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Strengthening Competition Policy Implementation in Pakistan

Market and Regulatory Assessment of the Air Transport Sector in Pakistan

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Please share your comments with:
Ms. Kishwar Khan, Director General, CCP
Email: kkhan@cc.gov.pk

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Table of Contents

Acronyms:

AIN	Al Ain Airport
ANS	Air Navigation Services
AOC	Air Operator Certificate
ASAs	Air Service Agreements
ASK	Available Seat Kilometres
AUH	Abu Dhabi Airport
BAH	Bahrain Airport
BHX	Birmingham Airport
BOO	Build, Own & Operate
BOT	Build, Own & Transfer
BKK	Bangkok Airport
CAA	Civil Aviation Agency
CCP	Competition Commission of Pakistan
CDG	Charles de Gaulle Airport
CN	Competitive Neutrality
CPH	Copenhagen Airport
DMM	Dammam Airpot
DOH	Doha Airport
DXB	Dubai Airport
EU	European Union
FDI	Foreign Direct Investment
HHI	Herfidahl-Hirschman Index
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IKA	Tehran Airport
IST	Istanbul Airport
JED	Jeddah Airport
KBL	Kabul Airport
KSA	Kingdom of Saudi Arabia
KUL	Kuala Lumpur Airport
KWI	Kuwait Airport
LCCs	Low-Cost Carriers
LHR	London Heathrow Airport
MAN	Manchester Airport
MCPAT	Markets and Competition Policy Assessment Toolkit
MCT	Muscat Airport
MED	Madinah Airport
MHD	Mashhad
MoU	Memorandum of Understanding
MXP	Milan-Malpensa Airport
NAP	National Aviation Policy
NRT	Tokyo-Narita

OSL	Oslo Airport
PEK	Beijing Airport
PIA	Pakistan International Airlines
PIACL	Pakistan International Airlines Corporation Limited
PKR	Pakistani Rupees
PSO	Public Service Obligation
RKT	Ras Al Khaimah Airport
RPT	Regular Public Transport
RPTL	Regular Public Transport License
RUH	Riyadh Airport
SHJ	Sharjah Airport
SOE	State-Owned Enterprises
TAS	Tashkent Airport
UAE	United Arab Emirates
UK	United Kingdom
URC	Urumqi Airport
US	United States
USD	United States Dollars
WBG	World Bank Group
YYZ	Toronto Airport

I. MARKET STRUCTURE AND COMPETITION DYNAMICS

1. **Drawing on the World Bank Group's Markets and Competition Policy Assessment Toolkit (MCPAT), this Report aims to respond to the country's reform needs in the air transport sector and to identify actionable pro-competition solutions to enhance the results of ongoing Government initiatives in this sector** (see Annex I for a description of the MCPAT framework). In particular, this Report reviews the air transport sector framework and its effectiveness in promoting functioning markets that deliver competitive outcomes and a more efficient resource allocation in Pakistan. It identifies and proposes least restrictive alternatives to those rules, which stifle competition in the sector by limiting entry, strengthening dominance, discriminating between firms, increasing the cost of competing or facilitating collusion. Further, it discusses key bottlenecks in the air transport sector, and possible avenues for reform.

A. Background

2. **The commercial air transport market in Pakistan mobilizes more than 22 million passengers and about 220,000 air traffic movements per year, including domestic and international air services.** One third of the total passenger traffic (about 7 million) corresponds to domestic air travel. Carriers registered in the country account for 40 percent of the international traffic, whereas the rest is transported by international airlines.

3. **Up to 2019, only three companies substantially owned by Pakistan's legal and physical persons provided regular air services.** Pakistan International Airlines Corporation Limited (PIACL), the state-owned carrier, has been converted from a statutory corporation to a company governed by the Companies Ordinance.[1] The other two airlines, Air Blue Limited and Shaheen Air International, are private firms owned by Pakistani physical persons[2]. In 2017, Serene Air began operations, albeit servicing only the domestic market.

4. **Pakistan's commercial air transport market is still underdeveloped.** Despite robust traffic growth seen in the beginning of the decade, the market expanded only at a fraction of what other economies in the region experienced, as is the case of Bhutan, Sri Lanka, India and Bangladesh. Moreover, only international services that have really

[1] As per the Conversion Act (Act No. XV of 2016), dated 19 April 2016, PIACL has succeeded to all the assets, liabilities, duties and obligations of the company in its previous legal form. As per the company's published shareholder composition, Ministry of Defense holds 85 percent of the company's shares, managed through the Aviation Division.

[2] Shaheen Air International discontinued operations in 2018.

funneled passenger traffic growth, whilst domestic services have remained stagnant over the years.

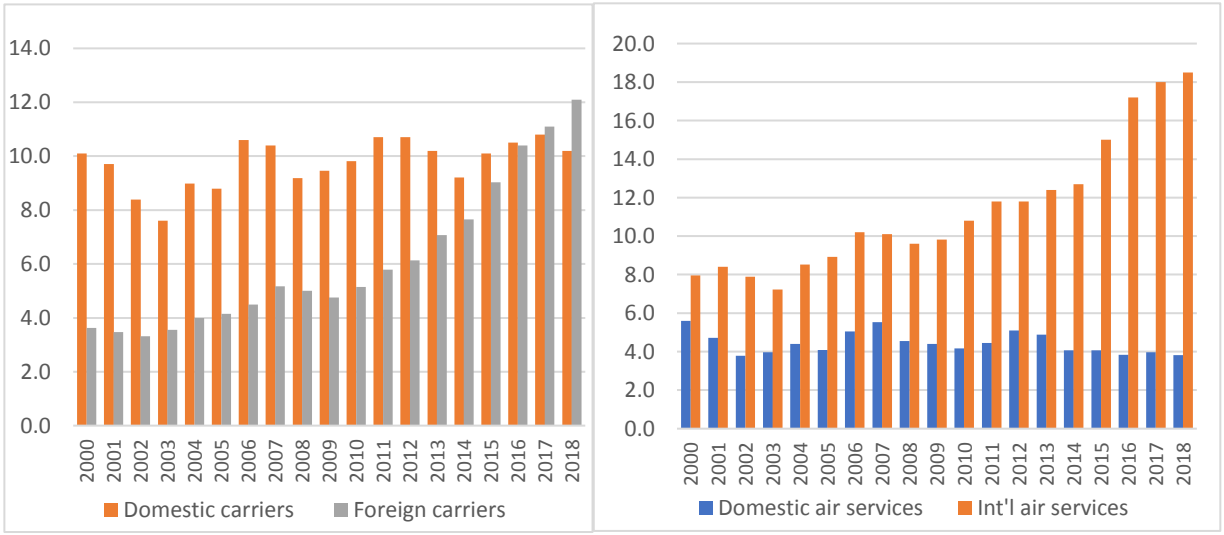
5. **Overall, the South Asian market has been characterized in the last 15 years by the continued expansion of Low-Cost Carriers (LCCs) that expanded its output tenfold (from 5 percent of total capacity to 50 percent of total capacity in domestic and international routes).** Gulf-based carriers have also expanded their market presence in Pakistan, claiming one third of the capacity deployed in international routes. In terms of fundamentals, commercial air transport in Pakistan is still hindered by the low purchasing power of a large percentage of the population. Foreign Direct Investment (FDI) and international trade flows, common drivers of passenger traffic, still fare comparatively low vis-a-vis other countries in the region.

B. Air Passenger Services[3]

i) International market

6. **The commercial aviation market in Pakistan has steadily expanded in the last 18 years.** Airline output, measured by Available Seat Miles (ASMs) expanded by 50-60 percent since 2001, driven mostly by international air services. However, the size and growth of the air transport market in Pakistan (both traffic and capacity) relative to population base is low as compared to neighbors. Pakistan has about one-fourth the number of weekly flights per million inhabitants in Nepal, one third of Sri Lanka's and 40 percent less than in India. Whereas in the year 2001, about 13 million outbound seats were offered (64 percent international) airline output in 2018 hovered around 23 million yearly seats. Approximately, 80 percent of the seat capacity nowadays corresponds to international flights. Foreign carriers accounted for 25 percent of the total seats flown in 2001, whereas they currently represent more than half of the capacity (see Figure 1).

Figure 1: Available seats (million): international vs. domestic services and carrier nationality, 2000-2018



Source: World Bank based in DIIO

[3] Regular Air Services are only considered.

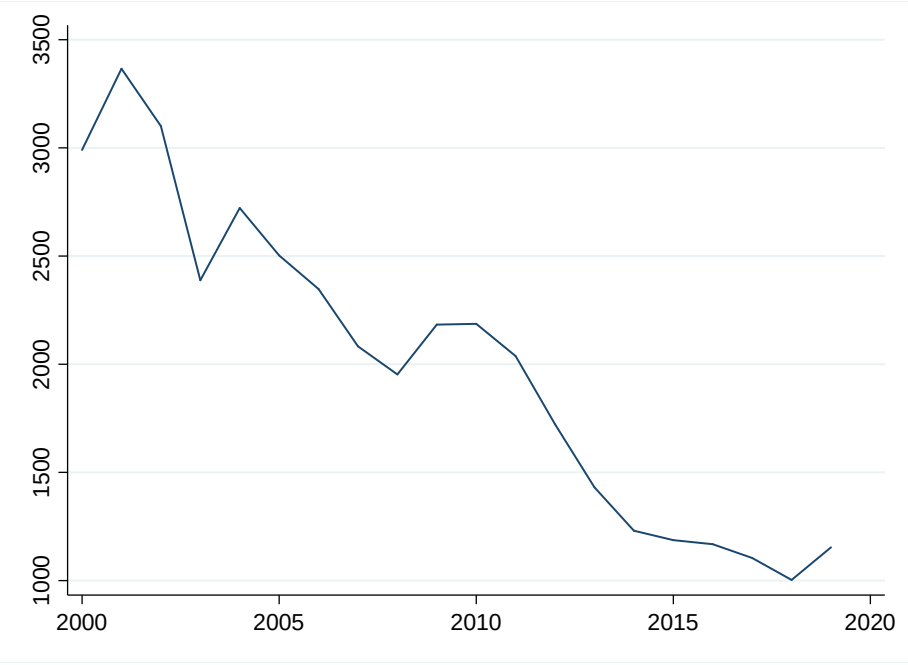
7.

8.

