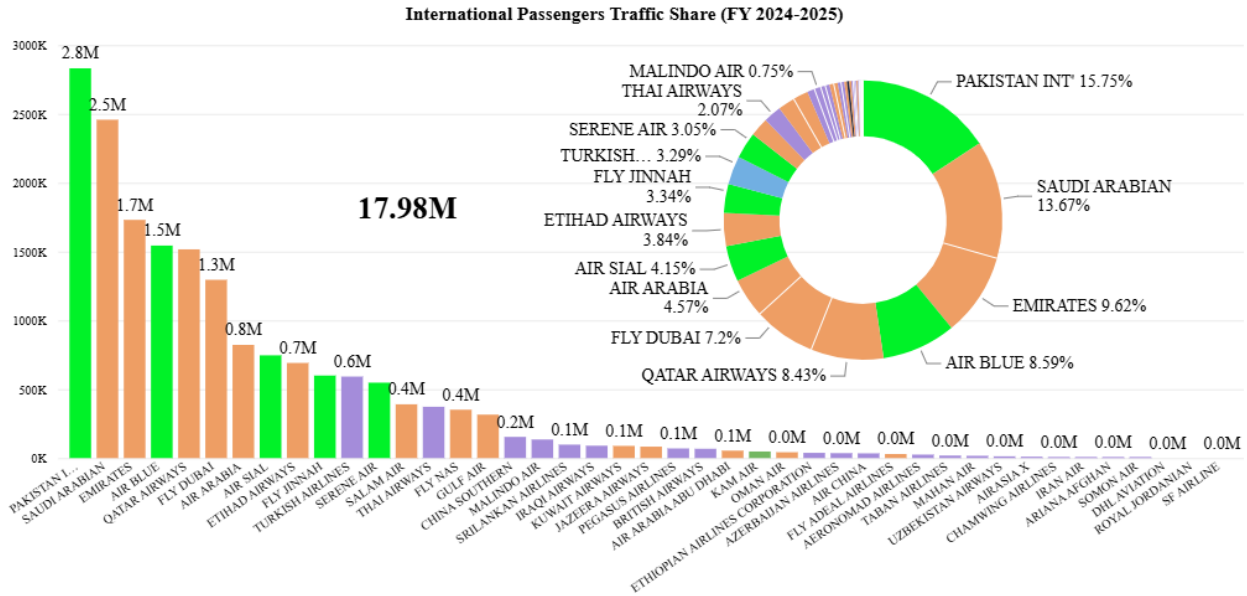
While further diving deep into the analysis, the data shows that the private players operating in the international passenger segment are mainly from Pakistan, which are facing fierce competition from SOEs and state-backed players, mainly from Pakistan, the UAE, KSA, and Qatar.

Figure 29: Comparative Position of Market Penetration by Foreign Carriers 2006-07 vs 2024-25

Market Position 2006-07



Market Position 2024-25



Source: Author's calculation based on CAA data

Note: Orange bars present Middle Eastern carriers, Green bars present Pakistani carriers, and other present rest of the foreign carriers.

6.2.4 Comparative Analysis of International Macroeconomic Indicators

Domestic stakeholders have consistently highlighted concerns regarding an uneven playing field arising from broader macro-economic and geopolitical factors that favour Middle Eastern/Gulf carriers. Since civil aviation operates as an open, internationally integrated market rather than a domestically bounded competitive arena, these dynamics extend far beyond the actions of local airlines. In this context, assessing whether competitive conditions are even and whether Pakistani carriers can realistically operate on a comparable footing becomes essential for understanding the structural challenges shaping market outcomes. The aviation industry is highly sensitive to macroeconomic variables such as inflation, interest rates, and exchange rates. Countries with high or volatile rates, such as Bangladesh and Pakistan, face distinct challenges compared to more stable economies like the UAE, UK or the USA.

a) Inflation Rate

High inflation directly increases operating expenses for airlines. The most significant impact comes from rising aviation fuel prices, a major component of airline costs. High inflation also drives up maintenance expenses and labour costs. Figure 24 shows that Pakistan and Bangladesh have the highest rate of inflation as compared to other regional peers[81].

b) Interest Rates

When central banks raise interest rates to combat inflation, it becomes more expensive for airlines and lessors to raise capital, finance aircraft purchases, or manage existing debt. As shown in Figure 25, Pakistan has the highest interest rates of 11% as compared to its peers and regional competitors of Gulf Cooperation Council (GCC) members in civil aviation (rates from 3.75% to 4.75%)[82].

c) Tax Rates

When analysing tax rates in the context of civil aviation, particularly comparing Pakistan with GCC countries, the primary difference lies in fundamental tax regimes. Pakistan levies a standard corporate income tax of 29% on companies (excluding banks), along with a general sales tax/value-added tax (GST/VAT) rate of 18% on goods and various rates on services, which are among the highest in the region[83], [84]. These high rates significantly increase the operational overhead and tax burden for domestic airlines and supporting services. In stark contrast, GCC nations like the United Arab Emirates (UAE), Qatar, Oman, and Kuwait have historically implemented highly favourable, often zero, corporate and sales tax environments (with VAT typically at a low (5%) in implementing states like UAE and Oman, and still zero in Qatar and Kuwait for general supplies). This disparity creates a substantial competitive disadvantage for Pakistani aviation entities: while airlines in the GCC operate within a minimal tax framework that fosters efficiency and large-scale investment, Pakistani carriers face a heavy tax structure that reduces profitability, increases operational costs, and hinders the ability to compete effectively on international routes or attract long-term financing for fleet modernisation or infrastructure development. To offset increased costs, airlines often raise ticket prices. While demand might initially remain strong, sustained high fares can eventually choke consumer demand and reduce passenger traffic.

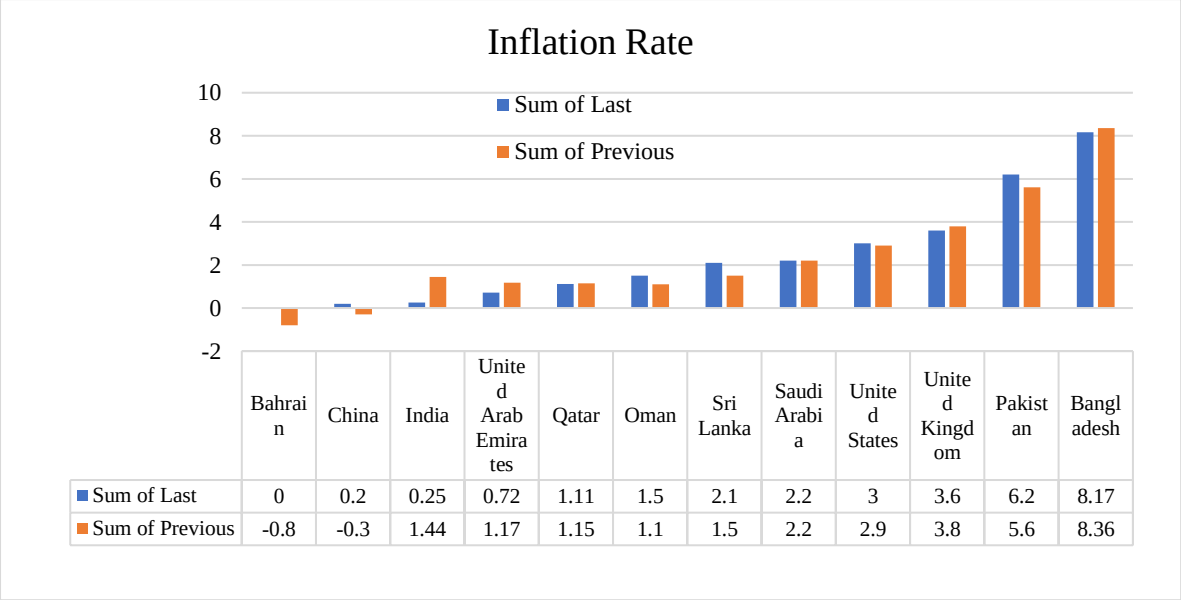
The recent IATA report on public finance and air transport [85] suggests that taxation policy for air transport should be anchored in neutrality, international coordination, and efficiency to avoid distortions that undermine connectivity and growth. Since air transport is a low-margin industry with net profit margins below 5% (3.9% projected in 2026) ([85] , p.12), excessive or fragmented taxation, particularly

source-based profit taxation or expansion of consumption taxes on international tickets can disproportionately harm airline viability and passenger demand. The report [85] emphasizes that international passenger transport is typically zero-rated or exempt from VAT in line with ICAO Doc 8632 to avoid administrative complexity and double taxation public-finance-and-air-transport (p.13), and warns that departures from harmonized rules introduce inefficiencies that ripple across the global network public-finance-and-air-transport (p.15).

According to IATA, narrowly targeted consumption levies, such as air ticket taxes, are among the most economically inefficient forms of taxation because they tend to significantly suppress the specific activity being taxed while generating relatively limited public revenue [85]. Unlike broad-based consumption taxes, these charges concentrate the burden on a single sector, thereby distorting demand and weakening connectivity without making a substantial contribution to overall fiscal resources. While such taxes can be justified where the explicit policy objective is to discourage consumption, similar to excise duties imposed on tobacco or alcohol, their rationale in aviation must be clearly articulated. IATA argues that if governments choose to impose specific ticket taxes, they should transparently acknowledge whether the underlying intent is revenue generation or an explicit effort to curb air travel demand.

For Pakistan, this implies that policies such as high airport departure taxes, turnover-style levies, or unilateral shifts toward source-based taxation of airline profits should be carefully reassessed against principles of neutrality and international competitiveness, especially given that corporate income taxes already reduce investment and output while contributing a relatively modest share of total tax revenue in OECD systems (12-13%) [85]. A predictable, transparent, and internationally aligned aviation tax regime would better support Pakistan's connectivity goals, tourism development, and hub ambitions while safeguarding fiscal sustainability.

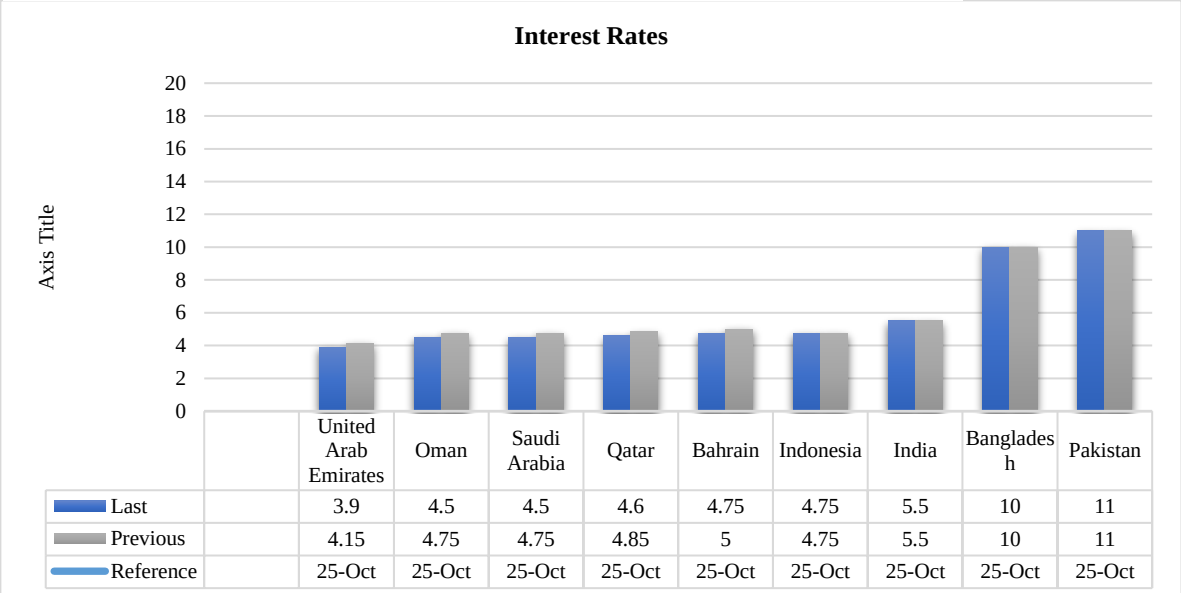
Figure 30: Inflation Rate Comparison



	Bahrain	China	India	United Arab Emirates	Qatar	Oman	Sri Lanka	Saudi Arabia	United States	United Kingdom	Pakistan	Bangladesh
Sum of Last	0	0.2	0.25	0.72	1.11	1.5	2.1	2.2	3	3.6	6.2	8.17
Sum of Previous	-0.8	-0.3	1.44	1.17	1.15	1.1	1.5	2.2	2.9	3.8	5.6	8.36

Source: https://tradingeconomics.com/country-list/inflation-rate

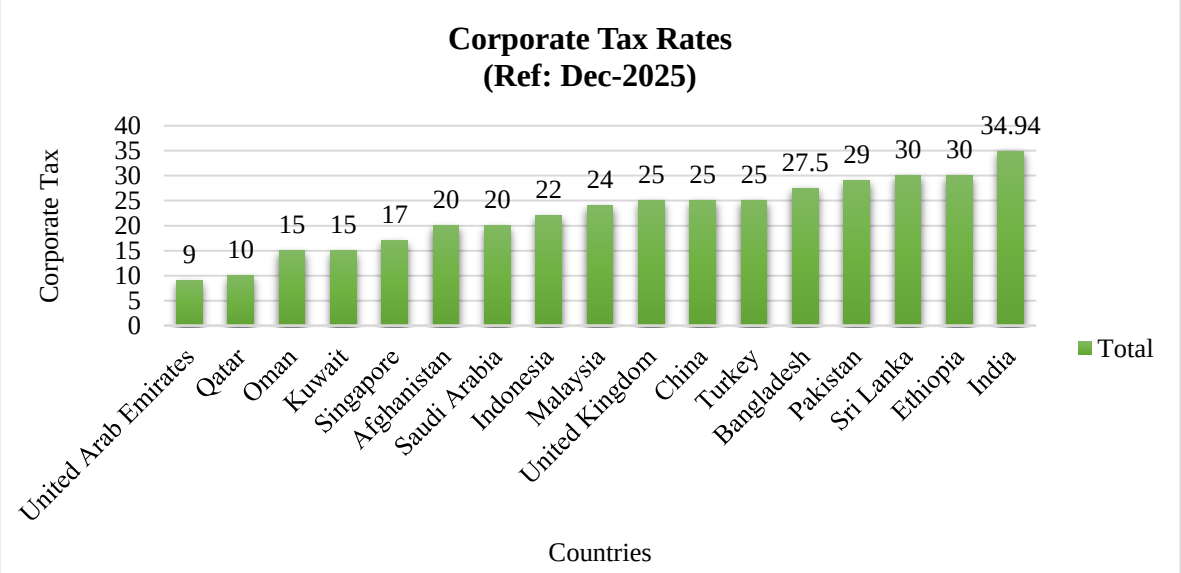
Figure 31: Interest Rates Comparison



	United Arab Emirates	Oman	Saudi Arabia	Qatar	Bahrain	Indonesia	India	Banglades h	Pakistan
Last	3.9	4.5	4.5	4.6	4.75	4.75	5.5	10	11
Previous	4.15	4.75	4.75	4.85	5	4.75	5.5	10	11
Reference	25-Oct	25-Oct	25-Oct	25-Oct	25-Oct	25-Oct	25-Oct	25-Oct	25-Oct