9. **Figure 22** and Figure 23 of Annex II)**.** In 2016, all three major airports in the country accounted for 65 percent of the offered seats to foreign destinations: Islamabad accounted for 22 percent, Lahore for 25 percent and Karachi almost 30 percent. Secondary cities like Peshawar (8 percent), Multan (5 percent), Sialkot (5 percent) and Faisalabad (2 percent) together add up to 20 percent of the overall international capacity offered. This constitutes a significant geographical diversification of available alternatives for international travel. Less than two decades ago, approximately 55 percent of the total capacity was concentrated in Karachi alone.

10. **Market concentration in international air travel in Pakistan has decreased significantly since the year 2000, directly associated with the loss of market share of Pakistan International Airlines (PIA).** A common indicator of market concentration is the Hirschmann-Herfindhal Index (HHI). Overall, a commonly accepted guideline is to consider markets between with HHI between 1,500 and 2,500 to be moderately concentrated, and highly concentrated above 2,500.[4] Markets below 1,500 are considered to be deconcentrated. Figure 2 presents the evolution of market concentration since the year 2000 for international services from Pakistan that shows the mentioned downward trend.

Figure 2: HHI: International non-stop airport pairs, 2000-2019



Source: World Bank based in DIIO

11. **Despite negative financial and operational outcomes in the recent years, PIA still holds the largest international capacity share (20 percent of all seats in international flights).** The two other local carriers, Shaheen (before suspending operations in 2018) and Airblue, held 7 percent of the seats each (see Figure 3). On the

[4] See U.S. Department of Justice & FTC, Horizontal Merger Guidelines § 5.2 (2010).

other hand, Gulf carriers such as Emirates (14%), Saudia (12%), Qatar (8%), FlyDubai (5%), Air Arabia (5%), and Etihad (4%) account for 48 percent of the overall international capacity, when combined. Other airlines hold a minor share.

Figure 3: Seat shares by carrier: International air services, 2017-2019

Source: World Bank based in DIIO

12. **However, the presence of the different domestic carriers in Pakistan varies greatly across major airports**. Figure 4, Figure 5, and Figure 25 through Figure 29 of Annex II, exhibit the international seat capacity share by carrier at Islamabad, Karachi, Lahore, Peshawar and Multan airports. In Islamabad, PIA is the leading airline (34 percent), followed by Saudia, with 14 percent; Pakistani air company Airblue, follows with 9 percent each. Other airlines with smaller shares of the market are Etihad, and Turkish Airlines, each with 6 and 4 percent, respectively.

13. **In Karachi, Emirates is the carrier offering the largest number of seats. The Gulf carrier based in Dubai maintains a 25 percent of the total capacity, whereas Saudia holds about 15 percent**. PIA (12 percent), FlyDubai (9 percent), Qatar (7 percent), Thai Airways (5 percent), Air Arabia (5 percent) and Eithad (4 percent) follow. Airblue plays a relatively minor role in Karachi airport, with about 2 percent of the international seat capacity.

14. **In Lahore, Pakistan International Airlines, Saudia and Qatar Airways are the three largest carriers, with 26, 15 and 10 percent of the total international seats offered, respectively**. They are followed by Emirates, Airblue and Etihad, all of them with 9 to 5 percent each. Meanwhile, PIA and Saudia are the most dominant airlines in Peshawar, each holding 26 and 20 percent of the total, followed by Emirates (14

percent), Airblue (13 percent) and Air Arabia (12 percent). In the case of Multan, Saudia is the most prominent international carrier with 25 percent of the supply, but closely followed by FlyDubai (21 percent), Airblue (14 percent), PIA (14 percent), Air Arabia (9 percent) and Gulf Air (7 percent).

ii) Airport-pair level analysis

15. **The analysis of the market dynamics focuses on non-stop airport pairs, based on current and historical flight schedules.** This means that connecting services for a given airport-pair are not considered. True origin and destination airport pairs are not included at this stage either, as they require demand-side (traffic) data.

16. **Overall, Dubai (DXB) represents about one fourth of the available outbound international seats, considering all five Pakistani international airports served**. Table 1 presents a subset all international non-stop airport pairs, containing only the densest international airport pairs originated in Pakistan. Jeddah, Doha, and Sharjah, account for 19, 9 and 6 percent to the total seats (from all Pakistani airports), respectively. Pakistani airlines represent a minor share of the total capacity offered in non-stop airport pairs to Dubai.

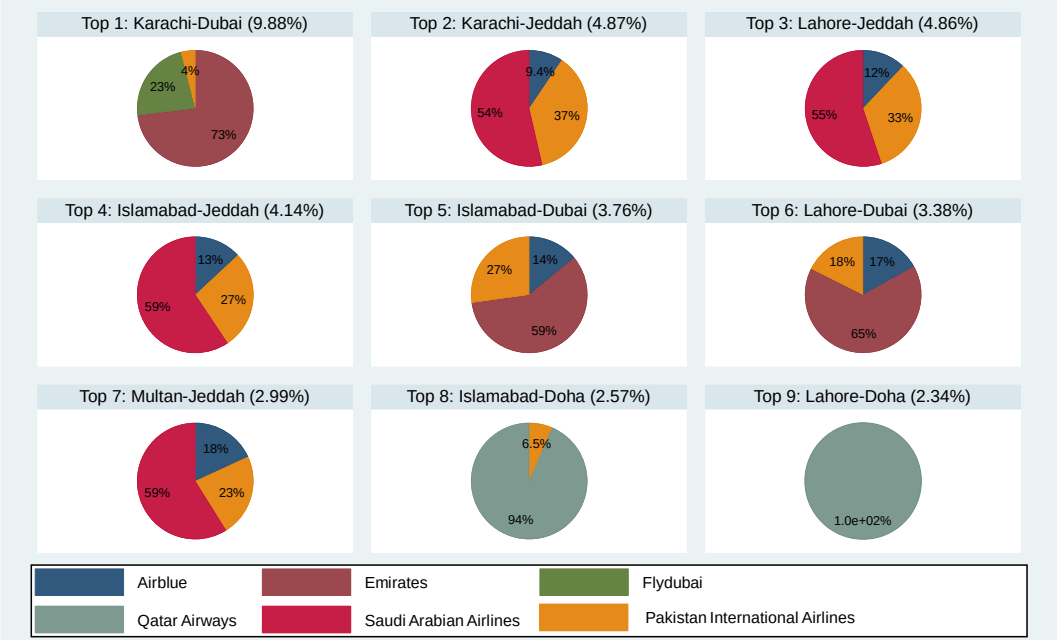
Table 1: Top international airport pairs and destinations from Pakistan: Seats (%), 2019

Top Airport Pairs	% Total int'l seats	Accumulated Share (%)	Destination Airport	Country	% Total int'l seats	Accumulated Share (%)
Karachi-Dubai	10.2	10.2	Dubai (DXB)	UAE	24.5	24.5
Karachi-Jeddah	4.9	15.1	Jeddah (JED)	KSA	18.8	43.3
Lahore-Jeddah	4.9	19.9	Doha (DOH)	Qatar	9.1	52.4
Islamabad-Jeddah	4.2	24.2	Sharjah (SHJ)	UAE	6.2	58.6
Islamabad-Dubai	3.8	27.9	Abu Dhabi (AUH)	UAE	5.7	64.3
Lahore-Dubai	3.4	31.3	Riyadh (RUH)	KSA	5.4	69.8
Multan-Jeddah	3.0	34.3	Muscat (MCT)	Oman	4.9	74.7
Islamabad-Doha	2.6	36.9	Bahrain (BAH)	Bahrein	3.5	78.3
Lahore-Doha	2.3	39.3	Istanbul (IST)	Turkey	3.0	81.3
Sialkot-Dubai	2.3	41.7	Madinah (MED)	KSA	2.5	83.8
Islamabad-A.Dhabi	2.2	43.9	Bangkok (BKK)	Thailand	2.1	85.9
Karachi-Doha	2.1	46.0	London (LHR)	UK	1.9	87.7
Lahore-Abu Dhabi	1.9	48.0	Manchester (MAN)	UK	1.6	89.3
Peshawar-Dubai	1.9	49.9	Dammam (DMM)	KSA	1.2	90.5

Source: World Bank based in DIIO

17. **In the top non-stop international airport-pairs, the largest carrier typically holds 50% or more of the total offered seats.** All Top 7 non-stop int'l airport pairs (Figure 4) are operated by 3 carriers. The carrier flying from Pakistan to its own hub or base airport outside the country tends to capture the largest share of the market (either Emirates to Dubai, or Saudia to Saudi Arabia). In the case of full-service carriers, this has to do with the ability to funnel traffic to all points of its network through its hub, offering connecting destinations to all geographies. From Pakistan, Emirates leads in terms of seat shares to Dubai, Etihad leads to Abu-Dhabi, whereas Saudia is the lead carrier in non-stop routes to Jeddah.

Figure 4: Share of capacity in top 9 largest international airport pairs by airline (2019)



Source: World Bank based in DIIO; Note: share of total int'l seats in that non-stop airport pair is indicated

18. **As mentioned above, Emirates Airlines is the carrier with the largest capacity share in all non-stop routes to Dubai: 73 percent from Karachi, 61 percent from Sialkot, 58 percent of all seats from Islamabad, 65 percent from Lahore, and 59 percent from Peshawar.** PIA and Airblue (in that order) compete to capture the remaining market shares. Similarly, in the case of Abu Dhabi as a destination airport, no airline from Pakistan maintains a sizeable percentage of the supplied capacity: Etihad holds 66 and 62 percent of the total available seats, from Islamabad and Lahore, respectively.

19. **The Kingdom of Saudi Arabia (KSA) is one of the most significant outbound destinations from Pakistan, accounting for almost 30 percent of the total international seats offered**. The importance of cultural and religious tourism (Hajj and Umrah) is one of the distinctive trademarks of KSA in terms of passenger traffic. In the four largest airport pairs between KSA and Pakistan, the largest carrier (in this case, always Saudia) offers at least 54 percent of the seats.

20. **In Top 20 international airport pairs, the average number of carriers per airport-pair is lower, as compared to the Top 10** (see Figure 5). Only one Top 20 international non-stop airport pair (Islamabad-Riyadh) is operated by 4 carriers (Saudia, PIA, NAS and Airblue). Six airport pairs are operated by 3 carriers. Meanwhile, two airport pairs are operated by two carriers. Regarding specific airport pairs, Qatar is leading carrier to Doha, whereas Emirates and FlyDubai lead in airport pairs to Dubai, from Sialkot, Peshawar and Multan. Eithad leads in Islamabad-Abu Dhabi and Lahore-Abu Dhabi, with 66% and 62% of capacity, whereas Saudia leads in the routes to Riyadh and Jeddah, with 54% or more of the seats offered.

Figure 5: Share of capacity in top 20 international airport pairs by airline (2019) (cont'd)

Source: World Bank based in DIIO; Note: share of total int'l seats in that non-stop airport pair is indicated

21. **To understand market concentration and dynamics among carriers, the HHI is computed at the airport pair level** (see Figure 6)**.** For a first group of about half of the international airport pairs, market concentration trends did not substantially change in the last 15 years.[5] The reasons for such behavior require closer scrutiny at the route level, as it is difficult to extract stylized facts for the group as a whole. It should be noted however, from a competition standpoint, that the presence of anticompetitive practices might be higher in the presence of such stability in concentration measures. A second group of about one third of the international airport pairs, did experience a decrease in the levels of market concentration. The easiest examples to draw are the routes to Saudi Arabia, where the changes made to the Bilateral Air Service Agreement enabled the entry of new carriers and banned other anticompetitive practices, ultimately increasing competition.

[5] Islamabad-Abu Dhabi; Islamabad-Dubai; Peshawar-Dubai; Lahore-Dubai; Islamabad-Doha; Karachi-Muscat; Karachi-Riyadh; Karachi-Abu Dhabi.

Figure 6: HHI: first tier international airport pairs (2000-2019)

Source: World Bank based in DIIO

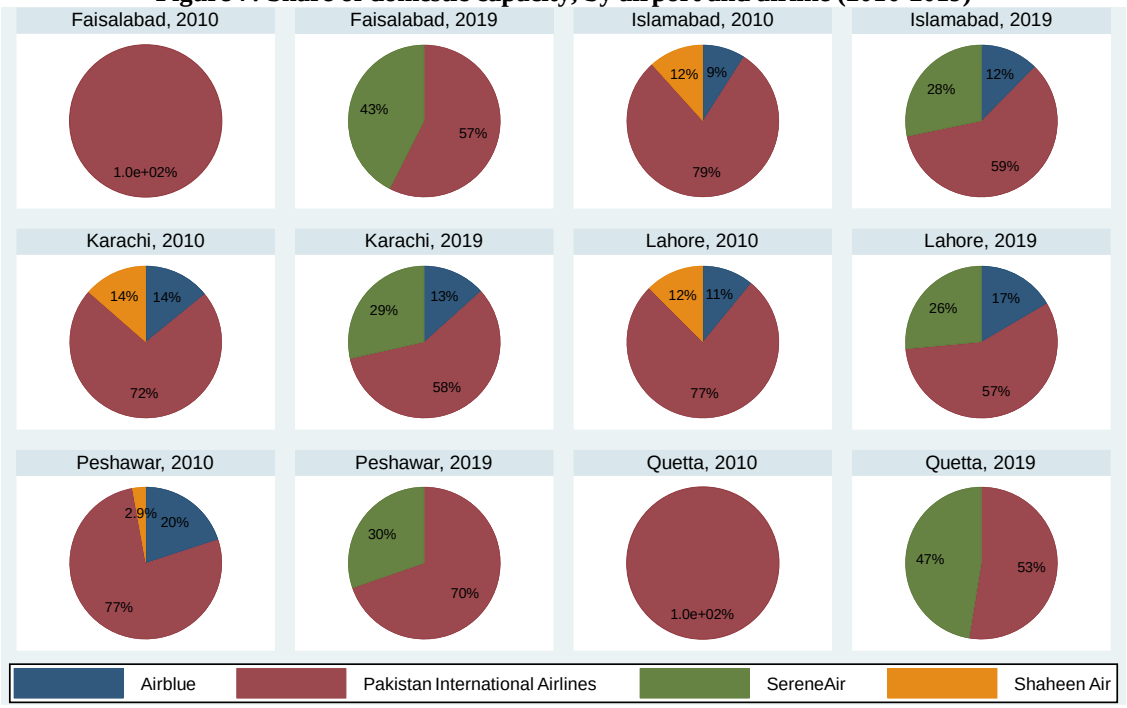
22. **A remaining 20 percent of international airport pairs has seen an increase in capacity concentration**. This is mostly seen in routes where gulf carriers have been very aggressive in terms of capacity growth. From a competition lens, these results are seemingly more the result of the elimination of barriers to provide capacity in the market, via more liberal Air Service Agreements. An example is the case of Karachi-Dubai, where traffic rights restrictions have been almost eliminated. As a result, PIA and other Pakistan-based airlines were not able to match large increases in the capacity made by its gulf-based competitors, increasing ultimately concentration indicators.

iii) Airport-pair level analysis

23. **Karachi is the largest origin in the airport system, with approximately 54 percent of the total domestic seat supply in Pakistan** (see Figure 7 and Figure 33 of Annex

II). Meanwhile, Islamabad follows with 36 percent. As a group, all other airports combined account for about 10 percent of the total domestic capacity.

Figure 7: Share of domestic capacity, by airport and airline (2010-2019)

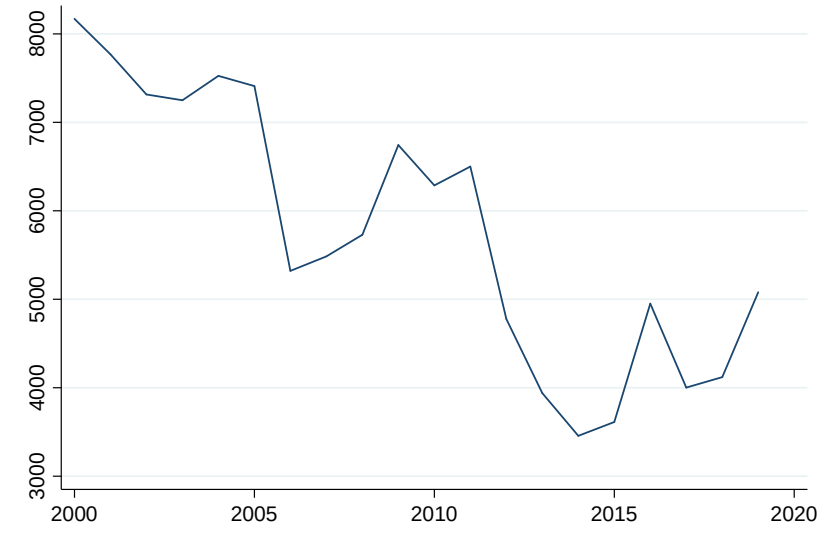


Source: World Bank based in DIIO

24. **The presence of Pakistan International Airlines in the domestic market is much stronger than internationally, with a share of capacity larger than 60 percent in all routes where it operates**. Serene and Airblue offer commercial air transportation services domestically, competing head-on with PIA. Serene has a larger participation than Airblue all airports considered (e.g. in Islamabad, Lahore, Karachi) with 25-45 percent of the seat shares in all airports where it operates. In the past, other carriers (e.g. Aero Asia, Air Indus) have entered the market in the past but failed after 5 to 8 years in operation.

25. **The air transport sector in Pakistan gradually opened to new domestic entrants** (the total concentration indicator presented in Figure 8). This is consistent with the larger participation of Airblue and Serene in the domestic market (also Shaheen, that discontinued operations in 2018). But most importantly, PIA's retraction in output and loss of market share. A separate section is devoted to the market presence of PIA in the report.

Figure 8: HHI, domestic air services (2000-2019)



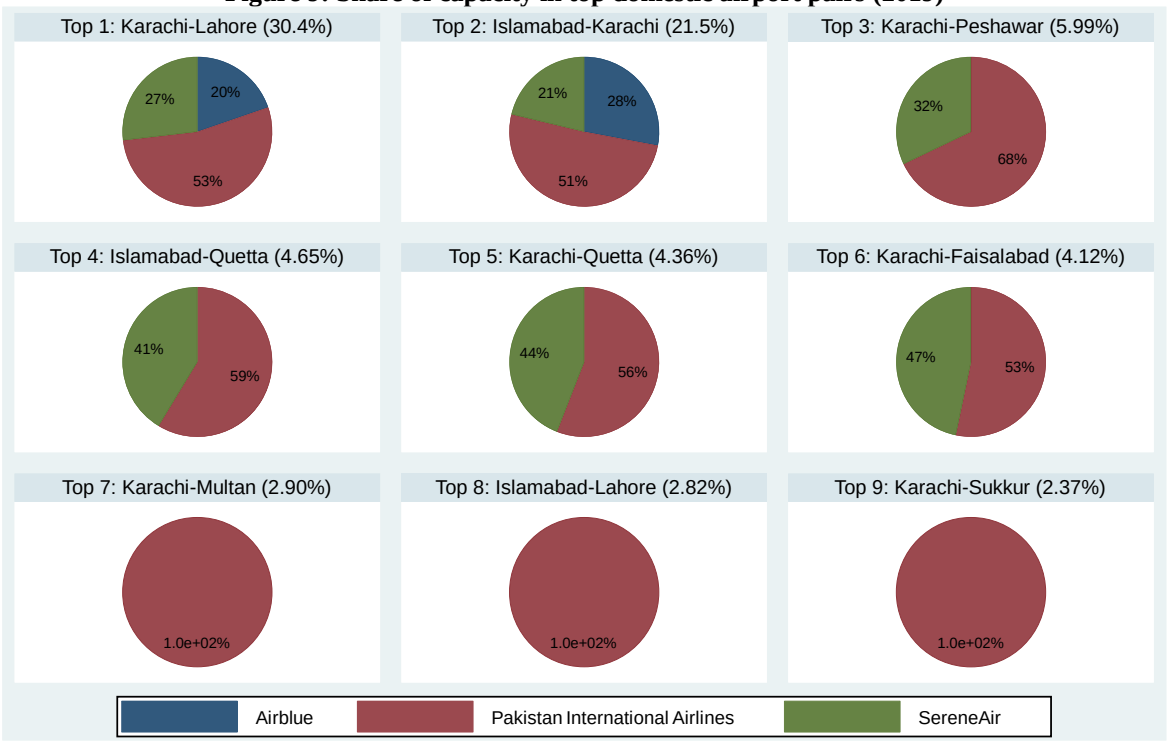
Source: World Bank based in DIIO

26. **Figure 34** of Annex II). In general, the domestic market exhibits a lower number of airlines per airport pair as compared to international destinations, with only 15 percent of the routes operated by 3 carriers (Islamabad-Karachi, Karachi-Lahore). Conversely, most airport pairs are operated by a single airline.

27. **PIA has a leading position in all Top 20 domestic airport pairs**. It maintains 51 percent of all seats in Karachi-Islamabad, 53 percent in Karachi-Lahore, 68 percent on Karachi-Peshawar. In the cases where Serene and Airblue operate domestic routes and compete head to head with PIA, they typically maintain at most one third of the seats. In a nutshell, PIA still maintains an undisputed leading position in the domestic market (see Figure 9 and
28. Figure **10** below).