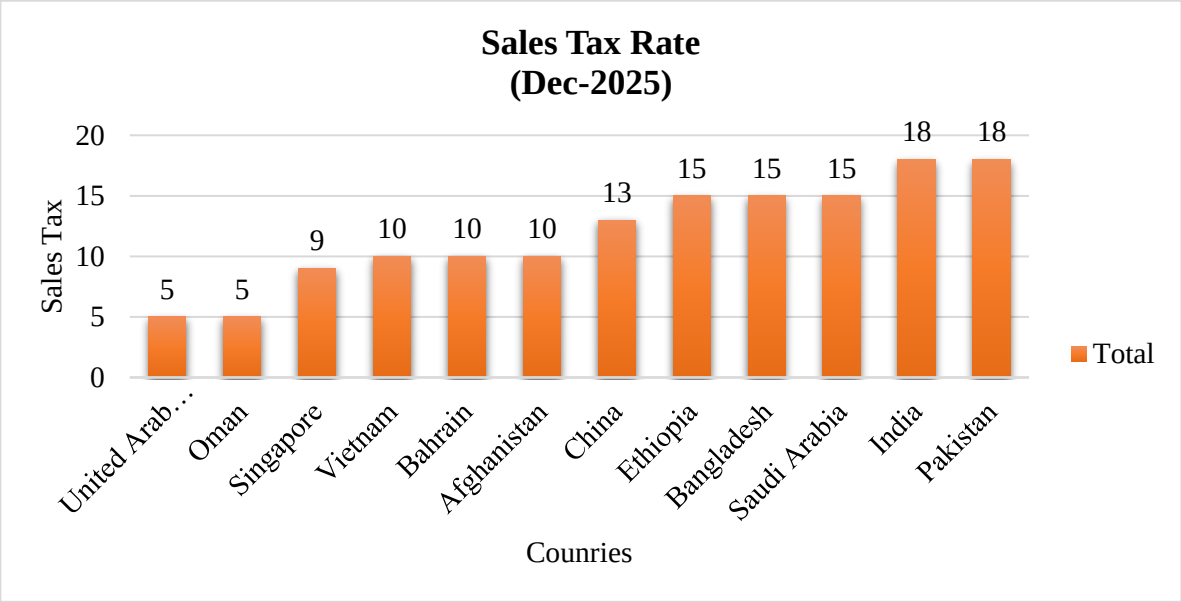
Source: https://tradingeconomics.com/country-list/interest-rate

Figure 32: Corporate Tax Rates Comparison



Source: https://tradingeconomics.com/country-list/corporate-tax-rate

Figure 33: Sales Tax Rates Comparison

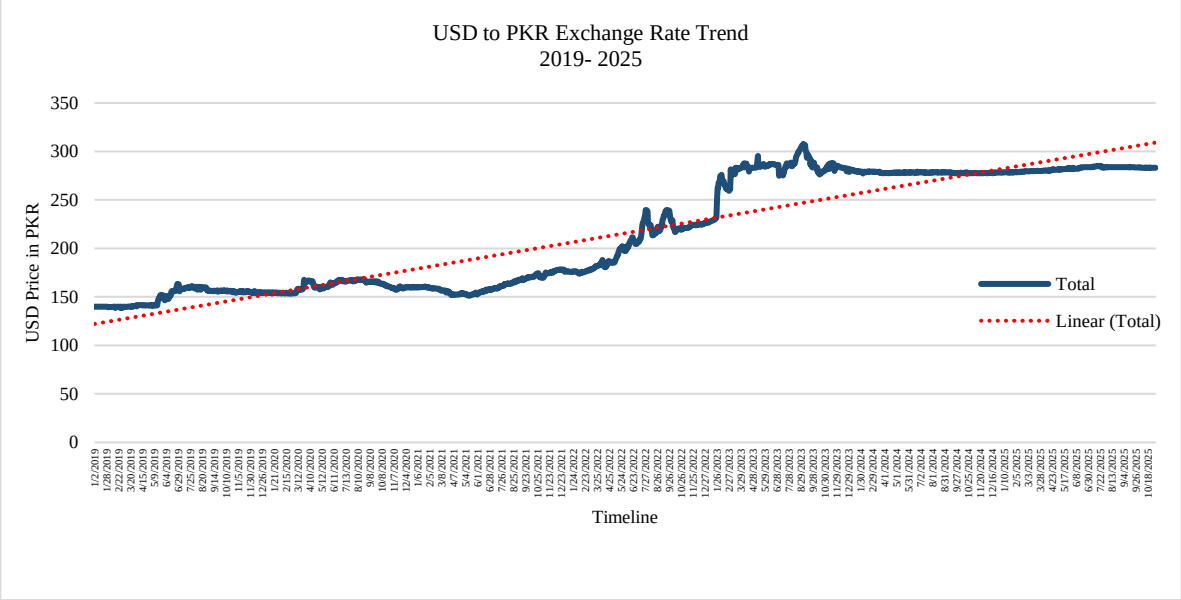


Source: https://tradingeconomics.com/country-list/sales-tax-rate

d) ***Exchange Rate (USD)***

Aviation transactions (aircraft leasing, fuel purchases, maintenance parts) often occur in stable foreign currencies like USD. High local inflation often correlates with a volatile or depreciating local currency, which increases the real cost of international operations and debt repayment for airlines in countries like Pakistan or Bangladesh.

Figure 34: USD Exchange Rate Trend



Source: Author's calculation based on publicly available data

The sharp devaluation of the Pakistani Rupee (PKR) from 139.85 on January 1, 2019, to 283.175 on November 1, 2025 (Figure 28)[86], significantly impacts Pakistan's civil aviation sector by increasing operational costs for domestic carriers. Essential expenses like fuel, maintenance, and leasing, priced

in US dollars, become dramatically more expensive for airlines operating in Pakistan. This financial strain erodes profit margins and worsens the liquidity crisis for domestic players such as PIA, Serene Air, and Air Blue. In contrast, the dominant Middle Eastern carriers benefit from a distinct strategic advantage as they operate with stable, often US dollar-pegged national currencies and, in some cases, access to domestic fuel supplies at potentially more favourable rates. This operational stability insulates them from the currency volatility impacting Pakistani airlines.

This disparity in currency stability and operational costs widens the competitive gap, reinforcing the reliance on Middle Eastern operators for international travel. While Pakistani carriers struggle with rising costs and financial instability, foreign airlines maintain consistent pricing and robust service offerings. This dynamic attracts more passengers to the well-capitalised Middle Eastern giants, exacerbating the market imbalance and consolidating their dominance. The currency crisis thus acts as a powerful barrier to the growth and competitiveness of Pakistan's domestic aviation industry, perpetuating a cycle of financial vulnerability and market share loss.

Thus, high interest, tax, and currency rates make the operational costs way higher for domestic players as compared to their regional competitors' cost structure. High domestic operating costs can make local airlines less competitive internationally compared to carriers based in countries with lower, more stable economic metrics. Persistent economic instability elevates the sector's risk profile, deterring long-term investments in infrastructure or fleet modernisation.

Although the market share captured by peer countries, particularly Middle Eastern carriers, may appear beneficial in terms of strong bilateral relations and improved service quality for consumers, a competition assessment requires a deeper, more critical lens. High reliance on foreign, state-backed carriers can raise questions about competitive neutrality, especially when these entities may benefit from financial, regulatory, or structural advantages unavailable to domestic airlines. In this context, the concerns raised in the U.S. airlines' white paper on Gulf carriers become relevant, as it illustrates how state-backed advantages can distort market dynamics even in highly liberalised aviation environments. This perspective underscores the need to critically evaluate the competitive implications of foreign dominance within Pakistan's open aviation market.

e) US Airlines' White Paper:

A landmark 2015 white paper submitted by a coalition of major U.S. airlines, American Airlines, Delta Air Lines and United Airlines, alleged that three prominent Gulf carriers, Qatar Airways, Emirates and Etihad Airways, received at least US$ 42 billion in state subsidies and other competitive advantages between 2004 and 2015. The white paper argued that such support violated the spirit of Open Skies agreements and created distortions in global air transport competition, allowing these carriers to expand rapidly, undercut costs, and capture routes at the expense of other operators[87].

In the context of Pakistan, the secondary data analysis presented previously indicates a growing reliance on foreign, particularly state-backed Gulf carriers, reflecting multiple underlying factors. These trends highlight the increasing role of international dynamics in shaping Pakistan's aviation market. The dependency on carriers of Gulf countries may be attributed to several key factors:

i) Open Sky Policy and Liberalisation:

Since its implementation in the 1990s, the Open Sky Policy has allowed foreign airlines, particularly those from the Gulf, to significantly expand their services into Pakistan. This move, while increasing competition and potentially lowering fares, inadvertently favoured highly competitive, state-subsidised Gulf carriers over the financially strained national carrier, PIA.

ii) Geographic and Economic Connections:

Pakistan's strong ties to the Middle East, driven by a large diaspora of overseas Pakistani workers, create a high volume of demand for travel to and from the Gulf states. Gulf carriers have effectively capitalised on this demand, offering a wide network of connections and competitive pricing.

iii) **Sixth Freedom Traffic:**

Gulf carriers leverage "sixth freedom" traffic, carrying passengers between Pakistan and third countries via their hubs (like Dubai, Doha, and Abu Dhabi)[88]. This strategy allows them to capture a larger portion of Pakistan's international market, further eroding PIA's market position.

iv) Operational and Financial Challenges of Pakistani Carriers:

While private Pakistani airlines have shown resilience, PIA, the former market leader, has struggled with chronic mismanagement, financial instability, and an ageing fleet. These issues, including a temporary ban on its flights to Europe and the UK in 2020 due to a pilot licensing scandal, have hampered its ability to compete effectively on international routes.

This reliance on foreign carriers has substantial implications for the national aviation industry, national economic interests, and the prospects of Pakistani airlines in the international market. It highlights a strategic vulnerability where the domestic market's international connectivity is heavily influenced by the policies and operations of foreign entities.

In sum, while domestic stakeholders have repeatedly identified Middle Eastern/Gulf carriers as the primary competitive force reshaping Pakistan’s aviation landscape, the broader macroeconomic and regulatory analysis substantiates these concerns. The evidence reflects a structurally uneven playing field in a sector inherently open to foreign, often state-backed, carriers whose strategic advantages extend beyond commercial factors. Recognising these systemic asymmetries is essential for understanding the pressures faced by local airlines.

6.2.5 Critical Analysis of the National Aviation Policy 2023

The NAP 2023 aims to modernise Pakistan’s aviation sector through enhanced safety, cybersecurity, and investment facilitation. While progressive on paper, the policy exhibits contradictions and structural weaknesses that may undermine its objectives. The critique can be structured under the following key issues:

a) Barriers to Entry

The doubling of security deposits to Rs 100M and high paid-up capital requirements (Rs 300 m upfront for RPT licences, rising to Rs 600 M before issuance) impose liquidity constraints on small operators [89], [90]. Such financial rigidity discourages investment and risks pushing operators to relocate abroad.

The requirements for an RPT license are substantial, acting as a major barrier for new airlines intending to offer standard passenger and cargo services. The need for 600 million PKR in loss-free, paid-up capital is a significant upfront capital commitment. This immediately restricts potential entrants to those who are already well-capitalised or have strong financial backing, such as large industrial conglomerates. An additional 100 million PKR security deposit ties up liquid assets, further increasing the initial financial hurdle. This structure likely limits competition in the mainstream passenger market to only a few major players who can meet these thresholds.

The regulatory caveats place an ongoing burden on all license holders that affects long-term viability. The "loss-free" clause (i) in Table 1 means that any operational losses require immediate capital injections to maintain the minimum threshold. This exposes smaller or newer entrants to high risk during economic downturns or periods of high operational costs (e.g., fuel price volatility). Mandatory submission of audited financial statements (iv) ensures continuous regulatory oversight of financial health, preventing undercapitalised entities from operating for long periods. The framework encourages financially robust operators who can withstand operational shocks and ensures a minimum level of financial stability within the sector. Overall, it suggests a regulatory framework designed to ensure that commercial aviation operators possess sufficient financial resilience, effectively screening out poorly funded startups and favouring established business groups. However, Pakistan's strict financial requirements are a defined regulatory approach aimed at ensuring initial capitalisation but contrast with global trends towards more dynamic, business-plan-driven financial assessments as presented in Table 9.

Table 9: Comparison of Financial Requirements

Region/Authority	Approach to Financial Fitness	Comparison
Pakistan (CAA)	Fixed Minimum Capital & Security Deposit	Pakistan has a high, fixed barrier to entry for RPT licenses, explicitly stating a minimum paid-up capital of PKR 600 million and a PKR 100 million security deposit.
India (DGCA)	Tiered Minimum Capital (Fleet-Based)	India also uses fixed minimum capital, but it scales with the size and weight of the fleet (e.g., INR 500 million for airlines with up to five heavy aircraft). The Pakistani fixed amount is comparable to or potentially higher than India's initial requirements[91].
United Kingdom (CAA)	Liquidity and Operating Cost Projections	The UK CAA assesses an applicant's ability to meet obligations for 24 months and cover 3 months of operating costs without income, based on a business plan. There is only a minimal fixed paid-up capital of £30,000 required for new ATOL holders, a small fraction of Pakistan's requirement[92].
United States (DOT)	Financial Fitness Demonstration	The US DOT requires applicants to demonstrate financial fitness through detailed forecasts of profitability and sustainability, typically showing access to sufficient working capital to cover operational costs[93], [94].
UAE	No Mandated Minimum Capital	UAE law generally does not require a minimum capital for limited liability companies, allowing investors flexibility to set capital based on operational needs. The capital required depends on the business activity and the specific free zone[95].

Source: Publicly available information.

Pakistan uses a fixed, high minimum capital requirement, offering a clear, quantifiable benchmark for stability. Many international regulators (UK, US, UAE) have shifted towards more flexible, projection-based models that assess the sustainability of the business plan and sufficient working capital rather than a set minimum amount of starting capital. Pakistan's requirement for a loss-free capital base ensures immediate solvency, whereas the UK's 24-month liquidity test aims to predict future viability and protect consumer funds through different mechanisms. The Pakistani system creates a very high

barrier to entry for large RPT operators, which some international markets (like the UAE) explicitly avoid to encourage new business setup.

b) Age Restrictions on Aircraft Imports

NAP 2023 maintains the age limit on aircraft imports, first introduced in 2015, despite international practice showing no such restriction in Europe or North America[89].