29. **Meanwhile, during the period analyzed, about 75 percent of the domestic markets with sustained services up to 2019, do not show significant changes in capacity concentration**. The overwhelming majority are those domestic airport pairs, which have been historically operated solely by PIA. From a competition standpoint, this does not necessarily mean that anticompetitive practices are behind the limited choice of providers. For instance, market structure and commercial reasons might conspire against these markets to develop, since limited purchasing power outside main cities might command low fares, below recovery costs. In such cases, the market might barely support a single air service provider, much less two. Other natural entry barriers come from the fact that some airports can only be served by smaller aircraft, only operated by PIA. However, closer scrutiny should be paid to how public service obligations are implemented in practice, since the latter are not strictly enforced by the government, and fall entirely on PIA to maintain service to social and socio-political routes.

Figure 9: Share of capacity in top domestic airport pairs (2019)



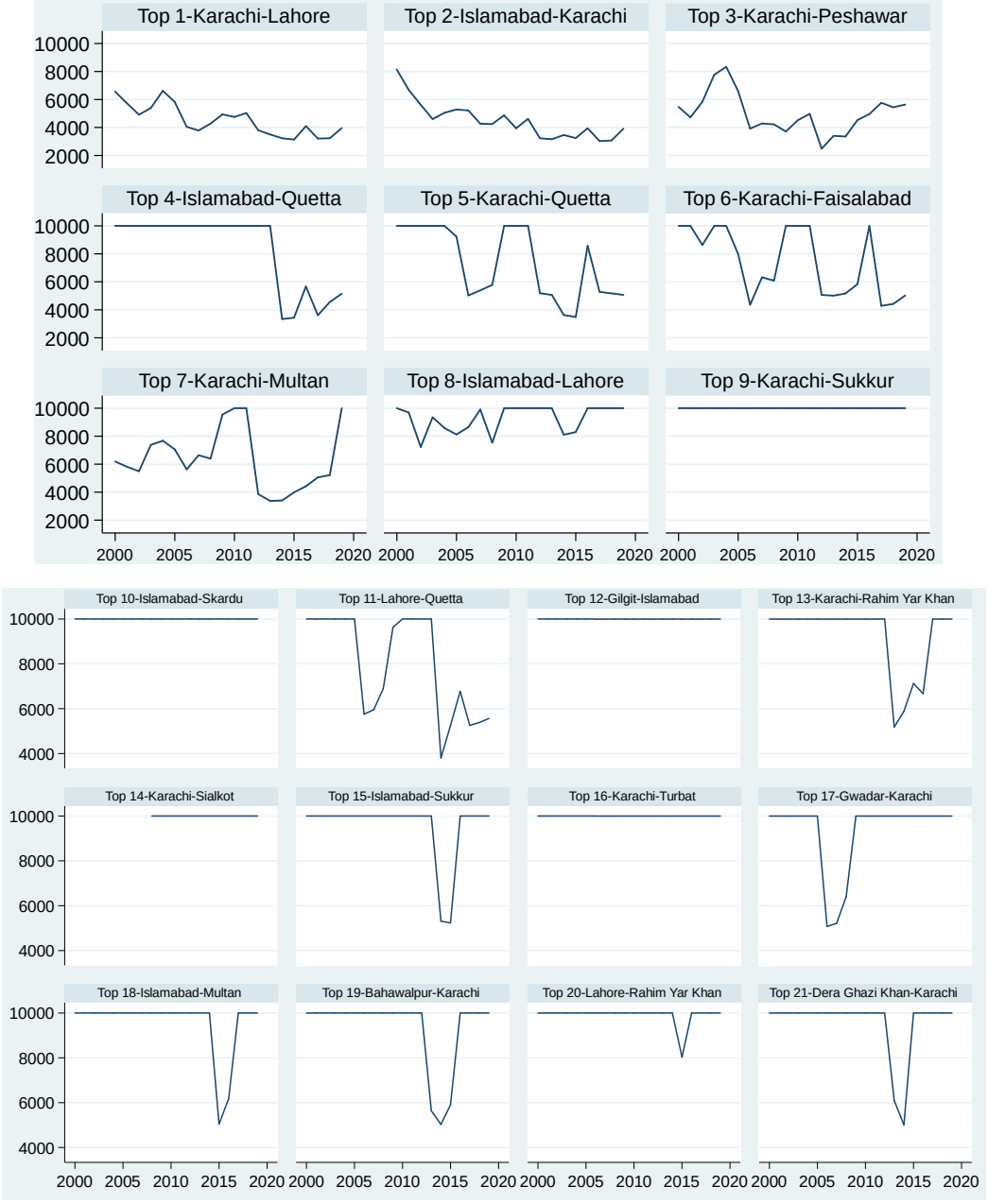
Source: World Bank based in DIIO; Note: share of total domestic seats in that non-stop airport pair is indicated

Figure 10: Capacity share in top domestic airport pairs, by airline (2019) (cont'd)

Source: World Bank based in DIIO; Note: share of total domestic seats in that non-stop airport pair is indicated

30. **About 20 percent of the airport pairs show less concentration than before** (Figure 11). The latter is thanks to the capacity share gains achieved by private carriers at the expense of PIA's. This has occurred most notably on Islamabad-Karachi, and Karachi-Lahore. The latter are the routes not considered as social in nature, due to their size.

Figure 11: HHI: Top domestic airports (2000-2019)

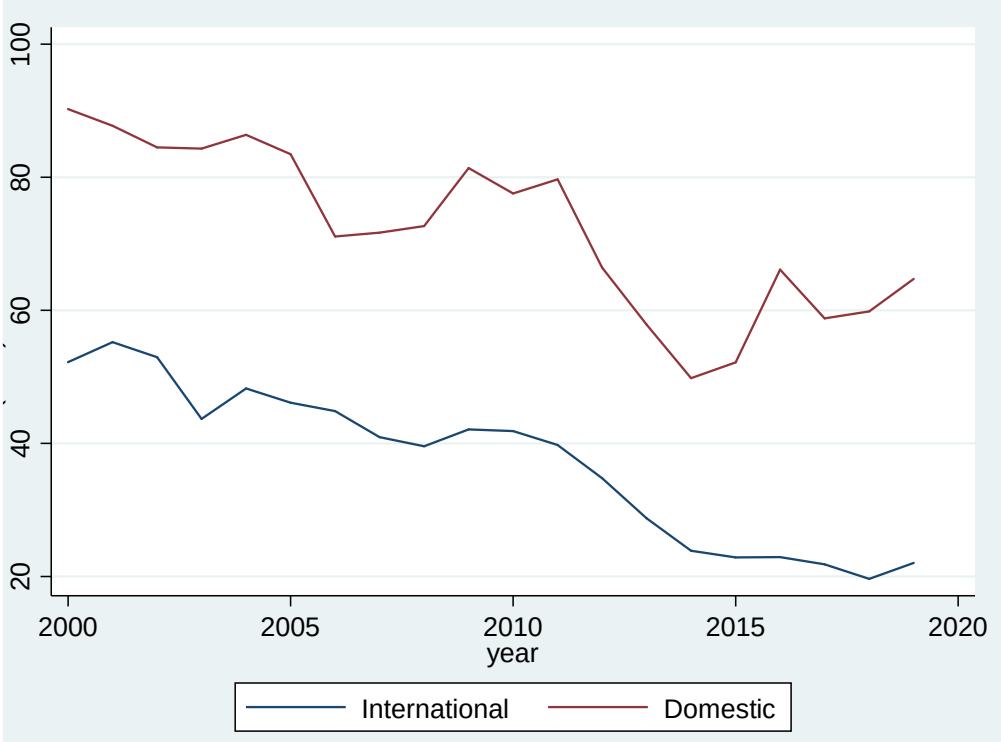


Source: World Bank based in DIIO

31. **PIA's operational and financial indicators have shown signs of distress for many years.** As Figure 12 shows, the presence of PIA in the international and domestic air travel market in Pakistan has suffered considerably in the last years. Domestically, the

state-owned carrier held almost 90 percent of the domestic seat supply in the year 2000, nowadays it does not exceed 65 percent.

Figure 12: Pakistan International Airlines: share of seat capacity (2000-2019)



Source: World Bank based in DIIO

32. **For the largest, densest domestic markets (Islamabad-Karachi and Karachi-Lahore) PIA has lost considerable ground vis-à-vis its competitors, yet it still accounts for a significant share of the offered seats (at least 50 percent).** Besides a small number of domestic airport pairs, where the carrier has shown wide changes in its competitive position, most routes in PIA's domestic network have been historically operated without any competition at all; or only during brief periods, where the challengers finally exited the market. The reasons behind these entry-exit cycles in smaller routes should also be observed in more detail, such as profitability, and pricing responses to entrants.

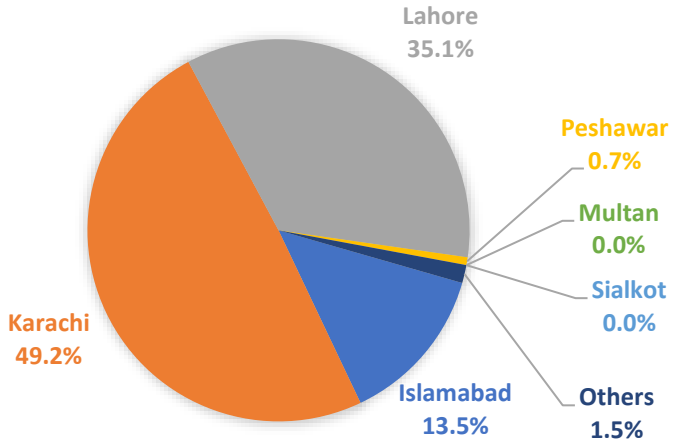
C. Air Cargo

33. **Unlike in the passenger segment, market dynamics in the air cargo market are more difficult to analyze.** It is more complex to derive capacity estimations because typically a big share of the available uplift space is provided by passenger aircraft, especially when widebody aircraft are used in medium and long-haul routes. Depending on the market conditions, the share of dedicated freighters in total throughput can vary substantially. An important limitation is that the total theoretical uplift capacity (for passenger and freighter aircraft) is influenced by certain characteristics of the route (such as haul length) that limit payload space. Using the freighters' full theoretical capacity can bring large discrepancies with real space availability, depending on the routing arrangements (the last segment of a long rotation that returns to the carrier's

hub might have been crowded out in weight and volume by cargo loaded on previous segments).