Category of Operations	Maximum Induction Age and Operational Life at Induction	Maximum Operation or Retirement Age
Regular Public Transport (RPT)	18 Years + Minimum 50% Operational life remaining	22 years
Pressurised Passengers TPRI	18 Years + Min. 35% Operational life remaining	24 years

While intended to improve safety, these restrictions constrain access to serviceable aircraft and unnecessarily increase operational costs, undermining fleet modernisation efforts. The regulations impose specific, hard-stop chronological age limits for scheduled passenger transport (RPT at 22 years, TPRI at 24 years). This is a stricter approach than many international standards, which often rely more heavily on ongoing maintenance programs and flight cycles/hours rather than an absolute age.

While rigorous maintenance is mandated internationally regardless of age, some jurisdictions implement strict age limits for political or market reasons, which can restrict the economic life of an aircraft. These limits can make it harder for airlines to operate older, potentially fully depreciated, aircraft to control costs. The CAA uses a hybrid approach, combining a chronological age limit with a condition that a minimum percentage of the aircraft's total "operational life" (likely defined by cycles/hours) must remain at the time of induction, ensuring structural integrity is a key factor alongside chronological age. This data establishes the clear, rigid boundaries within which all operators in Pakistan must manage their fleet acquisition and retirement schedules.

- *Leasing Bias and Investment Disincentives*

The induction rules, especially the 50% remaining life requirement, implicitly encourage leasing younger aircraft rather than ownership. While leasing lowers entry barriers and supports competition in the short run, it may:

- Discourage long-term capital investment in owned assets
- Increase FX outflows through lease payments
- Limit domestic balance-sheet strengthening in aviation

As a result, the framework unintentionally reinforces asset-light business models, while penalising carriers with legacy-owned fleets unless fresh capital is injected.

- *International Examples of Age-Related Regulations*

The U.S. Federal Aviation Administration (FAA) [96] and the European Union Aviation Safety Agency (EASA) [97] do not impose a hard maximum chronological age limit for aircraft (e.g., 25 years) in the same way the Pakistan CAA sets a 22- or 24-year cap for RPT/TPRI. Instead, authorities like the FAA implement “Aging Airplane Safety Rules” that mandate extra, intensive inspections and complete records reviews once an aircraft reaches 15 years of service, repeating these checks periodically

thereafter. The operational life of an aircraft is primarily determined by its manufacturer (OEM) based on flight cycles (pressurisation changes) and flight hours, not just its calendar age. These limits are designed to prevent widespread fatigue damage, and maintenance programs are built around these metrics. While there is no regulatory limit, the average passenger jet is typically retired for economic reasons (fuel efficiency, maintenance costs) around 25 to 30 years, with freighters lasting longer. Aviation safety data up to 27 years of age shows no impact on the fatal accident rate, reinforcing the international consensus that rigorous maintenance programs are the critical safety factor, not age alone [98], [99]. Thus, the developed countries focus on performance-based safety oversight, ensuring structural integrity through engineering limits (cycles/hours) and rigorous, age-based maintenance programs, rather than a simple chronological age cap. This provides a more flexible operational environment while maintaining safety standards.

c) Incoherence between Investment-Friendly Rhetoric and Regulatory Reality

While NAP 2023 promotes a "low-tax regime" and PPPs to attract investment[100], the simultaneous imposition of high sales tax, deposits and capital requirements sends contradictory signals. Investors may perceive Pakistan's aviation sector as high-risk and capital-intensive, privileging incumbents and discouraging new entrants[90].

d) Implementation and Institutional Capacity Challenges

Although the policy emphasises SMS, cybersecurity, and human capital development, implementation risks are significant due to limited institutional capacity, infrastructure deficits, and resource constraints[100]. Without robust enforcement mechanisms, the safety and security improvements may remain aspirational rather than operational.

e) Regional Hub Ambitions Remain Aspirational

NAP 2023 aims to position Pakistan as a South Asian air-transport hub, but it lacks concrete strategies for logistics efficiency, cargo handling, and liberalised ASAs. Lessons from Qatar, UAE, and Turkey show that hub development requires consistent policy, strong infrastructure, and collaborative stakeholder engagement, elements only partially addressed in Pakistan's framework.

f) International Compliance and Standards

Civil aviation activities must meet standards set by the ICAO. Placing the regulatory body under the MoD, which has different objectives (national defence vs. civil air transport safety and economics), may raise concerns about the independence and focus of the safety and regulatory functions, potentially impacting Pakistan's compliance with international conventions. The aviation sector requires a clear, independent regulatory framework to ensure safety and international confidence. A perceived lack of independence, especially after previous scrutiny over issues like pilot licenses, could lead to further international demands for verification and scrutiny.

g) Legal and Constitutional Challenges

Placing the CAA under the MoD without corresponding amendments to the parent laws has prompted discussion among legal and policy circles. Several observers point out that, within Pakistan's constitutional framework, a Cabinet decision or S.R.O., including S.R.O. 83(1)/2025, does not ordinarily substitute for an Act of Parliament. Because the Pakistan Civil Aviation Act, 2023 and the Pakistan Airports Authority Act, 2023 assign aviation functions to the Ministry/Division of Aviation, some analysts suggest that a legislative amendment would typically be required to realign these mandates. In the absence of such amendments, the arrangement is viewed by some as an administrative

step that may not neatly align with the statutory scheme. It has also been noted that this misalignment could, in principle, open space for judicial review should any stakeholder seek clarity through constitutional remedies.

h) *Contradictory Visions and Operational Issues*

A major criticism has been the absence of a clear coordination mechanism for dealing with issues that fall under both civil and defence domains. Most airports are dual-use facilities (civilian and military), and air traffic is jointly controlled. Without a formal interface, operational issues and conflicts are likely to arise. There are concerns about potential conflicts of interest, as security institutions may have different priorities than commercial civilian aviation goals, particularly regarding creating a strategic business industry on commercial grounds.

7. Privatisation and Outsourcing

7 Privatisation and Outsourcing

The ongoing financial instability and operational inefficiencies within SOEs, particularly PIA and various airport operations, have intensified discussions and actions surrounding privatisation and outsourcing. This chapter examines the context, current challenges, and potential future directions of privatising key assets within Pakistan's civil aviation sector. The analysis is backed by stakeholders' feedback and secondary data analysis and focuses on the strategic rationale, regulatory considerations, and the impact of these initiatives on the sector's overall competitiveness and sustainability, including lessons learned from past and international experiences with PPPs.

7.1 State-Owned Entities in the Civil Aviation Market

The involvement of SOEs in the civil aviation sector is a subject of significant policy debate, revolving around the trade-off between economic efficiency and public policy objectives. Literature generally supports the notion that while governments may pursue developmental or strategic goals through SOEs, this often comes at the cost of market efficiency and financial performance. This complex relationship necessitates a comprehensive analysis of both the advantages and the inherent drawbacks of state ownership in this highly competitive and capital-intensive industry.

A predominant view is the operational and financial underperformance of state-owned airlines compared to private sector carriers. Public sector airlines, airports, and ancillary services those with mixed ownership generally exhibit lower levels of performance and passenger satisfaction. Literature suggests that government intervention can lead to mismanagement, a lack of commercial focus, and exposure to political interference, which ultimately harms the airline's performance. The resulting financial losses often require ongoing subsidies from the state, which can pose a significant burden on public finances and reduce the government's net worth in the long term. The general trend towards deregulation and privatisation in the global aviation market is largely a response to these observed inefficiencies.

Furthermore, the presence of SOEs often leads to market distortion and unfair competition. By having access to state aid, subsidies, or government guarantees, these entities operate with an implicit safety net that private airlines lack. This can create an unlevel playing field, making it difficult for new, private entrants to compete effectively. Such anti-competitive dynamics can deter private investment and innovation, ultimately leading to less overall market development and fewer service options for consumers. In a liberalised market, this dynamic can lead to a less competitive, oligopolistic structure dominated by a few major players, some of which may be state-backed.

Despite the efficiency arguments favoring privatization, SOEs are often justified by their ability to achieve key public policy objectives that private firms might ignore. SOEs can be mandated to operate commercially unviable "essential air services" to remote or underserved regions, thus ensuring universal connectivity and supporting regional economic growth. A national carrier can also be viewed as a strategic asset, providing a nation with reliable air transport capacity during times of crisis and supporting broader governmental goals for tourism and trade. Given the above, the case study of PIA is presented to critically analyse its privatisation.

7.2 Case Study of State-Owned Entity – The Golden Bird, Pakistan International Airlines Corporation (1955)

7.2.1 Origins and Foundation

After Pakistan's independence in 1947, Orient Airways played a critical role in transporting refugees and establishing connectivity between East and West Pakistan. Recognising the strategic importance of a national airline, the Government of Pakistan passed the PIAC Ordinance in January 1955, merging Orient Airways into the newly established Pakistan International Airlines Corporation (PIAC). This SOE became the country's flag carrier and symbolised national aspirations for global presence.

7.2.2 Expansion and the Golden Era (1955–1970s)

In 1955, PIA took its first major leap onto the global stage by launching scheduled services to London, with stopovers in Cairo and Rome. At the time, the decision sparked debate at home; many questioned whether a developing nation should prioritise international flights when domestic needs were pressing. Yet, the venture quickly proved its worth. It connected Pakistan's growing expatriate community to their homeland and generated FX that was reinvested into the airline's expansion, allowing PIA to gradually build a modern fleet.

The late 1950s were a period of transition and preparation. Orders were placed for Super Constellations and Viscounts, reflecting the airline's ambition to move beyond regional operations. While M.A. Ispahani served as the first Chairman, Managing Director Zafar-ul-Ahsan played a defining role in laying down the foundations of PIA's corporate structure, including the establishment of its head office at Karachi Airport.

Mr Ahsan's work prepared the airline for the rapid transformation that was to come under Air Commodore Nur Khan, who took charge as Managing Director in 1959. Under Mr Khan's leadership, PIA quickly earned a reputation for innovation and service quality. His tenure is remembered as the "golden era" of the airline. His dynamic management rapidly transformed PIA into one of the world's most respected carriers.

7.2.3 Records' History of PIA

a) *1960s*

The early 1960s brought a series of historic milestones. In 1960, PIA became the first Asian airline to operate a jet aircraft, introducing the Boeing 707 on the London–Karachi–Dhaka route. The next year, it boldly launched service between Karachi and New York, signalling its ambitions on the global aviation stage

b) *1962*

On 2 January 1962, Captain Abdullah Baig with co-pilot, Captain Mirza Taimoor Baig, set a world record for the fastest commercial flight from London to Karachi in 6 hours 43

Figure 35: Welcome of PIA's legendary Pilots at Karachi Airport Jan 02, 1962

Source: Goodoldkarachi.com

minutes and few seconds with PIA's brand new Boeing 720-040B (AP-AMG) achieving an average speed of 938.78 km/h (582.98 mph), a record still standing[101] (Photo providing glimpse of the moment)[102].

Consumer Onboard Entertainment:

PIA also left its mark on aviation history by redefining passenger comfort. In 1962, it became one of the first international airlines in the region to introduce regularly scheduled film screenings on board, at a time when such luxuries were unheard of in South Asia. This early step into in-flight entertainment set PIA apart as a pioneer in hospitality and positioned it years ahead of regional competitors.

c) 1963

Innovating beyond jets, PIA introduced one of the world's earliest commercial helicopter services in East Pakistan in 1963, carrying more than 70,000 passengers in its first year of operation, an innovation regarded at the time as world-class. Using Sikorsky S-61Ns, it connected over 20 towns, slashing journey times dramatically and establishing the most extensive helicopter network of its kind during that period.

d) 1964

In 1964, it earned the distinction of being the first airline outside the Communist bloc to operate flights to China.

e) 1960-1970

Over the years, the carrier broadened its network to more than 100 destinations across Europe, North America, the Middle East, and Asia. By the mid-1960s, PIA was frequently cited in international aviation circles as a model carrier from the developing world, recognised for its modern fleet, punctual services, and global reach.

f) 1970s-1980s

PIA's reputation soon extended beyond Pakistan's borders. Its technical expertise and operational standards were widely acknowledged, leading airlines such as Emirates, Singapore Airlines, and Royal Jordanian to seek training and guidance from PIA in their formative years. In the mid-1980s, several Emirates Airlines crew were trained at Karachi, and the airline leased aircraft to help launch this now-globally recognised carrier. During the 1970s and 1980s, PIA assisted in establishing Emirates Airlines, providing leased aircraft and training support.

g) 2004

In a bold leap forward for ultra-long-haul aviation, PIA made headlines in 2004 as the launch customer for and first operator of Boeing's innovative 777-200LR, the "Worldliner" engineered to redefine nonstop flight boundaries[103].

h) 2005

Just a year later, in November 2005, PIA and Boeing shattered expectations by orchestrating the world's longest nonstop commercial flight of the era: the jet cruised from Hong Kong to London Heathrow, eastward via the Pacific, United States, and Atlantic, covering approximately 11,664 nautical miles (21,600 km) in about 22 hours and 42 minutes setting a new world record[101]. This remarkable journey surpassed the aircraft's intended range and underscored PIA's daring embrace of cutting-edge technology.

7.2.4 Challenges and Decline of PIA

PIA's trajectory shifted as successive governments frequently intervened in its operations, leading to inefficiencies. A few of these are discussed here briefly.

a) Open Skies Policy:

It is considered that the introduction of the Open Skies policy in the 1990s allowed heavily subsidised Gulf carriers to dominate lucrative international routes, reducing PIA's market share from nearly 50% to around 20%. Simultaneously, domestic competitors such as Air Blue, Shaheen, and Serene Air offered lower fares and better services, eroding PIA's customer base[104].

b) Financial Irregularities and Fiscal Weaknesses:

Apart from reduced market share, the internal weaknesses of PIA also led to the downfall of the national carrier. In this regard, the audit findings highlighted the grave issues in the administrative and financial aspects of the airline.

Audit Findings by the Auditor General of Pakistan

Audit Overview

In October 2018, the Auditor General of Pakistan (AGP) presented a 500-page audit report to the Supreme Court, reviewing PIA's performance between 2008 and 2017. The findings revealed deep-rooted financial, operational, and governance challenges. Later audits and inquiries further confirmed recurring mismanagement, irregularities, and inadequate oversight [105].

Financial Performance and Losses

The audit reported that accumulated losses rose from about Rs 73B in 2009 to Rs 360.39B by 2017. Key reasons for this deterioration included poor fuel management, underperforming subsidiaries, weak contract and procurement systems, and inefficiencies in engineering and maintenance [105].

Governance Failures and Leadership Instability

The report criticised PIA as being run "like a non-business entity," overseen by a Board of Directors dominated by bureaucrats and politicians. Between 2008 and 2017, 44 individuals served on the board, most lacking aviation-sector expertise. Leadership instability further compounded problems, as MDs/CEOs were frequently appointed on political grounds without transparency. Additional issues included the absence of finance representation in board meetings and approval of excessive executive pay packages, which added up to Rs. 98M in burdens [106], [107]

Ticketing Fraud and Revenue Leakages

The AGP attributed Rs 44.5B in losses to ticketing-related fraud. These leakages stemmed from unauthorised ticket issuance, misuse of refund procedures, and weak controls over reservation systems[108].