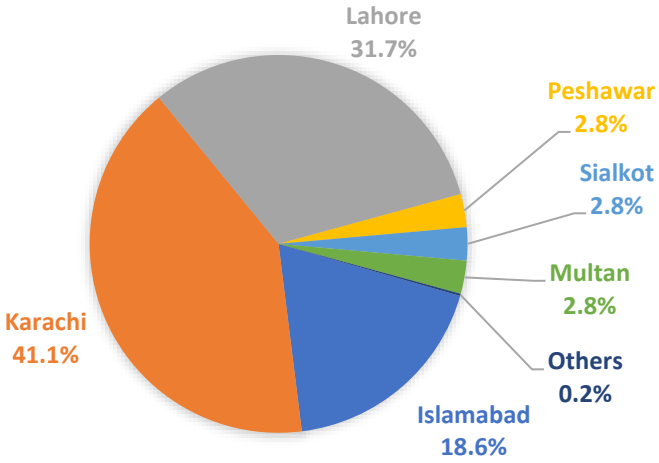
34. **In Pakistan, total air cargo throughput adds up to approximately 330,000 tons per year (10% being domestic and the rest international) with Karachi as the main cargo airport in the country, handling about 56 percent of international shipments by air** (Figure 13 and Figure 14). In the case of domestic cargo, exports and imports throughput is balanced, although for international freight, there is a large imbalance in favor of exports, whereby loaded tonnages double unloaded tonnage. Lahore and Karachi, in that order, handle approximately 30-45 percent of the cargo, domestically and internationally, whereas Islamabad accounts for 15-20 percent. Other airports do not represent meaningful cargo volumes.

Figure 13: Domestic air cargo: Total tons handled, by airport (2017-8)



Source: World Bank based in PCAA

Figure 14: International air cargo: Total tons handled, by airport (2017-8)

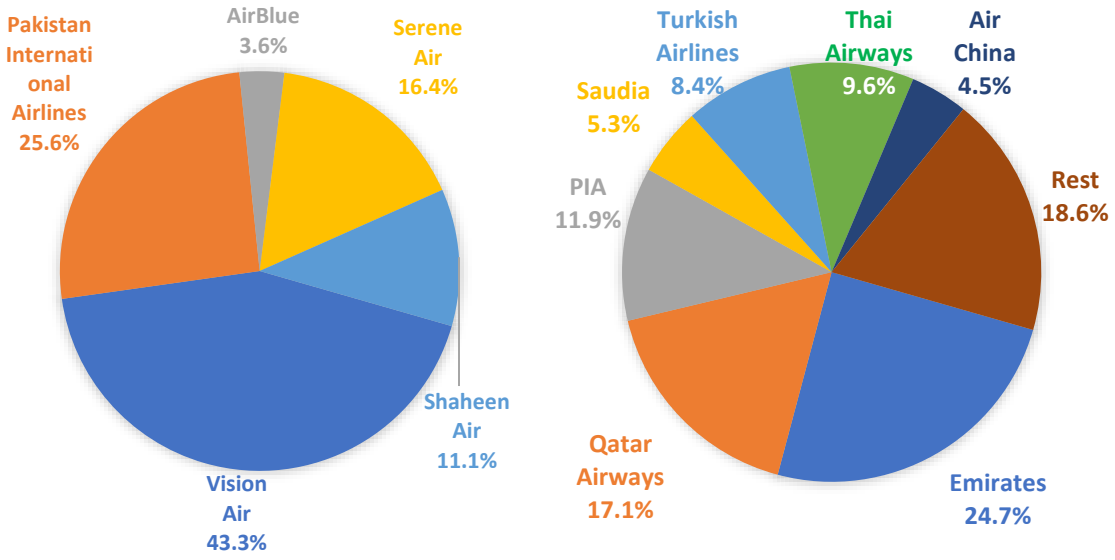


Source: World Bank based in PCAA

35. **Regular widebody freighter services are operated by Etihad (from Karachi), Qatar Airways (from Karachi, Lahore and Sialkot) and Turkish Airlines (From**

Karachi). As a point of reference, Figure 15 presents the distribution of cargo volumes by carrier. What can be observed is that, despite the presence of dedicated freighters, two of the three most dominant airlines (Emirates and PIA) only operate passenger aircraft in Pakistan. In fact, Emirates is the most dominant airline, with about 24 percent of the total tonnage (both inbound and outbound) followed by Qatar Airways (17 percent), PIA (12 percent), and Thai Airways (9 percent).

Figure 15: Domestic (Left) & Int'l (Right) air cargo: Total tons handled, by carrier (2017-8)



Source: World Bank based in PCAA

36. **The very large presence of passenger widebodies operated by gulf airlines provides large quantities of cargo belly-hold capacity.** Emirates Airlines, handling over a third of the international air cargo market, operates about 60 weekly passenger frequencies to Dubai, from different airports in Pakistan. Unlike its competitors, it only operates with B777 widebodies, in its "Extended Range" series, which affords them larger seating and especially cargo belly hold carrying capacity. Unlike PIA, that needs to enter commercial agreements with a connecting carrier to take goods beyond any airport it flies to, Gulf carriers can make use of their own (online) networks to transfer cargo at their own hubs.

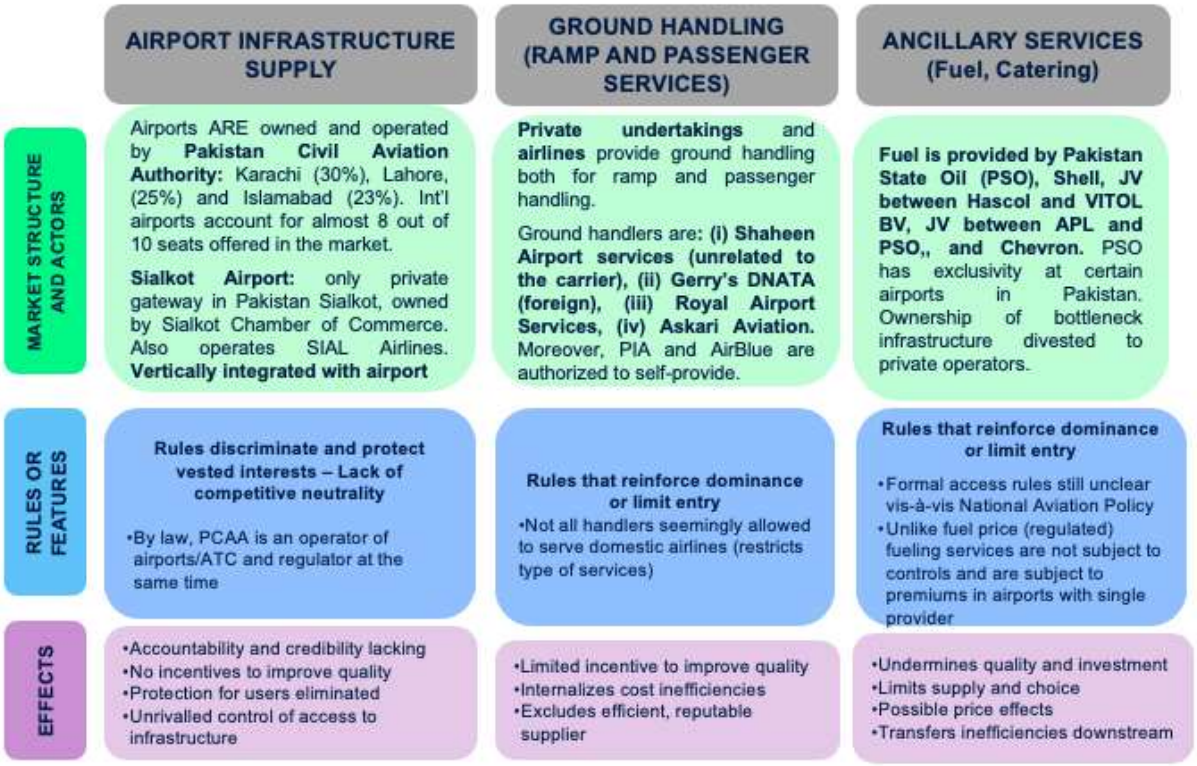
II. GOVERNMENT INTERVENTIONS AND OTHER FEATURES AFFECTING COMPETITION IN THE SECTOR

37. **This section explores how government interventions and other features affect the air transportation value chain.** The World Bank's MCPAT Methodology (see Annex I, Box 6, Figure 18 and Figure 19) is a useful instrument to classify government interventions and other features that ultimately have an impact on competition. The later interventions can be classified according to their effects on the market, namely

whether they: (i) restrict entry or reinforce dominance; (ii) facilitate collusion or limit firms' choice of strategic variables; or (iii) protect vested interests or provide an undue advantage to certain players.[6]

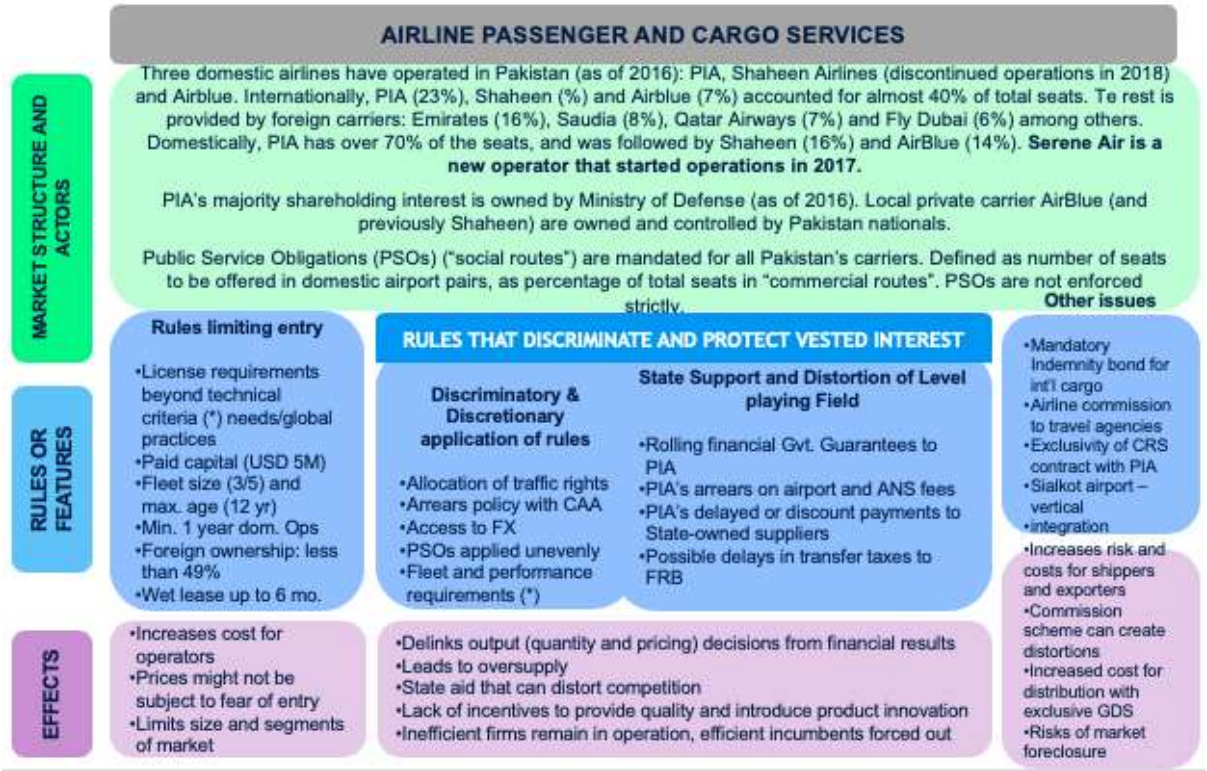
38. **A stylized air transportation value chain is summarized in Figure 16, where key market structure and actors are presented, as well as the restrictions to market functioning posed by government interventions classified by their effect on the market.** Given its overall structure, four groups of markets are key to the understanding of the dynamics of the value chain and will form the focus of this assessment. These are: (i) airport infrastructure; (ii) ground handling services (ramp and passenger services) and ancillary services (fuel, catering[7], etc.), and; (iii) air services (both passenger and cargo). Table 2 and Table 3 below present a summary of the main barriers to competition found in each segment.

Figure 16: Air transport supply chain



[6] Such a classification does not preclude the possibility that such interventions may play a legitimate role in achieving valid policy objective – yet with potentially negative effects on the market. This provides an opportunity to develop less distortive alternatives and to balance positive and negative effects more thoroughly.

[7] On January 16, 2017, the CAA accepted the CCP's Opinion regarding the re-advertisement of a tender for the award of a contract for a flight kitchen at the New Islamabad International Airport. In accordance with the Opinion, CAA re-advertised the tender and invited airlines, flight caterers and hotels to bid for the award of land space with the purpose of establishing a non-exclusive flight kitchen facility at the new airport of Islamabad. However, after the award of the tender, the CCP found that CAA was discriminating private caterers operating inside CAA premises by charging them a meal royalty tax per meal on international and domestic routes. As a consequence, CCP recommended CAA to amend the meal royalty rules on December 31, 2018. Subsequently, the CAA established in its NAP 2019 that the meal royalty would be waived-off (p. 39).



Source: World Bank.

A. Airport Infrastructure Supply

i) Regulation and operation functions have not been separated

39. **The Civil Aviation Agency of Pakistan (CAA or PCAA) is a public sector autonomous body working under the Federal Government of Pakistan, in charge of technical regulation in the aviation sector** (see Box 1 below)**.** As such, CAA oversees safety matters in Pakistan, ensuring the compliance with the International Civil Aviation Organization (ICAO) Annexes. While Pakistan Civil Aviation Authority is entrusted with the technical regulation of civil aviation activities, it is also the owner and operator of all civilian airports (but Sialkot) and air navigation services in the country. This is contrary to ICAO guidelines, advocating to separate regulatory and operation functions in the sector.

40. **In its role of economic regulator, CAA is mandated with the oversight of monopolistic services pricing**. At the same time, CAA, as a 'dominant undertaking', is the provider of such services, setting charges to recover its costs (plus a return). This concentration of functions leaves users of infrastructure services unprotected (airlines and passengers) in the presence of such conflict of interest, in terms of prices charged and quality rendered (see Boxes 1 and 2 below, and Figure 17 below).

Box 1: Institutional sector governing aviation in Pakistan

The Aviation Division is a department of the Federal Government of Pakistan acting directly under Prime Minister of the country. The Division spearheads strategy and policy of all matters related to civil aviation in Pakistan. Among other things, it monitors and sets the state-owned airline's strategic directions. The Federal Secretary of the Aviation Division is Chairman of the Board of Directors of Pakistan International Airlines, as well as Chairman of the Civil Aviation Agency of Pakistan.

Economic regulatory functions in the sphere of Civil Aviation in Pakistan are performed also by the Civil Aviation Agency: "…economic Oversight section of CAA was established in 2008 as per requirements of ICAO Doc 9082 to regulate the rate of Return on Investment (ROI) of monopoly suppliers of air transport services such as Air Navigation Services (ANS) and Airport Services (APS)". As a result, CAA is both responsible of setting the level for infrastructure regulated charges and at the same time providing oversight as far as fair pricing is concerned.

The Civil Aviation Agency (CAA) of Pakistan is also the technical and economic regulator for downstream infrastructure services, defining access policies to different airport services segments, like passenger and ramp handling, or fuel provision. Most importantly, CAA acts as the slot coordinator in the country. Slots establish a time window for carriers to access bottleneck airport aeronautical infrastructure (boarding bridges, taxiways, runways) to conduct their operations. Slot coordination is also conducted within CAA, whereas International Air Transport Association (IATA) Guidelines recommend nominating an independent slot coordinator.

CAA is a public sector autonomous body working under the Federal Government of Pakistan, in charge of technical regulation. As such, CAA oversees safety matters in Pakistan, ensuring the compliance with the ICAO Annexes. While Pakistan Civil Aviation Authority is entrusted with the technical regulation of civil aviation activities, it is also the owner and operator of civilian airports and air navigation services in the country. This is contrary to ICAO guidelines, advocating to separate regulatory and operation functions in the sector.

In the current institutional set up, all functions of policymaking and technical regulator are concentrated under the CAA, that also perform roles as economic regulator, slot coordinator and owner and operator of bottleneck infrastructure. The ties between the regulator and the regulated entity, between the Aviation Division (ergo CAA Board) and the national carrier PIA also persist as per the governance structure of the airline. This conflict of interest-ridden environment is prone to breach competitive neutrality principles, as equal footing between private and state-owned carriers does not exist.

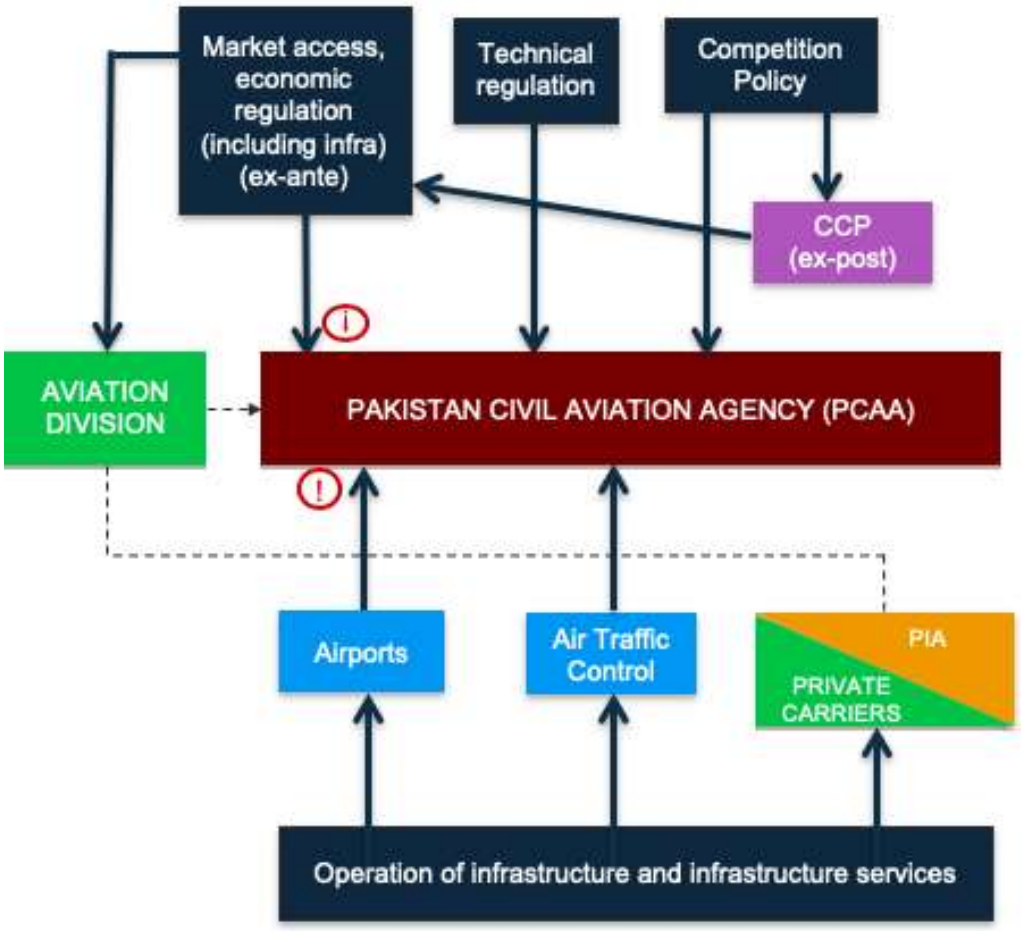
Source: Authors' elaboration.

Box 2: Potential conflicts of interest between regulatory and operational roles

As owner and operator of airports, and as economic and technical regulator (concerned with competence, quality and security) CAA established a bidding for such facilities on exclusivity basis. Moreover, the CAA established a Joint Venture scheme for the prospective entrant that would directly put the Agency as direct beneficiary of the commercial proceeds of such newly formed entity. The Commission recommended that, in order to eliminate the concerns for lack of competition: (i) the party winning the tender seeks exception from the commission, where the onus to demonstrate that benefits of maintaining a single provider outweigh its negative effects are on the entrant; (ii) avoid the creation of a monopoly; (iii) resolve the situation of conflict of interest of CAA, resulting from the joint venture; (iv) refrain from excessive pricing if access charges are implemented instead of revenue-sharing; (v) allow, whenever possible, to maintain self-provision for airlines from off-airport locations, or 3rd party providers.

Source: Civil Aviation Agency.

Figure 17: Institutional framework governing civil aviation



Source: World Bank.

B. Ground Handling Services and Ancillary Services

i) Some ramp handling firms operate in the market but their scope of services is limited to specific client types, effectively reducing choice for airlines

41. **Pakistan's CAA is the technical regulator in the field of civil aviation in the country, and is in charge of the certification of any potential entrants to the ramp handling sector.** As choice of provider exists, ramp services are not capped or fixed by regulation. The key policy document in the sector, NAP-2019, does not explicitly establish which market access rules. Self-handling is allowed in Pakistan for ramp and passenger services (see Box 3 below).