Procurement Overpricing and Inflated Costs

The Accountant General of Pakistan's audit report of PIAC for 2007–2017 audit revealed shocking examples of cost escalation. Equipment with a market price of USD 24,000 was billed at USD 240,000, nearly ten times its actual price, signalling egregious overbilling (Error of Commission). The audit criticised the procurement of an expensive new ticketing software, at USD 1.50 per ticket, compared to just 46 cents charged by the previous provider, highlighting a serious lapse in due diligence[108]. Dry

and wet lease agreements were also found to be uncompetitive, leading to losses of approximately Rs 56B, as per the AGP report[107].

Unauthorised Financial Support without Oversight

In fiscal year 2022–23, Rs 15B was disbursed to PIA for interest payments without cabinet approval or a supporting business plan, as per the objection raised by the AGP[109]. This was cited as evidence of continued ad-hoc fiscal practices and weak oversight.

Procurement Irregularities and Asset Misuse

The AGP's 2021–22 audit identified irregular asset transfers, including the case of the Sambara Inn hotel, valued at approximately Rs 1.15B, which was handed over to the Sindh government without compensation or due process. This transfer undermined PIA's commercial interests[110].

c) Corruption and Accountability Gaps

The Federal Investigation Agency (FIA) also charged senior executives of PIA for causing losses exceeding Rs 1.25B. These charges were linked to advance payments for cabin refurbishments and in-flight entertainment systems that were never installed, highlighting major accountability failures[111].

d) Past Recommendations

The AGP and related reviews outlined several reform measures:

i. Appointment of leadership based strictly on merit and aviation expertise.
ii. Reduction of political and governmental interference.
iii. Review of the national aviation policy and foreign ASAs.
iv. Formation of a professional, independent, and dynamic board of directors.
v. Strict financial discipline with mandatory cabinet approval for bailouts.
vi. Stronger accountability in procurement and asset management.

e) Safety Scandals and Global Repercussions:

Safety and regulatory concerns further damaged the airline's standing. The 2020 Karachi crash (Flight 8303) killed 97 passengers. The Aviation Minister's public claim in the parliament in 2020 led to revelations that 262 out of 860 Pakistani pilots held dubious licenses, including many at PIA[112]. This statement caused distress in the aviation industry globally. The scandal prompted the EU, UK, and US to impose bans on PIA flights, costing the airline an estimated USD 140M annually[113]. The bans lasted nearly five years and significantly damaged PIA's reputation in international markets.

f) 2019–2025 Reform Efforts and Financial Turnaround

A reform strategy introduced in 2019 focused on merit-based promotions, disciplinary action, and operational restructuring. Despite initial progress, the pandemic and continued financial stress limited recovery. However, following a government-led debt restructuring plan in 2024, which shifted over Rs 671B in legacy liabilities to state accounts, PIA reported a financial turnaround.

- In 2024, PIA achieved its first operating profit in 21 years, posting a net profit of Rs 26.2B and an operating profit of Rs 9.3B[114], [115].
- The EU and UK bans were lifted in 2025, allowing the resumption of flights to London, Paris, and other European destinations[116].
- Passenger revenues grew by over 40%, and charter services saw a sevenfold increase compared to pre-restructuring levels[117].

7.2.5 Stakeholders' Perspective on PIA's Downfall

a) Loss of Market Share of PIA Due to Underinvestment (PIA)

A major issue identified by the stakeholders is that PIA has steadily lost significant market share in ancillary services, such as ground handling, to foreign-based competitors (like Gerry's Dnata). These international entities possess "deep pockets" and substantial capital investment capabilities that domestic players cannot match. This financial disparity has allowed foreign stakeholders to invest heavily, explore new market areas, and develop setups that ultimately made the local infrastructure appear small and outdated in comparison.

b) Revenue Imbalance and Cargo Sector Neglect

The interview revealed a significant imbalance in PIA's revenue stream, with over 90% coming from passengers. This focus on the core passenger business means that the air cargo sector is inherently under-resourced and underdeveloped. The low cargo revenue suggests that the airline has not effectively capitalised on this market, which limits its overall competitiveness and diversification of risk.

c) Uncompetitive Financing Rates

PIA operates at a severe competitive disadvantage due to vast financial and infrastructural disparities with international carriers. Competitors in aviation hubs like Dubai finance their operations at significantly lower interest rates, typically between 4 % to 5%, while PIA faces prohibitively high financing costs that exceed 12%. This substantial cost-of-capital gap fundamentally hinders PIA's financial viability.

d) Internal Challenges

Furthermore, PIA operates in a challenging domestic environment characterised by higher operational risks, significant infrastructure issues like persistent traffic problems, and internal challenges affecting staff quality of life and salaries. These factors impact overall employee effectiveness. In sharp contrast, competitor hubs offer superior infrastructure, a higher quality of life, and better operational conditions, further exacerbating the competitive gap and making it difficult for PIA to compete on an even footing.

e) Revenue Decline and Stagnation of Upgradation

The decline in PIA's core passenger base and subsequent revenue streams created a vicious cycle. With fewer resources, the airline was unable to maintain or upgrade its ground handling facilities to the standards required to compete with well-funded international rivals. The focus remained on the primary passenger stream, while subsidiary units stagnated due to a lack of investment and the diversion of the market to more modern, foreign-operated facilities.

f) Focus on "Prime Routes" Neglects Regional Connectivity

Most private airlines focus solely on profitable "prime flights" (e.g., Islamabad-Karachi-Lahore), avoiding non-feasible routes to remote areas of provinces. This leaves the responsibility of national connectivity to PIA, but the low profitability of these compulsory routes drains resources and attention from competing effectively on the prime, competitive routes.

7.2.6 Privatisation and the Way Forward:

7.2.7 PIA Privatization:

The Government of Pakistan had placed PIA at the centre of its privatisation agenda for 2025 [118], inviting international and domestic investors to acquire up to 100% equity in the airline. Bidders included industrial groups and a military-backed consortium, with incentives such as tax relief and liability assumption to enhance investment appeal [119].

Table 10: Privatisation Programme (2024-29)

Sector	CSoE	Phase	Priority Duration
Aviation Sector			
1.	Pakistan International Airlines Corporation Ltd. (PIACL)	I	1 year
Real Estate			
2.	PIA-IL (Roosevelt Hotel NY)	I	1 year

Source: Ministry of Privatisation – Privatisation Commission[118]

In December 2025, the Government of Pakistan successfully concluded the bidding process for the privatization of Pakistan International Airlines (PIA), marking the country's first major SOE divestment in nearly two decades. A consortium led by the Arif Habib Corporation emerged as the winner on December 23, 2025, with a top bid of PKR 135 billion (USD 482 million). The consortium purchased a 75% stake in PIA, giving them management control. Whereas, the government retains a 25% stake, valued at approximately PKR 45 billion. The new owners have an option to purchase this remaining stake within 90 days at a 12% premium. The winning group includes Arif Habib Corporation, Fatima Fertilizer, City Schools, and Lake City Holdings. Fauji Fertilizer, which initially withdrew from the bidding, later joined the winning consortium as a partner. Of the PKR 135 billion bid, the government receives roughly PKR 10 billion in cash upfront; the remaining 92.5% of the bid value is to be reinvested directly into the airline's revival.

- To make the sale viable, the government transferred approximately PKR 654 billion in legacy debt to a separate "PIA Holding Company," leaving the new owners with a cleaner balance sheet.
- The new owners are scheduled to formally take over operations in April 2026.
- Under the privatization agreement, the new owners are barred from firing employees for at least one year following the takeover.
- The Arif Habib-led management plans to increase the current fleet from 18 functional aircraft to 38 in the first phase, with a long-term goal of reaching 65 aircraft to restore the airline's global competitive edge[1].

The lifting of flight bans by the UK and EU in late 2025 significantly improved PIA's valuation and is expected to drive profit recovery on lucrative long-haul routes in 2026. The new owners have expressed intent to bring in an international airline partner to provide technical expertise and global aviation standards.

The privatisation debate reflects global trends. While state-owned carriers often face financial constraints, privatised airlines like Air India have demonstrated potential for revival under private ownership. For PIA, the challenge lies in balancing strategic national interests with operational sustainability.

7.2.8 The Potential Impact of PIA Privatisation on the Civil Aviation Sector of Pakistan

[1] https://www.bloomberg.com/news/articles/2026-01-12/pakistan-airlines-new-owners-seek-partner-to-revive-carrier-pia

a) Market Share:

PIA emerged from the merger of Orient Airways in 1955 as Pakistan's national carrier, created to connect a newly formed nation and project its presence globally. In its early decades, it became one of the world's most respected airlines, pioneering jet operations in Asia, setting world records, launching helicopter services, and even helping establish carriers like Emirates. This legacy of innovation and strategic national service forms the backdrop against which PIA's current challenges and reforms must be understood. As per the passenger air traffic data for the past 19 years (from 2006-07 to 2024-25)[42], PIA in aggregate had appx. 61% share in the domestic, 27.79% in the international, and appx 40% in the total air passenger traffic of Pakistan, which dropped to approximately 29% in the domestic and 15% in the international air passenger markets in 2024-25 due to various challenges faced by the national carrier that contributed to deteriorating efficiency.

b) Apparent advantages of PIA's Privatisation:

- **Government Backed Financing:**

PIA had appx. PKR 268B bank financing exposure, which was backed by government guarantees and recently transferred to PIA Holding Company Limited due to restructuring efforts for privatisation.

- **Special Relaxation for PIA provided by the Banking Sector:** SBP regulations provide a 90-day cure period to address payment delays before exposures are classified as *non-performing loans* (NPLs). In the case of PIA, additional regulatory relief was granted. During 2023-2024, SBP allowed banks not to classify PIA as NPL while discussions continued for the transfer of loans to PIA Holding Company Ltd. (PIAHCL). The restructuring terms for the new obligor included a 10-year bullet repayment schedule, with pricing capped at 12% or KIBOR, whichever was lower. Additional relaxations provided by SBP for the syndicate included booking accrual of profit at 12% from January 1, 2024, treating the syndicated facility as a fresh financing facility effective January 1, 2024, assigning operational risk ratings (ORR) per SBP guidelines and banks' internal credit policies, and staggering the recognition of fair valuation losses over six years to reduce solvency impact.
- On the other hand, no specific subsidised financing schemes are available for private players who are to fulfil strict risk-mitigating conditions and higher interest and lending rates on their own. Due to the cost-savvy nature of the sector, financing is essential, but the private players cannot compete on equal grounds with the state-owned entity, which has government-backed guarantees and budgets. With a privatised PIA, all the players would have a level playing field to compete economically.
- As per the responses received from the banks, PIA's loan restructuring and inability to pay are viewed as a bad financing example. Privatising the national carrier can also open the door to financing for the private players on equal grounds, without any special treatment or political and governmental pressure.

- **Tax Exemptions:** PIA has been given a sales tax exemption of 18% on new or leased aircraft to facilitate its privatisation[120]. However, as per the available information, such exemptions are not available for the other private players, which can make the fleet expansion a lot more costly for them. Privatisation may lead to an equal tax structure for all in future.
- **Administrative Transparency:** In the past, PIA was led by government officials/bodies who sometimes also served as heads of the regulator, i.e., the Civil Aviation Authority of Pakistan. This dual authority has at times been seen as detrimental to the well-being of the private players due to

the conflict of interest. Privatisation of PIA can thus bring a fair separation between the regulatory authority and service-providing entity, enhancing transparency and avoiding the possible unfair use of power.

- **Economic Efficiency**: Another important aspect of privatising PIA is that the Auditor General of Pakistan (AGP) audit report on PIA revealed multiple financial and administrative discrepancies, with the overall remarks of the national carrier being run as a "non-business entity"[107]. The privatisation can also enhance the financial transparency and performance due to the ultimate goals of private businesses to improve profitability with better services.
- **Old Fleet and Modernisation:** PIA currently operates with an old fleet (Fleet Appx. 21, Avg. Fleet age 16.8 years[56]), which makes it difficult to compete with the international carriers such as Emirates (Fleet Appx. 260, Avg. Age 11.2 years[61]). Maintaining the old fleet further put pressure on public resources, while privatisation could reduce this burden as well as open the doors for modernising the old fleet through attracting investments.
- **Consumer Well-being**: Overall, the privatisation will increase fair competition in the sector by removing undue political and governmental pressure focused on securing the national carrier at the cost of overall sectoral efficiency. It will increase competition, innovation, and service quality and ultimately benefit consumers, while the private players may compete on equal grounds for better service quality and prices.

7.2.9 Competing with State-Owned Giants

a) The Systemic Nature of Decline of Pakistan's Civil Aviation- Beyond PIA's Operational Issues

The challenges confronting Pakistan's aviation sector extend far beyond the organisational or managerial issues specific to the state-owned PIA. While PIA faced operational challenges inherent in many SOEs, the continuous decline and subsequent exit of several private Pakistani airlines, such as Shaheen Air and Serene Air, withdrawing from key routes or ceasing operations entirely, clearly indicate that the problem is systemic rather than confined to the national carrier.

The core issue lies in the structural inequalities within Pakistan's civil aviation industry. Private domestic players, despite potentially being operationally more efficient than PIA, have struggled to sustain viability due to intense competition from well-capitalised foreign carriers, specifically the dominant Gulf airlines. The lack of supportive domestic policies and severe financial vulnerabilities create an environment where all local airlines, whether public or private, find it nearly impossible to compete on an equal footing. This demonstrates a market failure where even efficient private entities cannot survive the relentless pressure from foreign competitors operating with significant structural advantages, again highlighting the need for a comprehensive multi-level national civil aviation roadmap.

b) The Strategic Consideration for Unilateral Privatisation

While the privatisation of PIA was both inevitable and desirable to overcome chronic inefficiencies, ageing fleet constraints, and fiscal limitations associated with prolonged state ownership, a critical assessment of Pakistan's aviation market underscores the need for caution and strategic sequencing. The central misconception in prevailing policy debates is the assumption that domestic airlines compete in a conventional free-market environment. In reality, Pakistan's carriers, whether state-owned or private, are primarily competing with highly efficient foreign SOEs from the Gulf, such as Emirates, Qatar Airways, Etihad, and Saudi Arabian Airlines. These carriers enjoy sustained government backing,

access to low-cost capital, strategic hub advantages, and often more favourable outcomes under BASAs, allowing them to operate on terms that are not purely commercial.

In this context, privatising PIA without a parallel recalibration of the NAP risks placing a newly privatised, commercially constrained airline on an uneven playing field, effectively setting it up for marginalisation rather than recovery. However, this does not argue against privatisation itself; rather, it highlights the need for a smarter privatisation framework, one that couples ownership reform with market-corrective policies. A privatised PIA, supported by fresh investment and professional management, can become viable and competitive if domestic policy actively accounts for the SOE-versus-SOE dynamic that defines regional aviation competition. This requires strategic use of BASAs, calibrated capacity and route allocation, protection against predatory capacity deployment, and investment-friendly PPP models that enable fleet renewal and service quality improvements.

7.2.10 Stakeholders Perspective:

- The government's approach to the privatisation of PIA is a major concern for stakeholders. While this move may attract initial Foreign Direct Investment (FDI) and facilitate upgrades, the fear is that foreign operators will eventually capture the entire value chain, including MRO, ground handling, and cargo operations, resulting in a massive outflow of FX. This strategy is critically compared to the historical precedent of the East India Company, implying a loss of national control over critical revenue streams.
- Stakeholders broadly view the privatisation of PIA as a positive and necessary step, with the expectation that it will unlock fresh investment, modern management practices, and operational renewal that are not feasible under continued state ownership. However, they emphasise that the success of privatisation is fundamentally contingent on the quality and depth of investment brought in by new owners. With adequate capital injection, particularly for fleet modernisation, network optimisation, and service quality upgrades, a privatised PIA is expected to move beyond legacy inefficiencies and compete more effectively in regional and international markets.
- At the same time, stakeholders caution that privatisation without substantial investment would merely replicate the limited operating models of currently struggling private airlines, offering little strategic value to the country. From this perspective, privatisation is not seen as an end in itself, but as a means to secure serious, long-term investors capable of building a competitive national carrier that can withstand pressure from well-capitalised foreign state-owned airlines. When structured to attract such investors, privatisation is widely expected to strengthen the aviation sector, improve service quality, and safeguard national economic interests.
- The core recommendation by the travel agents for PIA's revival is a comprehensive restructuring that includes its immediate depoliticisation to ensure dynamic leadership and freedom from political interference. Stakeholders suggest implementing a massive restructuring plan to reduce overstaffing and improve overall efficiency. Thus, the privatisation of PIA must be undertaken strategically, with an emphasis on securing significant investment. Stakeholders believe that the national carrier should operate both wide-body and narrow-body fleets to serve domestic and international markets, and new investors should have the capacity to manage a diversified operation. This approach would protect national interests and help create a viable competitor.

7.3 Pre-privatization Market Outlook

7.3.1 PIA and its Largest Fleet

The analysis of the 64-aircraft fleet profile reveals a clear structural distinction between PIA and other domestic operators, underscoring PIA's unique strategic position within Pakistan's aviation sector. Of the total fleet, 47 aircraft are leased while only 17 are owned, highlighting an industry-wide dependence on international lessors rather than direct capital investment. Crucially, PIA emerges as the largest and effectively the only domestic carrier owning a sizeable fleet of larger aircraft, accounting for 15 of the 17 owned aircraft, predominantly in the oldest age brackets (18–21 years). In contrast, private domestic airlines such as Airblue, Air Sial, Fly Jinnah, and Serene Air operate almost entirely on leased aircraft and own either none or only marginal assets, reflecting asset-light business models with limited long-term capital exposure. This divergence illustrates that while leasing has enabled private airlines to enter and survive in a competitive market, it has also constrained fleet modernisation through ownership.

Table 11: Total Leased and Owned Fleet in Sector

Age	4	6	8	9	11	12	13	14	15	16	17	18	19	20	21	Grand Total
Leased	**2**	**3**	**2**	**1**	**5**	**4**	**6**	**2**	**4**	**2**	**6**	**3**	**2**	**2**	**3**	**47**
M/s Air Sial Limited						1	1		1	1	2				1	7
M/s Airblue Limited	2				5	1			2							10
M/s Fly Jinnah Services (Pvt) Limited		3				1		2								6
M/s PIACL			2			1	4		1	1	1	2	1	2	2	17
M/s Serene Air (Pvt) Limited				1			1				3	1	1			7
Owned				**1**					**1**			**3**	**7**	**2**	**3**	**17**
M/s Airblue Limited				1					1							2
M/s PIACL												3	7	2	3	15
Grand Total	**2**	**3**	**2**	**2**	**5**	**4**	**6**	**2**	**5**	**2**	**6**	**6**	**9**	**4**	**6**	**64**
Sub Total	**9**				**22**					**27**					**6**	
%age	**14.1%**				**34.4%**					**51.5%**						

Source: Author's analysis of CAA's data

For airlines with older owned fleets, particularly PIA, the fleet licensing rules create mounting structural pressure. Aircraft approaching the 22–24 year retirement thresholds face forced exit regardless of remaining economic value, leading to:

- Accelerated capital requirements for replacement

- Rising maintenance costs as aircraft near regulatory limits
- Reduced operational flexibility compared to younger leased fleets

This regulatory reality explains why PIA's aging owned fleet had become a competitive liability under state ownership, while private airlines rely heavily on mid-life leased aircraft to remain compliant and agile. PIA's ownership of a large but ageing fleet simultaneously represents a structural burden under state ownership and a strategic opportunity under privatization. With fresh private investment, these assets could be replaced or recapitalised to restore scale advantages, reduce operating inefficiencies, and reposition PIA as a commercially viable network carrier. The data therefore supports the argument that privatisation, if accompanied by substantial capital injection and fleet renewal, offers a realistic pathway to convert PIA's legacy asset base from a liability into a competitive strength, rather than treating it as merely another airline competing on short-term leased capacity.

7.3.2 Historical Passenger Market Growth

a) Sector Growth

Passenger traffic in Pakistan's civil aviation sector has grown substantially over the past two decades, increasing from approximately 6.75 million passengers in 2006–07 to nearly 17.98 million passengers in 2024–25. This represents an absolute increase of about 11.23 million passengers, equivalent to cumulative growth of approximately 167 per cent. The sustained expansion of overall demand indicates strong underlying growth fundamentals for the sector; however, this growth has occurred alongside significant structural changes in market participation and share allocation.

Table 12: International Passenger Market Projections

2006-2007	2024-2025	Absolute Change	%age Change
6745609	17980170	11234561	167%

Source: Author's calculation

b) Airlines Growth

The following table shows the airlines' historical growth in past 19 years.

Table 13: International Market 19-Year Growth Shared by Airlines

Sr. No	Status	Airlines	2006-2007	2024-2025	Difference	Share in Change
1	Closed	Aero Asia	111041	-	(111,041)	-0.99%
2	Closed	Biman	18723	-	(18,723)	-0.17%
3	Closed	Cargolux	-	-	-	0.00%
4	Closed	Cathay Pacific	52973	-	(52,973)	-0.47%
5	Closed	Fly Baghdad	-	-	-	0.00%
6	Closed	Kish Air	-	-	-	0.00%
7	Closed	Malaysian	49891	-	(49,891)	-0.44%
8	Closed	Mihin Lanka	-	-	-	0.00%
9	Closed	Rak Airways	-	-	-	0.00%
10	Closed	Royal Airlines	-	-	-	0.00%
11	Closed	Safi Airways	-	-	-	0.00%
12	Closed	Saudi Gulf	-	-	-	0.00%
13	Closed	Scat Airlines	-	-	-	0.00%
14	Closed	Shaheen Air	202455	-	(202,455)	-1.80%
15	Closed	Singapore	22809	-	(22,809)	-0.20%

Sr. No	Status	Airlines	2006-2007	2024-2025	Difference	Share in Change
16	Closed	Syrian Arab	17058	-	(17,058)	-0.15%
17	Closed	Virgin Atlantic	-	-	-	0.00%
18	Closed	Serene Air	-	547,950	547,950	4.88%
19	Emerging	Aeronomad Airlines	-	25,365	25,365	0.23%
20	Emerging	Air Arabia Abu Dhabi	-	54,231	54,231	0.48%
21	Emerging	Air Sial	-	746,551	746,551	6.65%
22	Emerging	Airasia X	-	10,412	10,412	0.09%
23	Emerging	Azerbaijan Airlines	-	35,960	35,960	0.32%
24	Emerging	Chamwing Airlines	-	7,367	7,367	0.07%
25	Emerging	Ethiopian Airlines Corporation	-	38,004	38,004	0.34%
26	Emerging	Fly Adeal Airlines	-	29,665	29,665	0.26%
27	Emerging	Fly Dubai	-	1,295,120	1,295,120	11.53%
28	Emerging	Fly Jinnah	-	599,703	599,703	5.34%
29	Emerging	Fly Nas	-	351,557	351,557	3.13%
30	Emerging	Iraqi Airways	-	90,121	90,121	0.80%
31	Emerging	Jazeera Airways	-	83,279	83,279	0.74%
32	Emerging	Kam Air	-	47,978	47,978	0.43%
33	Emerging	Mahan Air	-	16,512	16,512	0.15%
34	Emerging	Malindo Air	-	135,182	135,182	1.20%
35	Emerging	Oman Air	-	42,460	42,460	0.38%
36	Emerging	Pegasus Airlines	-	70,058	70,058	0.62%
37	Emerging	Salam Air	-	390,792	390,792	3.48%
38	Emerging	Somon Air	-	2,795	2,795	0.02%
39	Emerging	Taban Airlines	-	18,433	18,433	0.16%
40	Old	Air Arabia	16,698	822,392	805,694	7.17%
41	Old	Air Blue	251,611	1,543,831	1,292,220	11.50%
42	Old	Air China	24,230	34,468	10,238	0.09%
43	Old	Ariana Afghan	548	4,679	4,131	0.04%
44	Old	British Airways	75,156	67,805	(7,351)	-0.07%
45	Old	China Southern	43,376	154,088	110,712	0.99%
46	Old	Emirates	942,628	1,730,581	787,953	7.01%
47	Old	Etihad Airways	192,866	691,201	498,335	4.44%
48	Old	Gulf Air	394,879	315,896	(78,983)	-0.70%
49	Old	Iran Air	12,100	5,133	(6,967)	-0.06%
50	Old	Kuwait Airways	105,273	88,724	(16,549)	-0.15%
51	Old	Pakistan International	2,889,486	2,831,574	(57,912)	-0.52%
52	Old	Qatar Airways	217,139	1,516,399	1,299,260	11.56%
53	Old	Saudi Arabian	778,977	2,458,132	1,679,155	14.95%
54	Old	Srilankan Airlines	26,564	97,854	71,290	0.63%
55	Old	Thai Airways	243,790	372,806	129,016	1.15%
56	Old	Turkish Airlines	42,368	592,313	549,945	4.90%
57	Old	Uzbekistan Airways	12,970	12,799	(171)	0.00%
Grand Total			**6,745,609**	**17,980,170**	**11,234,561**	**100.00%**

Source: Author's calculation based on CAA data

7.3.3 Airlines Exit and Sustenance

The data analysis shows that market expansion has not translated into a stable or competitive market structure. Growth occurred alongside significant airline exits, uneven new entries, and increasing concentration. At least 17 airlines ceased operations during the 2006-07 to 2024-25 period, including domestic as well as foreign airlines, e.g., Aero Asia, Shaheen Air, Cathay Pacific, Malaysian Airlines, and Singapore Airlines. These exits reflect persistent structural challenges, particularly for smaller domestic operators. The closure of domestic carriers highlights the vulnerability of local operators in a competitive environment dominated by foreign state-backed airlines. Despite overall market growth, domestic airlines have struggled with high operating costs, fuel price volatility, limited financing access, and competitive pressure from foreign incumbents. Repeated exits suggest that conditions have not supported the emergence of resilient domestic competitors. However, on the other hand, Airblue represents a comparatively successful case within Pakistan's domestic aviation sector, illustrating that private airlines can achieve operational stability and sustained growth when supported by sound management, fleet optimisation, and a disciplined route strategy. Over time, Airblue has demonstrated the ability to maintain market presence, expand its network, and adapt to changing demand conditions despite sector-wide challenges such as cost pressures and intense competition from foreign carriers. Its experience suggests that the domestic market is not inherently unviable for private operators, and that with consistent investment, efficient operations, and service quality improvements, private airlines can build resilience and scale gradually. As such, Airblue's performance provides a constructive counterpoint to narratives of persistent sector failure and highlights the potential for a more competitive and diversified domestic aviation industry if enabling policy conditions and investment frameworks are strengthened.

7.3.4 Lessons from Exit of Foreign Airlines

The exit of major European airlines, such as Virgin Atlantic (which ceased operations in 2023) and British Airways (which has faced intermittent suspensions and rerouting), provides several critical lessons regarding Pakistan's current aviation environment.

a) <u>The "Yield" Gap vs. VFR Markets</u>

A primary reason for the exit of premium European carriers is the low-yield nature of the Pakistani market.

- *VFR Dominance*: Traffic to Pakistan is heavily dominated by "Visiting Friends and Relatives" (VFR), which is a price-sensitive segment that provides lower profit margins.
- *Lack of Premium Traffic*: Unlike Gulf carriers (Emirates, Qatar, Etihad), which use Pakistan as a feeder for their massive global networks, European airlines like Virgin Atlantic rely on capturing premium business and high-end leisure traffic. When this traffic is scarce, direct long-haul routes become unsustainable compared to more profitable routes elsewhere.

b) <u>Operational & Currency Risks</u>

European carriers are often less tolerant of fiscal instability than state-subsidized Gulf carriers. A significant factor in the reduction of international services has been the Pakistani government's difficulty in allowing foreign airlines to repatriate their earnings (USD). This creates a massive financial risk that led carriers like Virgin Atlantic to conclude the market was not worth the additional cost. Exorbitant local taxes and "zero services" provided by civil aviation authorities were cited as contributors to the unviability of operations.

c) Geopolitical & Airspace Vulnerability

Unlike Gulf carriers that have maintained operations, European airlines have been highly sensitive to regional tensions. In mid-2025, major airlines including Lufthansa, Air France, and British Airways began rerouting to avoid Pakistani airspace due to escalating India-Pakistan tensions. These detours add 30–60 minutes of flight time, significantly increasing fuel and crew costs. European carriers strictly follow EASA guidelines. Any perceived degradation in local oversight or safety standards, such as the 2020 pilot license scandal, triggers immediate and long-lasting operational suspensions.

d) The Gulf Carrier Competitive Edge

The "exit" of Europeans highlights the dominance of the "Sixth Freedom" model used by Gulf airlines. Gulf carriers often benefit from government subsidies and massive economies of scale, allowing them to offer more frequent flights and better connections than a direct-point European carrier. These airlines treat Pakistan as a "lifeline" to fill their hubs, effectively sucking away passenger volume that direct European flights need to remain profitable.

7.3.5 Emerging Airlines: Concentrated and Fragile Growth

Several emerging airlines entered the market during this period, contributing to gross passenger growth but with uneven performance. Fly Dubai added approximately 1.3 million passengers, Air Sial around 747,000, Fly Jinnah roughly 600,000, and Serene Air about 548,000 passengers before its exit. While these figures indicate that new entry is feasible, most emerging carriers captured only a modest share of the market, and many struggled to maintain long-term viability. Growth among emerging airlines remains highly concentrated in a few successful operators. However, Fly Jinnah, with a business model of a domestic and foreign joint venture, shows consistent growth providing that such business models of LCC can be effective in Pakistan's cost-sensitive civil aviation passenger market.