Box 3: National Aviation Policy (NAP) 2019

The government of Pakistan has recently enacted a new revision to its National Aviation Policy. The document's main aim is to put forward the State's long-term vision for the aviation sector, as a conduit to develop trade, tourism and the economy at large. The Policy is underpinned by a vision that sector liberalization and tax reduction have a long-lasting positive impact on the national economy, particularly in developing economies.

The Policy contains several pillars that can be considered as the building blocks of an efficient and safe aviation sector, namely:

i. Fostering of competition between domestic operators, primarily through the establishment of a level playing field in the market. In line with this objective, the Policy foresees the establishment of an Economic Oversight Cell within Pakistan Civil Aviation Authority's (PCAA), with the purpose of: ensuring the economic regulation of the sector's bottlenecks;, supervising the financial stability of airlines; controlling airline mergers and acquisitions; assessing domestic and international code-share alliances and other joint venture agreements, immunized international alliances between Pakistani and foreign carriers; analyzing biases or preferential routing, frequency allocation, slots, etc.; minimizing the risk of Airports Services (APS) and Air Navigation Service Providers (ANSPs) engaging in anti-competitive practices; ensuring non-discrimination and transparency in the application of charges; ascertaining that investments in capacity meet current and future demands in a cost effective manner; and protecting the interests of passengers and other end-users.
ii. Emphasizing the importance of pursuing bilateral liberalized policy with other countries on the principle of commercial reciprocity upon organic market growth, number of seats and code sharing;
iii. Considering taxes and duties' exemptions with the goal of boosting the aviation sector in Pakistan (e.g. airport infrastructure development, flight catering services, aircraft manufacturing industry, maintenance repair organizations, import of aircraft including aircraft engines and spare parts and supplies of all specification, ground support equipment, import or lease (wet/damp/dry) of aircraft);
iv. Promoting Public-Private Partnership (PPP) models for operation, management and development of small and medium-sized airports;
v. Revising rules on fleet size and age;
vi. Complying with international environmental and noise standards.
vii. Furthermore, it acknowledges the inherent conflict of interests that stems from the PCAA combination of the roles of regulator and services provider

Nonetheless, the Policy continues to adhere to certain principles that can be detrimental for competition outcomes. Among others, these are:

i. Continued role of PCAA as service provider and regulator for a period of two years, and, even after that period, only through the setting-up of a Regulatory Cell within PCAA financial and administrative autonomy (no full ownership separation is envisaged);
ii. Lack of independent slot coordinator;
iii. Foreign ownership restrictions for airlines (49% cap);
iv. Minimum fleet size;
v. Maximum age of aircraft;
vi. High paid-up capital;
vii. Restrictions on entrants to deploy capacity in international routes;
viii. Restrictions to competition in airport downstream services;
ix. Lack of mechanism for State aid control in the aviation sector that assesses the impact of aid measures in competition (e.g. exemption of taxes and duties).

Source: Pakistan's National Aviation Policy, 2019; Authors' elaboration

42. **Both PIA and Airblue have regulatory approval from CAA to conduct ramp self-handling, and all three domestic airlines (PIA, Airblue and Shaheen) self-provide in passenger handling**. Currently, there are at least 3 ramp handling companies established in Pakistan, among others Royal Air Services, Gerry DNATA, Shaheen Airport Services (no ownership links with Shaheen airlines). However, some of the ramp handlers' scope of service is reduced according to the type of client (domestic or international airlines) which de facto restricts the choice of provider for users to a single provider.

ii) Arrangements in fueling services can raise barriers for new entrants

43. **Regarding the supply of fuel at airports in Pakistan, CAA is also both the technical regulator and *de facto* economic regulator, but also owner and operator of the facilities on which fuel suppliers operate.** As per NAP, competition in the provision of fuel is a policy objective of the government, ensuring *"competitive market conditions where possible"* and that *"supply* (…) *will not be in a monopolistic manner, and if prevalent due to non-availability of forth coming suppliers, excessive pricing is not charged to the operators. In an oligopolistic situation (few suppliers), PCAA's Economic Oversight will ensure that collusion and price-fixing by suppliers does not take place. Aviation Division and Ministry of Petroleum and Natural Resources will work together to prevent monopolistic trends in the ownership of fuel supply infrastructure at all airports and may allow new market entrants of aviation fuel suppliers."*

44. **Currently, there are three providers of fuel supply in Pakistan, namely PSO (Pakistan State Oil), Shell, a joint venture between Hascol and VITOL BV, a joint venture between PSO and Attock Petroleum Limited (APL), and Chevron at major airports** (operations of Chevron in Pakistan were taken over by Total). As owner and operator of airports in Pakistan, CAA has entered exclusivity agreements (preceding the creation of the Competition Law) for the operation of airport fuel infrastructure in Karachi Airport. Bottleneck infrastructure consisting of underground pipelines was further divested to private parties. In the absence of access regulation, incumbents controlling upstream infrastructure could effectively engage in refusal to deal behavior, which can result in exclusionary anticompetitive effects.

45. **Invoking the mentioned exclusivity arrangements, access to build additional storage facilities was denied by CAA to a new potential entrant.**[8] The exclusivity agreement, however, seemingly allows for duly licensed operators to use the mentioned infrastructure to provide fueling services at the ramp. In this context, it should be further considered if other limiting factors might represent a concrete limitation to deny such access.[9] In this context, Furthermore, whereas jet fuel prices are regulated by the Ministry of Energy, the fueling charges are not. Reportedly, in those airports where a single fuel provider exists, a premium is charged for such services.[10]

[8] Background information provided by CCP ("Background detail of case relating to fuel services").
[9] The lack of available physical space is usually a common limitation to allow for additional providers enter the ground handling market, albeit it is not known if this is the case or not in Karachi Airport.
[10] As informed by Pakistan's carriers during a World Bank Mission, Pakistan, February 2018.

Table 2: Summary of Government interventions affecting competition: Airport infrastructure supply & Ground handling services

Type of rules	Typology of barrier	Value chain segment	Barrier	Issues	Anti-competitive effects
Rules that discriminate and protect vested interests	Lack of neutrality vis-à-vis government entities	Airport and ANS infrast-ructure supply	Regulation and operation of infrastructure services have not been separated	CAA is regulator and owner/operator of the airport and ANS infrastructure	Leaves users of the infrastructure unprotected from increases in charges of the monopoly operator, which is also regulator
Rules that reinforce dominance or limit entry	Absolute ban on entry	Ancillary services	Denied entry for fuel provider	Exclusivity agreements prevented entry of new providers	Curbs competition as no new entrants can access the market
	Relative ban on entry and expansion of activities	Ground handling	Ground handling providers restrict services according to client	Some handlers can only offer services to domestic or international airlines	Restricts effective competition as supply is only allowed in certain subsectors

Source: Authors' elaboration.

C. Air Services: Passenger and Cargo[11]

i) Financial standing criteria for air carriers is enforced unevenly

46. **Carriers undergo financial fitness tests to maintain the validity of their AOC (Air Operator Certificate).** This is relevant for consumer protection purposes (e.g. risk of passenger losses in case of bankruptcy) and safety reasons (e.g. possible neglect of safety-relevant areas of the airline). In Pakistan, the following financial requirements shall be mandatory: (i) Paid up capital shall be free of losses and reviewed periodically by PCAA Board; (ii) Owner's equity (net worth) shall not be negative at any point in time; (iii) Minimum Equity (net worth) to Assets Ratio should be at least 5%, gradually increasing by at least 1% per annum up to a minimum of 10% over a period of next five years.[12]

47. **Whereas all the mentioned criteria are strictly imposed on private owned carriers, the government has dispensed PIA from complying with such norms**. To the extent possible, public and private businesses should conduct their activities under the same regulatory environment in order to avoid regulatory advantages for State-Owned Enterprises (SOEs) that distort competition in the marketplace. The lack of equal footing when implementing such rules violates principles of competitive neutrality, putting private sector airlines at a disadvantage vis-à-vis the national carrier.

ii) Public Service Obligations (PSOs) exist on domestic routes, yet they are not enforced evenly

48. **Pakistani scheduled air carriers are mandated to operate domestically on "*at least one primary or one secondary route"*** defined as part of their total capacity—Available Seat Kilometers (ASKs) flown on domestic Trunk Routes. Trunk routes are defined as

[11] This refers to regular commercial air services.
[12] NAP-2019

any route between: (i) Karachi; (ii) Lahore; (iii) Islamabad; (iv) Quetta. The allocation of the mandated ASKs per route tier is demonstrated in Table 9, in Annex II.[13]

49. **Except for Faisalabad and Multan, where three carriers provide air services, PIA is the only airline operating into the other aerodromes.** Regarding the Secondary routes, only 9 out of 24 (almost 40 percent) of the airports have regular flights, and in all cases PIA is the sole carrier serving these cities. De facto, private carriers are being exempted from fulfilling their public service obligations, usually on non-profitable routes, which exacerbates the need for government support to the state-owned airline.

50. **From a competition standpoint, the discussion merits further analysis, for instance, whether to make more transparent the actual costs of such obligations taken de facto by PIA, so that the implicit state support granted to the airline can be compared to the actual costs incurred of those implicit PSOs.** As a key principle, PSO-related costs should not be overcompensated by the state, to the state-owned provider, as a way to prevent cross-subsidization to those undertakings performed on commercial basis. Many models of PSOs exist that can help to maintain such services to achieve social and economic development goals.

iii) Preferential access to foreign exchange of national carrier

51. **The airline business is a capital-intensive that requires access to financing, and services and intermediate goods (e.g. parts, aircraft manufacturer services) typically produced abroad.** Purchases abroad need an authorization to use foreign exchange from government authorities. Industry representatives have indicated that the delays in the approval of such transactions does not coincide with the necessities of a time-sensitive industry like commercial aviation. And that, above all, there are discretionary practices in terms of the approval process of such transactions. Reportedly, the approval process and availability of foreign exchange prioritizes the national carrier PIA, in detriment of private airlines that experience lengthy delays to access hard currency.

iv) Preferential allocation of traffic rights to State-owned airline

52. **Whenever traffic rights negotiated in Air Service Agreements (ASAs) are not enough to satisfy the requests of designated carriers in Pakistan, such rights should be allocated in a transparent and prescribed manner to avoid discrimination.** The policymaking body in Pakistan did express that PIA is given priority in the allocation of traffic rights, as per the government's policies.[14] Currently, the diminished capabilities of PIA do not necessarily allow the carrier to provide such capacity. Nonetheless, this practice can impact negatively the quality of services

[13] To qualify for the approval of the forthcoming seasonal schedule, the license of Regular Public Transport (RPT) operators must also ensure that at least 80% of the mentioned schedule is flown, and 80% punctuality and regularity is maintained. Operators not adhering to the above requirements shall be suspended for 90 days and if remedial action is not demonstrated, RPT may be cancelled after 180 days.