7.3.6 Incumbent Airlines and Concentration of Market Gains

The majority of market expansion has been absorbed by foreign incumbents, particularly state-backed carriers with established hub-and-spoke networks. Saudi Arabian Airlines captured nearly 1.68 million additional passengers, representing 15 per cent of total growth. Qatar Airways and Fly Dubai each captured around 1.3 million passengers, while Emirates added close to 788,000 passengers. Turkish Airlines, Etihad Airways, and Air Arabia further strengthened this trend. Collectively, foreign incumbents account for well over half of total passenger growth. In contrast, Pakistan International Airlines, despite its incumbent status, experienced a net decline of approximately 58,000 passengers (-0.52 per cent), highlighting a sustained erosion of market share.

7.3.7 Market Growth Rate and Forward Projections

Based on passenger traffic data covering the 19 years from 2006–07 to 2024–25, the compound annual growth rate (CAGR) of the market is estimated at approximately 5.3 per cent. Applying this growth rate to future projections suggests that passenger volumes are expected to rise to around 18.93 million in 2025–26 and increase steadily to approximately 23.27 million passengers by 2029–30. This implies the addition of more than 5.3 million passengers over the next five years, highlighting that the aviation sector will continue to experience meaningful expansion even in the absence of major structural changes. However, without structural reforms, these new passengers are likely to flow to foreign state-backed carriers, which already dominate the market and have proven capacity to scale operations

efficiently. Domestic airlines, constrained by fragmentation and limited resources, may continue to capture only a minor share of growth, further entrenching foreign dominance.

Table 14: Projections and Compound Average Growth based on 19 years of data (2006-07 to 2024-25)

CAGR*	2025-26	2025-27	2025-28	2025-29	2025-30
5.295%	18932278	19934804	20990416	22101927	23272295

Source: Author's calculation

*Market projections were constructed at the aggregate level to ensure internal consistency.

7.4 Post-Privatisation Market Outlook for Pakistan Civil Aviation

7.4.1 Historical Market Distribution

Historical evidence demonstrates that growth in passenger traffic has not been evenly distributed. Incremental traffic has predominantly benefited foreign carriers rather than domestic airlines. Given that a state-owned PIA failed to capture meaningful growth during past expansion cycles, there has been a limited basis to expect that a future state-owned PIA, operating under political influence and historic mismanagement despite national policy support, would secure a significant share of projected future demand. Instead, future market growth is likely to be absorbed by established foreign incumbents, replicating historical patterns of concentration.

7.4.2 Structural Changes from Privatisation

Privatisation fundamentally alters PIA's market position. The airline transitions from a national carrier with implicit policy protection, political interference, and financial mismanagement to a commercial entity operating on cost efficiency, network strategy, and market competitiveness. Apparently, it may lose key advantages previously afforded by state ownership, including:

- Priority in BASAs and slots
- Government-backed financial support or rescue capacity in crises
- Implicit protection from competition on strategic routes

and will also face intense competition on both domestic and international routes, without the structural safety nets it historically relied upon. However, private airlines are run as commercial and business entities to generate profits. The commercial objectivity is expected to enhance efficiency and a better image of PIA for Pakistan's civil aviation sector.

7.4.3 Likely Beneficiaries of PIA's Market Share Loss

Due to the operational inefficiency and past international bans, PIA has lost a significant market share to the foreign airlines with large fleet and better economic factors as the domestic players did not have the capacity to absorb the demand-supply gap. Therefore, analysis of historical market capture patterns suggests that a state-owned PIA's future market share seemed unlikely to benefit domestic carriers proportionately. However, the privatisation associated with fleet investment and expansion of PIA and a commercial objectivity can change its position as a better competitor in the domestic and international market. The fresh blood of investment in the privatised PIA is likely to capture the market share which

a state-owned PIA is expected to lose to the following tiers of competitors due to old fleet and inefficiency.

a) Tier 1: Primary Market Captors

Saudi Arabian Airlines, Qatar Airways, Emirates, Fly Dubai, and Air Arabia are structurally positioned to absorb the majority of any marginal traffic lost by state-owned PIA due to the following characteristics enabling their dominance:

- Control of major growth corridors, particularly Middle East transit and religious traffic
- Ability to immediately scale capacity to absorb incremental passengers
- Structural advantages in bilateral agreements, fleet size, and pricing power
- Historical pattern of capturing most passenger growth over the past two decades

b) Tier 2: Secondary Captors

Due to the old fleet of national carriers, airlines such as Turkish Airlines and Etihad Airways are likely to capture spillover traffic, especially on long-haul and Europe-bound routes, benefiting from niche connectivity and targeted route networks.

c) Tier 3: Domestic Redistribution

Domestic carriers, including Air Blue, Air Sial, and Fly Jinnah, may capture limited traffic, primarily short-haul, point-to-point domestic or regional passengers. However:

- They cannot replace the long-haul connectivity inherited by state owned PIA,
- They lack the pricing power, fleet scale, and bilateral advantages of foreign SOEs, which PIA holds,
- As relatively smaller airlines than PIA, they are more vulnerable to cost shocks and market volatility.

A glimpse of the competition dynamics is presented below.

Table 15: Pre & Post Privatisation Competition Dynamics in the International Market

Period	Domestic Airlines	Ownership/Status	Major Foreign Competitors	Ownership/Status
Pre-Privatization	Pakistan International Airlines (PIA)	SOE	Saudi Arabian Airlines	SOE
	Air Blue	Private	Qatar Airways	SOE
	Air Sial	Private	Emirates	SOE
	Fly Jinnah	JV (Air Arabia 45%)	Fly Dubai	SOE
Post-Privatization	Privatized PIA	Private	Saudi Arabian Airlines	SOE
	Air Blue	Private	Qatar Airways	SOE
	Air Sial	Private	Emirates	SOE
	Fly Jinnah	JV (Air Arabia 45%)	Fly Dubai	SOE

7.5 Critical Analysis of Assets and Ancillary Services Outsourcing and Privatisation

7.5.1 Strategic Risks of Assets and Ancillary Services Outsourcing

The stakeholders' perspective on airport outsourcing introduces a measured and cautious viewpoint that complements the conventional narrative of attracting foreign direct investment (FDI). Rather than viewing major airports, such as the strategically important Islamabad International Airport, solely as infrastructure assets requiring external capital and expertise, stakeholders emphasise their role as stable, long-term revenue-generating platforms. Unlike airlines, which are exposed to market volatility and exit risks, airports benefit from relatively predictable traffic and revenue flows irrespective of the operating carriers. As such, decisions relating to airport management and control have enduring implications, extending well beyond short-term efficiency gains.

From this perspective, outsourcing airport management warrants careful structuring, as it may gradually enable foreign operators to expand into adjacent service segments such as maintenance, repair and overhaul (MRO), ground handling, and cargo operations. Existing examples, such as the presence of Gerry's Dnata, illustrate how integrated service provision can evolve over time within airport ecosystems. While such arrangements can deliver operational efficiencies and service improvements, stakeholders highlight the importance of clear regulatory safeguards and well-defined contractual boundaries to ensure that the long-term economic benefits, strategic oversight, and revenue streams remain aligned with national interests. Accordingly, policymakers are encouraged to balance the potential advantages of FDI with a forward-looking assessment of control, competition, and value retention within the broader aviation services market. The following points are highlighted for consideration by policymakers in this regard.

a) Outsourcing of Profitable Airport Assets and Loss of National Revenue

Stakeholders urge a cautious and forward-looking approach to the outsourcing of core airport operations, particularly at strategically significant facilities such as Islamabad International Airport. Capital city airports function as natural monopolies and generate predictable, non-cyclical revenue through passenger service charges, retail concessions, and a wide range of ancillary commercial activities. Unlike airlines, which operate in highly competitive markets with volatile cost structures, airports provide stable and resilient income streams and remain central to national connectivity and economic activity. While outsourcing arrangements may deliver short-term operational efficiencies and service improvements, stakeholders note that such decisions should be carefully structured to avoid the unintended transfer of long-term control over reliable national revenue sources. From a policy perspective, ensuring that outsourcing frameworks preserve strategic oversight, value retention, and fiscal benefits for the state is essential to safeguarding Pakistan's long-term returns from its most important aviation infrastructure.

b) Underutilisation and Weak Strategic Deployment of Airport Capacity

A separate concern raised by stakeholders relates to the inefficient utilisation of existing airport infrastructure capacity. Facilities such as Islamabad Airport possess significant untapped operational and commercial potential, yet this capacity remains underdeveloped due to the absence of a coherent, state-led utilisation strategy. Rather than maximising traffic volumes, commercial activities, and hub potential under public oversight, the decision to transfer operational control to external operators reflects an inability to deploy national assets effectively. This approach shifts focus away from capacity optimisation and reinforces dependence on external management, while diminishing the state's ability to strategically expand and monetise airport operations.

c) Structural Constraints and Limited Investability of Aviation Sub-Sectors

Banks and financial institutions highlighted broader structural weaknesses across Pakistan's aviation ecosystem that undermine financing and risk assessment. Governance inefficiencies and excessive debt burdens within SOEs, particularly the national carrier, elevate credit risk and deter private capital. In addition, continued public control over commercially viable sub-sectors, including airports, MRO services, and ground handling operations, limits the development of stand-alone, investable assets. This structure restricts private sector participation, reduces operational efficiency and innovation, and narrows the range of available funding mechanisms across the aviation value chain.

d) National Security Concerns

Beyond revenue and efficiency considerations, Islamabad International Airport holds strategic importance in an era of global data competition, where countries (including the UAE and China) are actively restricting foreign digital platforms and prioritising data sovereignty. As a primary gateway for international delegations and sensitive state movement, the airport continuously processes critical passenger and operational data. In this context, the transfer of operational control to a foreign entity, even under a G2G framework with ownership retained, warrants heightened scrutiny. Despite assurances of regulatory oversight, risks related to data access, localisation, and cyber-vulnerabilities at critical infrastructure nodes remain significant policy concerns beyond operational efficiency.

8. Conclusion and Recommendations

8 Conclusion and Recommendations

This chapter concludes the key recommendations provided by all major stakeholders, including airlines, airport operators, financial institutions, and regulatory bodies, and those supported by literature and data analysis to present a unified direction for reforming Pakistan's civil aviation sector. The insights gathered throughout the study highlight deep structural, financial, institutional, and regulatory constraints that impair the sector's competitiveness and long-term viability. Building upon the stakeholder perspectives, this chapter formulates concluding recommendations that address the foundational weaknesses of governance, market structure, taxation, infrastructure, and policy coherence. The aim is to present a clear, actionable roadmap for restoring competitiveness, strengthening national carriers and aviation services, and ensuring that Pakistan's aviation ecosystem evolves into a resilient, commercially viable, and strategically aligned sector capable of supporting national economic growth.

8.1 Structural and Strategic Considerations for the Civil Aviation Sector

8.1.1 Global Liberalization Approach

Recent research by the OECD [121] underscores that progressive air transport liberalisation can generate substantial gains in connectivity, competition and consumer welfare, particularly where markets remain constrained by restrictive bilateral arrangements. The report notes that liberalisation typically leads to significant traffic growth and fare reductions, with empirical evidence showing passenger traffic increases of 20–50% on liberalised routes and measurable declines in average fares due to enhanced competition [121]. Importantly, it is highlighted that expanded market access encourages new entry and greater route density, which in turn stimulates tourism, trade, and broader economic activity, effects that are especially valuable for emerging economies seeking export diversification and services-led growth [121]. The OECD further argues that liberalisation can improve efficiency by enabling airlines to optimise networks and exploit economies of scale, while also attracting foreign investment into airport infrastructure and ancillary services [121]. Importantly, the existence of liberal agreements does not necessarily translate into operational air services, and so-called higher freedoms beyond the fifth, especially cabotage rights, remain exceptionally rare and politically sensitive worldwide.

The liberalization landscape broadly falls into three categories, Traditional, Transitional, and Open Skies, reflecting varying degrees of market access and pricing freedom [122].

a) Traditional:

However, despite a gradual global shift toward easing bilateral restrictions, most ICAO member states and many other countries continue to rely heavily on traditional, restrictive agreements; for example, the Netherlands maintains 112 traditional arrangements, while Pakistan itself is listed among states with 53 traditional agreements, reflecting a cautious approach [122].

b) Transitional:

The evidence presented by Spence, Leib, and Friedenzohn [122] reinforces the case for calibrated rather than absolute liberalisation in Pakistan. Using ICAO's WASA database, the authors show that although Open Skies Agreements (OSAs) have increased globally, traditional and transitional agreements remain dominant, indicating that states are liberalising gradually rather than abandoning regulatory control.

c) ***Open Skies:***

Empirical evidence emphasizes that full liberalization, which includes open market access and relaxed ownership and control restrictions, is necessary to maximize these benefits and ensure a level playing field [121]. The insights indicate that markets with only partial liberalization, such as many traditional bilateral agreements or those lacking LCC entry, do not achieve the same transformative results [121]. The United States has remained the principal driver of air transport liberalization, expanding its Open Skies Agreements from 50 in 2003 to 107 by 2020 and uniquely extending advanced traffic rights such as 6th and limited 7th Freedoms, particularly for cargo operations.

Recent literature [123] re-examines whether Open Skies Agreements (OSAs) continue to generate pro-competitive outcomes in the contemporary aviation environment characterized by global airline alliances. Using panel data for more than 1,000 U.S. international gateway-to-gateway routes between 2015 and 2019, the authors find that OSAs are associated with lower discount economy fares and higher passenger traffic, even after accounting for the potentially anti-competitive effects of alliance coordination. While earlier literature highlights strong welfare gains from liberalization, such as substantial fare reductions and traffic growth under liberal bilateral agreements [121] and annual welfare gains of approximately $4 billion following Open Skies implementation [124] more recent studies caution that alliance-based antitrust immunity may offset these benefits, particularly on hub-to-hub routes [123], [125]. Theoretically, alliances can reduce “double marginalization” and improve efficiency on interline routes, yet they may also facilitate coordination in pricing and capacity where antitrust immunity is granted [126], [127]. Despite these concerns, researchers [123] provide empirical evidence that the overall (net) effect of Open Skies remains pro-consumer, suggesting that liberalized market access continues to outweigh any collusive tendencies arising from alliance dominance.

Case Studies

Australia: As a case study in calculated liberalization, Australia represents a market that balances rigid protectionism with strategic openness [128]. While Australia maintains air services agreements with over 100 countries, the majority (43%) operate under highly restrictive "Type C" frameworks with low liberalization scores, aimed historically at protecting domestic stakeholders [128]. A standout insight is the Australia-New Zealand Single Aviation Market (SAM), which serves as a unique outlier of near-total liberalization, allowing for unrestricted domestic access and free price determination [128]. Ultimately, the case study underscores a post-COVID-19 necessity to shift from these rigid, passenger-centric protections toward increased flexibility and cargo-specific liberalization to ensure the aviation industry can bounce back from global disruptions [128].

United States: The US underwent a "big bang" style deregulation in 1978, completely liberalizing its domestic market in a few years. The US is a global leader in Open Skies Agreements, having over 130 [129]. In the US, any carrier meeting a basic "fit, willing, and able" test can fly any route and the market is governed by market forces, with the Essential Air Service (EAS) program subsidizing remote routes [129]. As a case study in aviation diplomacy, researchers [130] analyzed the United States' approach to liberalization through the lens of Democratic Peace Theory (DPT). The central insight is that access to international air routes is not merely an economic function but heavily dependent on special diplomatic relationships and shared political values. The study found a strong positive correlation between a potential partner's democratic strength and the likelihood of the US establishing an Open Skies Agreement (OSA) with them. While economic factors like total operations play a role, the political structure of a state significantly predicts its willingness to enter into these liberalized agreements, suggesting that true global "open skies" may be limited by differing governmental structures.

India:

India and USA, both countries have moved toward liberalization, their paths and current states differ significantly. India adopted a gradual, "semi-regulated" approach starting in the 1990s, which continues to this day [129]. India remains more protectionist, with many of its BASAs still being restrictive "traditional" types, though it now pursues Open Skies on a reciprocal basis with countries beyond a 5,000 km radius [129]. The country still maintains specific entry requirements, such as the "0/20 rule" (formerly 5/20), which mandates a minimum fleet size before a carrier can fly international routes. It uses Route Dispersal Guidelines (RDG) and the Regional Connectivity Scheme (RCS/UDAN) to mandate or incentivize airlines to fly to underserved areas [129]

d) ***Which approach is better?***

Research on politics and negotiating international aviation agreements highlights that market access outcomes are primarily shaped by bargaining asymmetries, institutional preparedness, and strategic negotiation capacity rather than liberalization alone [130]. It is argued that smaller or developing states often concede traffic rights and capacity without securing reciprocal commercial advantages when negotiation strategies are weak or fragmented [130]. It is further noted that successful negotiators adopt data-driven strategies, assess route-level demand elasticity, and align ASAs with national aviation industrial policy rather than treating them as purely diplomatic instruments [130].

Literature also indicates that even where Open Skies exist, higher-order freedoms (6th and 7th) remain rare outside a few leading states [122], underscoring persistent reluctance to allow deep market penetration. Importantly, the rise in “zero-flight” agreements, where agreements are signed but no commercial service materializes, demonstrates that liberalisation does not automatically translate into operational or competitive outcomes [122]. Importantly, the literature underscores that phased liberalization, combined with performance review clauses and safeguard mechanisms, allows governments to expand access while retaining corrective policy space [130].

In this context, the International Transport Forum report [121] ultimately recommends a ***calibrated approach*** that involves defining global rules on subsidies and competition, while gradually removing ownership barriers and improving market access to balance national interests with the proven economic advantages of open competition.

e) ***Implications for Pakistan***

In Pakistan’s context, the emprirical evidence suggests that simply expanding ASAs will not ensure domestic airline viability or connectivity gains unless accompanied by strategic capacity building and viable business models such as competitive LCC development. Therefore, global trends indicate that a phased, strategically monitored liberalisation framework, rather than full market exposure, is consistent with international practice and better aligned with sustainable aviation development.

For Pakistan, this advises that future ASA negotiations should be supported by rigorous traffic and competition analysis, inter-agency coordination (CAA and competition authorities), and explicit linkage to domestic carrier restructuring and LCC development. Liberalization, therefore, should function as a strategic economic instrument, not an automatic concession, ensuring connectivity gains without reinforcing structural dependence on dominant foreign hub carriers.

8.2 Considerations for Privatization and Outsourcing

The analysis underscored that while Pakistan’s civil aviation international market segment is showing a CAGR of 5.3% over the past two decades, the growth alone does not ensure competitive balance. Historical data and projections indicate that privatization of the national carrier will not naturally

strengthen domestic private airlines. Therefore, in the absence of complementary reforms addressing structural asymmetries, BASAs, airport access, and domestic airline support, is likely to accelerate foreign market capture. Post-privatisation, Pakistan's civil aviation sector is expected to comprise a handful of private domestic carriers, Air Sial, Air Blue, Fly Jinnah, and a privatised PIA, operating alongside predominantly state-backed foreign airlines such as Saudi Arabian Airlines, Qatar Airways, Emirates, Fly Dubai, and Air Arabia. It is worth noting that Fly Jinnah itself is structured as a joint venture, with Air Arabia holding a 45% stake [131], highlighting both the potential benefits of international partnership in expanding capacity and the inherent presence of foreign influence in the domestic market.

From a market efficiency and investment perspective, post-privatisation fresh capital injection into PIA offers the most viable pathway to address its chronic fleet obsolescence and operational inefficiencies, which are largely a function of prolonged state ownership, fiscal constraints, and weak commercial incentives. The state-owned structure has constrained timely fleet renewal, resulting in an ageing aircraft base, higher maintenance and fuel costs, and limited service quality improvements. In contrast, a strategically designed privatisation, anchored in PPP models and investment-led restructuring, can enable recapitalisation, fleet modernisation, and managerial efficiency gains, aligning PIA's operations with commercial and service quality benchmarks.

However, privatisation must be policy-led rather than transaction-led. While a privatised PIA would operate on commercial principles, the structural advantages enjoyed by foreign state-owned carriers, such as geographic hub positioning, sustained government backing, and access to deep capital pools, would continue to shape competitive outcomes. Without complementary sectoral reforms, privatisation in isolation risks marginalising the national carrier rather than strengthening it. Accordingly, the policy objective should not merely be divestment, but crowding in private investment under a safeguarded competitive framework that preserves national aviation interests.

Given the economic, strategic, and data-related risks, policymakers should exercise caution in outsourcing or privatising civil aviation operational assets. Airports should not be treated as short-term instruments for fiscal relief, but as long-term, self-sustaining revenue assets central to national economic and strategic interests. Civil aviation policy must recognise that value creation extends beyond airlines to include airports, cargo operations, MRO services, ground handling, retail concessions, and ancillary commercial activities.

Stakeholders recommend the strategic retention of state control over key international airports, particularly those with geopolitical and diplomatic significance. Priority should be given to maximising the utilisation of existing infrastructure and developing domestic capabilities in high-value segments such as cargo handling, MRO services, and airport commercial operations. Strengthening these sub-sectors allows continuous income generation, foreign exchange retention, and employment creation to remain within the national economy.

Where private participation is required, it should be pursued through carefully structured public–private partnerships that preserve national ownership and control over core revenue streams and critical functions. Any engagement with foreign entities must be transparent, competitively assessed, and designed to prevent the concentration or monopolisation of airport-related services such as ground handling and cargo operations. Overall, civil aviation assets should be managed as strategic business units serving long-term national economic objectives, rather than short-term administrative or political considerations.

In this regard, sequenced approach is therefore essential following structured privatisation and PPP-based models and emphasising governance reforms before divestment:

- first, addressing structural distortions in the civil aviation market through fair competition safeguards, strategic route and capacity management under BASAs for enhancement of national capacity, and clearer service quality and cost accountability across airlines, airports, and ground handlers; and
- second, pursuing privatisation through PPP-oriented models that ensure capital infusion, fleet renewal, and operational autonomy in PIA's passenger services and other ancilliary businesses.

Further recommendations include the following:

- **Sub-Sector Focus:** Privatisation of airports, MRO services, and ground handling operations should be preferred initially over privatisation of the bigger national civil aviation assets to create stable assets suitable for private investment.
- **Structured PPP Models:** Introducing clear concession frameworks and credit enhancement mechanisms can improve investor confidence and attract long-term financing.
- **Risk Mitigation:** Outsourcing and privatisation of civil aviation industry's sub-sectors as SBUs with relatively stable income streams than airlines provide banks with predictable revenue flows and reduced exposure to governance inefficiencies, supporting a more balanced allocation of financing between public and private aviation players.

Overall, the policymakers are urged to strategically manage the privatisation and outsourcing as a pathway to strengthen the economic development of national assets, financial viability and investment attractiveness of Pakistan's civil aviation sector. Under such a framework, privatisation and outsourcing become solution to legacy inefficiencies of national airline and airports, rather than a risk to their survival, supporting a more competitive, resilient, and investment-friendly domestic aviation ecosystem. Private sector participation is expected to increase efficiency, innovation, customer service, and flexibility, while improving access to capital and investment opportunities.

The following sets of recommendations are strategies to support the civil aviation sector and enhance competitiveness and operational efficiencies.

8.3 Urgent Need for National Civil Aviation Roadmap

Consistent with ICAO's emphasis on integrated national aviation planning, the foremost recommendation is the urgent development of a long term **National Civil Aviation Roadmap (NCAR)** with strategic **National Civil Aviation Reform & Stabilisation Plan**. This comprehensive strategic framework should replace fragmented, silo-based policymaking with a unified, whole-of-government approach. The analysis of past two decades of the data, stakeholders consultation, international best practices, and growing need to build a resilient domestic civil aviation sector clearly indicates that **civil aviation can not be governed in silos**. The NCAR should coherently align tax policy, financing frameworks, institutional governance, safety and security standards, BASAs, environmental obligations, and infrastructure development within a single long-term vision to revive and develop Pakistan's civil aviation industry. By providing regulatory certainty and policy coherence, the roadmap would strengthen investor confidence, mitigate structurally asymmetric competition from foreign state-backed carriers, and enable the coordinated revitalisation of strategic domestic assets, including airports and national airlines. While not intended to be exhaustive, this section presents a brief outline of potential reforms that may guide the development of the civil aviation sector over the next ten years.

8.4 National Civil Aviation Roadmap - National Civil Aviation Reform & Stabilisation Plan (2026–2035)

8.4.1 Phase I (0–2 Years): Stabilisation, Legal Certainty & Cost Predictability

Reform Pillar	Detailed Reform Action	Lead Institutions	Strategic Rationale
Legal & Institutional Certainty	Amend Civil Aviation & Airports Authority Acts (2023) to formally validate transfer arrangements, clarify CAA mandate (safety, consumer protection, cost oversight), and legally secure BASI autonomy with dedicated funding line under national safety oversight obligations (ICAO GASP Goal 4).	Parliament, Ministry of Defense, PAA, CAA	Remove legal ambiguity; restore international regulatory confidence.
Fiscal & Tax Rationalization	Replace blanket 18% domestic sales tax with a conditional, time-bound reduction linked to compliance benchmarks (audited accounts, refund compliance, minimum domestic frequency obligations).	Ministry of Finance (MoF)	Improve cost competitiveness without creating unconditional subsidy leakage.
FX & Remittance Stability	Operationalize aviation relevant financial provisions to streamline aviation FX settlements through banking channels; establish structured SBP–CAA Aviation FX Forum to standardize conversion rules, repatriation timelines, and reduce exchange-rate distortions affecting ticket pricing.	SBP, CAA	Reduce currency risk premium and restore airline planning certainty.
Fuel & Airport Fee Transparency	Introduce advance-notified fuel pricing formula and publish airport tariff-setting methodology; standardise or eliminate opaque fuel surcharges to ensure transparent fare composition.	CAA, MoF	Improve cost predictability and consumer transparency.
Market Conduct Oversight	Issue regulations prohibiting exploitative practices (e.g., unsecured direct cash and security deposit arrangements with agents); establish collaborations for monitoring anti-competitive practices.	CAA, SECP, SMEDA, CCP	Protect consumers and SMEs without imposing price controls.
Consumer Protection Reform	Codify clear refund timelines, compensation standards for delays, mandatory fare rule disclosure, and insurance claim procedures aligned with ICAO consumer protection principles.	CAA	Restore public trust and reduce litigation risk.

Operational Bottlenecks	Establish unified aviation facilitation cell (CAA–Immigration–Customs–Security); deploy real-time IBMS reconciliation and digital slot management; increase immigration staffing during peak seasons (Hajj/Umrah/Eid).	CAA, FIA, ASF, Ministry of Interior	Reduce systemic delays and improve peak-season throughput.
Safety & Wildlife Management	Implement ICAO-compliant bird hazard management system, enforce airport waste control regulations, digitise runway monitoring.	PAA, CAA	Immediate safety credibility improvement.

8.4.2 Phase II (2–5 Years): Competitive Neutrality, Financial Resilience & Connectivity

Reform Pillar	Detailed Reform Action	Lead Institutions	Strategic Rationale
Visa & Tourism Coordination	Negotiate improved visa access in key markets; coordinate aviation–tourism campaigns; streamline Hajj/Umrah operator scheduling.	Foreign Office, Tourism Ministry	Demand stimulation aligned with capacity.
Aviation Value Chain Development	Adopt a value-chain approach to civil aviation policy by developing upstream and supporting segments such as aircraft leasing facilitation, MRO services, dismantling and recycling, and digital aviation technologies alongside airline and airport development	Ministry of Defense, Ministry of Industries & Production; Board of Investment (BOI); Airlines; Private Aviation Service Providers	Strengthening complementary aviation segments, attract foreign investment, and position Pakistan as a competitive aviation hub in the regional and global market
Financial Fitness Modernisation	Introduce liquidity benchmarks; require IFRS 16 compliance; implement maintenance reserve verification for older/leasing-heavy fleets; modernise security deposit rules for licensing.	CAA, SECP	Improve airline solvency monitoring and reduce collapse risk.
Institutional Alignment	Consider placing civil aviation within a unified Ministry of Transport to enable coordinated policy development, strengthen multimodal connectivity, and align aviation planning with broader national transport and logistics strategies.	Parliament	Policy alignment for a robhust transport sector.
Capital Facilitation & Risk Mitigation	Develop civil aviation specific financing tools and opportunities, Develop targeted, time and	MoF, SBP	Lower cost of capital while maintaining fiscal discipline.

	performance bound concessional lending window and partial credit guarantees for fleet renewal and operational restructuring (no blanket bailouts).		
Public Service Obligation (PSO)	Introduce competitive tender-based subsidy model for remote/non-viable routes with transparent cost-sharing and performance review.	MoF, CAA	Ensure regional connectivity without market distortion.
Bilateral & Capacity Review (Evidence-Based)	Conduct route-level load factor, welfare, and trade-impact analysis before renegotiating ASAs/BASAs; enforce reciprocity only where imbalance demonstrably harms national interest.	Ministry of Defense, Foreign Office	Replace political protectionism with economic evidence.
Distribution & SME Stability	Formalise service-based commission structure aligned with IATA norms; require liability insurance for intermediaries; protect agents from airline collapse through structured financial safeguards.	CAA, SMEDA	Stabilise distribution chain.
Infrastructure Efficiency Upgrade	Expand passenger counters, introduce and increase e-gates and queue management systems; modernise baggage and scanning systems at secondary airports (Peshawar, Multan, Sialkot etc.); digitalise slot approvals fully.	CAA, PAA, Airport Operators	Improve passenger throughput before capital-intensive expansion.
Data Governance Reform	Establish unified aviation data hub; require long-term time-series data use in policy design; revise PBS dissemination to provide granular air transport data; initiate Tourism Satellite Account framework.	CAA, PBS, Ministry of Information Technology & Telecom	Enable evidence-based policymaking.

8.4.3 Phase III (5–10 Years): Structural Transformation & Global Positioning

Reform Pillar	Detailed Reform Action	Lead Institutions	Strategic Rationale
Strategic Regulatory Roadmap	Publish multi-year regulatory certainty framework aligned with NAP, providing predictable fee structures, safety funding	Ministry of Defense, CAA	Enable long-term capital planning.

	commitments, and slot allocation rules.		
Commercialization and Tourism Integration in Civil Aviation	Adopt an integrated commercial development strategy for the civil aviation sector by linking air travel with tourism promotion, airport retail and leisure facilities, and destination-based attractions. Standardizing and simplifying domestic travel protocols can facilitate seamless movement within the country, stimulate tourism activity, and enhance foreign exchange inflows.	Ministry of Defense, CAA, MoF, Ministry of Planning Development & Special Initiatives, Ministry of Housing and Works, Pakistan Tourism Development Corporation (PTDC); Provincial Tourism Departments	Integrating aviation with tourism and airport commercial activities can enhance passenger experience, stimulate domestic and international tourism, diversify airport revenue streams, and increase foreign exchange inflows.
Urban Planning	Restrict housing schemes near airports to avoid future issues of bird strikes and for easy expansion, Provide public transport and promote food and hotel facilities for the people near airport.	Ministry of Planning Development & Special Initiatives, Ministry of Housing and Works	Future oriented civil aviation planning and expansion facilitation.
Market Diversification Strategy	Attract diversified foreign carriers (Europe/North America) through balanced bilateral engagement; avoid over-reliance on any single region; promote competitive neutrality and reciprocal capacity enhancement.	Ministry of Defense	Reduce regional concentration risk.
Infrastructure Rationalisation (Demand-Based)	Upgrade Karachi and Lahore airports and instrument systems; conduct demand feasibility before A380-class upgrades; avoid prestige mega-project bias, Improve parking facilities, Transfer Lahore and Karachi airports outside of urban areas, and upgrade Gilgit and Skardu Airports. Rationalize airport infrastructure development by ensuring	Planning Commission, CAA	Prevent fiscal overextension. This would help avoid underutilized infrastructure and ensure efficient allocation of public resources.

	that new airport projects are based on objective feasibility assessments, provincial demand, and passenger traffic statistics rather than political considerations.		
Green Aviation Roadmap	Conduct national SAF feasibility study; engage ICAO Finvest; introduce voluntary blending pilots; incentivise green-airport energy initiatives; set realistic emission intensity targets (not absolute mandates).	Ministry of Defense, MoF, Ministry of Climate Change and Environmental Coordination	Gradual alignment with ICAO 2050 goals.
Fleet Modernisation Incentives	Facilitate PPP-based fleet renewal; prioritise weather-appropriate aircraft for Gilgit/Skardu; encourage environmentally efficient aircraft through financing tools (not mandates).	MoF, SBP, Ministry of Climate Change and Environmental Coordination	Strengthen domestic competitiveness.
Innovation Sandbox	Develop regulatory sandbox for emerging aviation technologies (eVTOL, hydrogen propulsion) under strict safety evaluation.	CAA	Future-proof regulatory system.
Investment Safeguards	Review foreign airline investments in domestic carriers to prevent anti-competitive capture, Introduce LCC models for price sensitive domestic sector	CCP, CAA	Protect competitive structure without breaching treaties.
Domestic Capacity Retention	Promote local MRO, ground handling, and training facilities through incentive-based partnerships.	BOI, Ministry of Defense, SMEDA	Build ecosystem resilience.

8.4.4 Recommendations for Pakistan's Civil Aviation Financing and Corporate Landscape

Priority	*Focus*	*Recommendation*
High Priority (Immediate: 0–12 Months)	*Liquidity, remittance efficiency, and risk stabilisation.*	i. Create a unified aviation finance coordination framework (SBP–MoF-SECP–CAA) to reduce policy fragmentation and streamline decision-making. ii. Where possible, introduce tailored currency hedging tools to protect airlines from fuel and lease-related FX volatility until the domestic industry revives. iii. Create aviation-specific insurance policy and compliance checklists for aviation insurance payments to ensure smooth reinsurance flows and avoid coverage lapses iv. Digitise SBP approval and forex processing systems to eliminate delays in remittances for leases, insurance, and MRO transactions.
Medium Priority (Short-to-Medium Term: 1–3 Years)	*Credit accessibility and market modernisation.*	i. Introduce aviation-specific credit guarantee schemes and transparent guarantee structures to lower risk premiums for both public and private carriers. ii. Set up specialised aviation finance divisions within banks and adopt standardised SBP guidelines for lease-backed/asset-based financing. iii. Implement regulatory sandboxes for digital aviation payments to accelerate cross-border settlements. iv. Adopt structured tools like cash-flow waterfalls and prime-route revenue prioritisation for airline financing. v. Institutionalise aviation finance and ESG training through NIBAF and CAA to build sector-specific financial expertise. vi. Provide integrated air travel–linked tourism schemes, loans, and bundled packages for domestic and international travelers to promote air travel and destination-based tourism.
Long-Term Priority (3+ Years)	*Infrastructure investment and global sustainability standards.*	i. Launch a Civil Aviation Infrastructure Fund and develop foreign currency–linked instruments (e.g., Sukuk-al-Ijara) for long-term asset life cycles. ii. Establish airline-focused credit assessment mechanisms independent of sovereign guarantees to foster a competitive private sector. iii. ESG-aligned frameworks, offering incentives for energy-efficient aircraft and low-emission airport infrastructure (aligning with ICAO's 2050 Net-Zero goals

8.5 Final Thoughts

Pakistan's civil aviation system currently operates in an environment marked by concentrated administrative control, high dependency on Gulf carriers, significant economic vulnerabilities, and institutionally fragmented governance. The administrative consolidation of CAA and PAA, the growing dominance of foreign airlines, and the reliance on foreign hubs for passenger traffic, MRO, financing, and ancillary services have collectively reduced national competitiveness. The integration of domestic airlines with foreign backend further reinforces market dependence and limits domestic value capture.

These structural pressures threaten not only the sustainability of Pakistan's civil aviation sector but also the long-term autonomy and viability of the broader aviation ecosystem, airports, air navigation, cargo logistics, tourism, and regional connectivity. Against this backdrop, the study concludes with the following final thoughts.

While state ownership in civil aviation can serve a socio-economic purpose by providing essential services and strategic capabilities, the preponderance of evidence in literature points to a negative impact on market efficiency and competitive fairness. The challenge for policymakers lies in balancing the public service mandates with the need for commercial viability and a competitive market environment. Effective governance and clear delineation between commercial operations and public service obligations are crucial for mitigating the typical pitfalls of state involvement.

A strong and resilient domestic aviation industry is essential for maintaining long-term competitiveness, consumer welfare, and national connectivity. While foreign carriers play an important role in expanding choices for passengers, a sustainable market also requires that domestic operators can compete on fair terms within the broader regional and global landscape. With the restructuring and privatisation of PIA and other national assets, it also becomes important to assess the post-privatisation competitive landscape and adopt supportive policies for the national civil aviation sector. The analysis underscores that structural, macroeconomic, and regulatory conditions can significantly influence the balanceof competition between the domestic and foreign entities. Accordingly, it becomes important for policymakers and sectoral institutions to take appropriate, evidence-based actions that support sectoral stability, enhance competitive neutrality, and ensure that domestic operators are not placed at a systematic disadvantage. Strengthening the overall aviation ecosystem, rather than targeting individual market participants, will help secure Pakistan's long-term economic and strategic interests in the aviation domain.

Pakistan should adopt a holistic civil aviation value-chain strategy, strengthening not only airline operations but also high-value segments such as MRO services, aircraft leasing, dismantling and recycling, and digital aviation technologies. Policy reforms should prioritize regulatory coordination, private-sector investment, and integration with tourism and logistics to capture global market opportunities. Civil aviation cannot operate in silos; leveraging Pakistan's strategic location to develop regional hub capabilities across airlines, airports, and allied services will enhance connectivity, trade, and tourism. The sector's long-term strength will depend on coordinated systems where institutions, infrastructure, and services operate in alignment to create a resilient, competitive, and globally integrated aviation industry.

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Appendices

Appendix A: Regulatory Framework Timeline

Category	Instrument / Policy	Year	Purpose / Key Features
Acts & Ordinances	Civil Aviation Ordinance	1960	Provided the earliest statutory basis for regulating civil aviation in Pakistan.
	Pakistan Civil Aviation Authority Ordinance	1982	Established the PCAA as an autonomous regulatory body, replacing the Civil Aviation Department.
	Airports Security Force Act	1975	Created and empowered ASF for security management at all airports.
	Carriage by Air Act	2012	Governs liabilities of air carriers for international transport of passengers, baggage, and cargo.
	Pakistan International Airlines Corporation Act	1956	Established PIAC as the national flag carrier (amended repeatedly over the years).
	Pakistan Civil Aviation Act	2023	Consolidated modern aviation laws; strengthened PCAA regulatory powers and structure.
	Pakistan Airports Authority Act	2023	Created PAA as the independent airport operator, separating regulatory and operational functions.
	Aircraft (Removal of Danger to Safety) Ordinance	1965	Addresses removal of obstacles and hazards around airports to protect flight safety.
	Dangerous Cargoes Act	1953	Regulates transport and handling of hazardous goods, including by air.
SROs & Regulatory Instruments	S.R.O. 83(1)/2025	2025	Officially transferred the Aviation Division under the Defence Division as part of rightsizing.
	Air Navigation Orders (ANOs)	Various	Technical rules issued by PCAA on airworthiness, licensing, flight standards, security, airspace, and aeronautical charges (e.g., ANO-004-DRAS-3.0).
National Aviation Policies	National Aviation Policy	1993	Pakistan's first structured aviation policy; addressed liberalisation and initial regulatory reforms.
	National Aviation Policy	2000	Provided guidelines for airline licensing, private sector participation, and air service development.
	National Aviation Policy	2007	Focus on safety oversight, ground handling reforms, infrastructure development, and PPP models.
	National Aviation Policy	2015	Major reform-oriented policy promoting open skies, airline flexibility, cargo development, and economic liberalisation.
	National Aviation Policy	2019	Revised framework focusing on safety, restructuring PIA, incentivising private airlines, improving airports, and strengthening oversight.
	National Aviation Policy	2023	Bifurcation of CAA into PCAA, PAA, BASI.

International Framework / Document	Purpose
Chicago Convention, 1944	Foundational treaty requiring member states to establish autonomous civil aviation bodies (e.g., PCAA) to implement international standards.
ICAO Annexe 1 (Personnel Licensing)	Sets standards for pilot and air traffic controller licenses, including language proficiency requirements.
ICAO Annexe 11 (Air Traffic Services)	Provides standards and procedures for Air Traffic Control (ATC) services.
ICAO Annexe 14 (Aerodromes)	Defines aerodrome design and operational standards.
ICAO Annexe 17 (Security)	Establishes standards for aviation security and safeguarding measures.
ICAO Doc 4444 (PANS-ATM)	Contains Procedures for Air Navigation Services – Air Traffic Management (ATM).
ICAO Doc 9859 (Safety Management Manual)	Guides the implementation of Safety Management Systems (SMS) in aviation organisations.
ICAO GASP & NASP	Global and National Aviation Safety Plans to align safety strategies with international best practices.
ICAO USOAP-CMA	Universal Safety Oversight Audit Programme – Continuous Monitoring Approach to ensure compliance with ICAO standards.

Appendix B: Aircraft Leasing and Ownership

Detail	Quantity
Leased	47
M/s Air Sial Limited	7
Airbus A320-214	2
Airbus A320-232	4
Airbus A320-233	1
M/s Airblue Limited	10
Airbus A320-214	4
Airbus A321-211	4
Airbus A321-251NX	2
M/s Fly Jinnah Services (Pvt) Limited	6
Airbus A320-214	3
AirbusA320-214	3
M/s PIACL	17
Airbus A320-214	2
AirbusA320-214	7
ATR72-212A	1
Boeing B777-240	1
Boeing B777-240LR	2
Boeing B777-340ER	3
Boeing B777-3Q8ER	1
M/s Serene Air (Pvt) Limited	7
Airbus A330-202	1
Airbus A330-203	2
Boeing B737-800	1
Boeing B737-8GJ	2
Boeing B737-8JP	1
Owned	17
M/s Airblue Limited	2
Airbus A320-214	1
Airbus A321-211	1
M/s PIACL	15
Airbus A320-214	5
Airbus A320-216	2
ATR42-500	3
Boeing B777-240	3
Boeing B777-2Q8	2
Grand Total	64

Source: Data provided by CAA.

Appendix C: HHI International Market 2024-25

Sr. No.	Airlines	No. of Passengers	Percentage	%age Squared
1.	Pakistan Int'	2831574	15.75	248.009
2.	Saudi Arabian	2458132	13.67	186.906
3.	Emirates	1730581	9.62	92.640
4.	Air Blue	1543831	8.59	73.725
5.	Qatar Airways	1516399	8.43	71.128
6.	Fly Dubai	1295120	7.20	51.884
7.	Air Arabia	822392	4.57	20.920
8.	Air Sial	746551	4.15	17.240
9.	Etihad Airways	691201	3.84	14.778
10.	Fly Jinnah	599703	3.34	11.125
11.	Turkish Airlines	592313	3.29	10.852
12.	Serene Air	547950	3.05	9.287
13.	Salam Air	390792	2.17	4.724
14.	Thai Airways	372806	2.07	4.299
15.	Fly Nas	351557	1.96	3.823
16.	Gulf Air	315896	1.76	3.087
17.	China Southern	154088	0.86	0.734
18.	Malindo Air	135182	0.75	0.565
19.	Srilankan Airlines	97854	0.54	0.296
20.	Iraqi Airways	90121	0.50	0.251
21.	Kuwait Airways	88724	0.49	0.243
22.	Jazeera Airways	83279	0.46	0.215
23.	Pegasus Airlines	70058	0.39	0.152
24.	British Airways	67805	0.38	0.142
25.	Air Arabia Abu Dhabi	54231	0.30	0.091
26.	Kam Air	47978	0.27	0.071
27.	Oman Air	42460	0.24	0.056
28.	Ethiopian Airlines Corporation	38004	0.21	0.045
29.	Azerbaijan Airlines	35960	0.20	0.040
30.	Air China	34468	0.19	0.037
31.	Fly Adeal Airlines	29665	0.16	0.027
32.	Aeronomad Airlines	25365	0.14	0.020
33.	Taban Airlines	18433	0.10	0.011
34.	Mahan Air	16512	0.09	0.008
35.	Uzbekistan Airways	12799	0.07	0.005
36.	Airasia X	10412	0.06	0.003
37.	Chamwing Airlines	7367	0.04	0.002
38.	Iran Air	5133	0.03	0.001
39.	Ariana Afghan	4679	0.03	0.001
40.	Somon Air	2795	0.02	0.000
	Grand Total	**17980170**	**100.00**	**827.44**

Source: Author's calculation based on CAA data