[14] The latter is contrary to NAP-2015 (Para 4.5.c) that establishes: (i) when bilateral capacity constraints exist, available rights shall be allocated amongst the competing air carriers proportionate to their output, regularity, punctuality, safety record, fleet registration and financial condition shall also be quantified and considered while allocating capacity; (ii) unutilized capacity shall be reallocated to those petitioning it.

offered and the ability of other more efficient players to remain in the market, as they cannot access traffic rights.

v) High paid-up capital requirements deter entry

53. **Commercial air transport undertakings in Pakistan are to obtain a RPTL (Regular Public Transport License) to commence operations.** In other to obtain a RPTL, mandatory paid up capital is set in PKR 500 million (USD 5 million). In addition, air carriers applying for an RPTL shall deposit PKR 100 million as security deposit (50 percent in cash, and the rest as Bank guarantee). An amount equal to 3 billing cycles shall also be deposited before the commencement of operations (billing assurance). After the successful issuance of the license to operate, an airline is bound to start its operation within 365 days otherwise its security deposit will be forfeited. In case of outstanding dues exceeding an amount equal to 90% of security deposit/bank guarantee, the operations of airline shall be suspended. Before being granted/renewal of license, the applicant must submit third-party verification that it has acquired the necessary capital to conduct its operations.

54. **As customary practice, capital requirements of such kind are typically enforced by countries to deter undercapitalized and less committed undertakings to enter the market.** Quality regulation is a legitimate way to shape the incentive framework for operators, and potentially avoid future negative impacts of bankruptcies, which always carry a social loss, especially in view of the public service characteristics of air services. Nonetheless, the range of capital requirements varies by country. In less capital-abundant economies, imposing high requirements in terms of paid-up capital can have detrimental effects on entry, as it reduces potential entry.

55. **The requirements imposed in Pakistan are substantially higher than in other comparable countries.** In Australia, the European Union (EU) and the United States, Saudi Arabia, equity requirements do not exist. Instead, financial viability of the potential entrant is taken into consideration. Similarly, both Australia and EU require no fixed paid-up capital; potential market entrants must only provide information on the firms' financial background.

vi) Stringent minimum fleet size requirements can affect potential entry and expansion

56. **Countries might impose minimum fleet and age requirements as a way of ensuring safety and continuity in air transport services**. In Pakistan, the regulation establishes that the minimum fleet size for domestic operators shall be three (3) airworthy aircraft and for international operations shall be five (5) airworthy aircraft (for regular commercial carriers). Calendar age of all types of commercial aircraft, operated by Pakistani operators shall not be more than twelve (12) years at the time of induction with minimum of 35% remaining operational life. Operational life expectancy shall be based on international standards considering limitations on maximum hours, flight cycles, chronological age and environmental exposure. Aircraft older than twenty (20) years, being operated by Pakistani operators, shall not be allowed to continue operations in Pakistan. For charter operation of passenger aircraft (domestic/international) minimum requirement shall be two (2) airworthy aircraft. Meanwhile, for cargo operation, one (1) airworthy aircraft shall be acceptable

57. **Whereas avoiding disruption in services is legitimate policy prerogative, stringent fleet size requirements also can have detrimental effects on potential entrants**. In many countries, minimum fleet requirements do not exist, leaving this to the carrier to prove technical-economic aptitudes as per its business and operations' plan submitted to the authorities during the certification stage. Fleet size minimums imposed in Pakistan are high compared to a wide range of countries. For instance, Australia, the European Union and the United States have very lax fleet requirement (only one aircraft) posing no additional barriers to entry. Moreover, stringent aircraft age restrictions are not commensurate with international practice, increasing the financing needs of the operators, hence acting as an entry deterrent.

vii) Operational restrictions increase costs to enter the air services market

58. **Pakistani designated airlines shall be eligible to commence operations on international routes after one year of continued satisfactory operations on domestic routes**. Continued satisfactory operations would entail the following performance parameters: (i) Flight Punctuality above 80; (ii) Flight Regularity above 95%.; (iii) No outstanding complaints due to Air Passenger Rights as promulgated by PCAA; vi) Satisfactory operations on socio-economic routes as specified in this policy; v) No outstanding PCAA dues.

59. **Whereas it is in the purview of the government to monitor the level of service provided by carriers, there is limited or no technical justification to impose such market access restriction, nor it is commonly found international practice**. From a competition lens, limiting the scope of services in such way, creates a disincentive to enter the market, and imposes an extra burden on new competitors that cannot operate on more profitable international routes, tilting the playing field vis-à-vis incumbents.

viii) Limited wet leasing stifles supply and flexibility to changes in market conditions

60. **Carriers necessitate airworthy aircraft to conduct business. For distinct reasons, airlines might choose to increase output temporarily, incorporating aircraft under different operational modalities to cover fleet shortages**. Financial leases are very common, as well as "wet" leasing (where the aircraft is provided as turn-key together with crew, maintenance, and insurance). In Pakistan, wet leases are allowed up to a maximum of 180 days for temporal wet leases for foreign registered aircraft, under exceptional circumstances. In addition, wet leased aircraft shall not be older than 12 years. Whereas there might be safety considerations in accepting these contracting modalities, such transactions are nowadays very common and bring elevated levels of safety compliance depending on the country of aircraft registration (that usually maintains oversight over aircraft and crew). Such limited flexibility in Pakistan can limit the opportunity of air carriers to exploit favorable market conditions, typically private carriers. In countries like the United States, no time limits are imposed on such operations, provided this is for international operations. In the EU, on the other hand, wet leases from the EU have been extended to 14 months.

ix) Substantial ownership and control requirements limit the pool of entrants

61. **In Pakistan, airlines shall be permitted to take equity stakes up to 49% owned by non-nationals, which in practice awards substantial ownership and control to Pakistani nationals in all undertakings performing air transportation in the country**. Whilst this practice is widespread, in countries where access to capital is scarce, limiting the pool of entrants can be in detriment of the development of the sector, limiting supply and passenger choices.

x) Whereas Air Service Agreements almost always contain restrictive provisions, the country has gradually allowed for more flexibility in terms of market access

62. **According to Pakistan's National Aviation Policy (2015)** ***"Pakistan shall pursue bilateral open skies policy with other countries on the principle of reciprocity"***. As far Pakistan's aviation policy, the country has gradually relaxed traffic rights restrictions with its bilateral partners.

63.

64.

65. **Table 8** in Annex II shows a number of provisions with selected countries, accounting overall for about 60 percent of the total seat supply to international destinations from Pakistan. ASAs with partners like United Arab Emirates (UAE) appear more liberal in nature. Aside from this, Air Service Agreements negotiated by the country still maintain capacity and designation provisions, imposing restrictions on frequency, number of carriers and points.

66. **Restrictive designation, capacity and pricing clauses in ASAs bring about several negative effects from a competition standpoint**. The most common one is artificially capping the number of competitors in the market (designation), hence restricting entry. Setting restrictions in capacity is the most common regulatory feature in ASAs (restricting supply to a maximum number of seats or weekly frequencies) hence potentially limiting output. Pricing clauses also introduce frictions in setting air fares, potentially creating imbalances in the supply and demand dynamics. In the case of Pakistan, two noteworthy advances in terms of increasing market access, are the liberal regime agreed between Karachi and Dubai (with UAE) and the introduction of more liberal conditions to operate to KSA (both in regular and Hajj operations – see Box 4).

Box 4: Competition policy enforcement and the Hajj market

Pilgrimage to Mecca (Hajj) creates a strong demand for additional air services into Saudi Arabia over the short duration of festivities. Historically, a country quota is assigned by the Kingdom of Saudi Arabia (KSA) to operate such services. Due to its sensitiveness, the routes to Medina and Jeddah during Hajj season have been traditionally regulated on strict terms, and subject to market access restrictions in terms of the number of carriers allowed to serve this market (single designation), as well as capacity provisions (number of seats) commensurate with the Hajj quota assigned by KSA.

Under the original 1972 Bilateral Air Service Agreement and subsequent Memoranda of Understanding (MoUs) between Saudi Arabia and Pakistan, only both national carriers PIA and Saudia could operate these routes. In 2008, two additional Saudi airlines were allowed into the market on a temporary permit basis following a partial liberalization policy pursued by KSA. A commercial agreement between both carriers mandated PIA to pay Saudia a royalty per passenger carried above the established quota, fixed at 50 percent of the total capacity assigned to each carrier for Hajj. The Air Service Agreement also established a statutory mechanism for the fixing of air fares under mutual accord between the parties.

The Competition Commission of Pakistan (CCP), recommended the revision of the relevant agreements due to its anti-competitive nature, to allow for: (i) entry of additional carriers established in Pakistan; (ii)

elimination of market and revenue sharing agreements and commercial agreements involving the payment of royalties; (iii) the elimination of fare agreements. After the implementation of CCP's recommendations, market concentration indicators improved notably.

Source: World Bank.

67. **Most recently, developing countries like Cambodia, Georgia, Armenia and Dominican Republic have set very liberal aviation policies, creating very competitive marketplace conditions, allowing for the unrestricted entry of airlines, ultimately registering exponential growth in air passenger traffic**.

xi) Indirect subsidies granted to Pakistan International Airlines constitute State Aid and distort competition

68. **State Aid is typically defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities when the following conditions are met: (i) an intervention by the State or through State including grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential term; (ii) the recipient obtains an advantage on a selective basis; (iii) competition has been or may be distorted** (see Box 5 below for a description of the treatment of State aid in the EU)**.** The absence of competitive neutrality results into unequal treatment of the airlines. For instance, user airlines pay various types of charges to the CAA for the services it provides. One such category of charges is called Air Navigation charges. PIA occasionally defaults on its payments. Despite this, PIA continues using services. However, in case, any payment is delayed by a private sector airline, its planes are not allowed to take the route/ commence the flight. The dues have to be cleared along with any delayed payment surcharge. As per policy all airlines are supposed to pay the charges, however, CAA's practice allegedly favours PIA. To ensure competitive neutrality, it is necessary that regulators and regulates should not overlap, and all players in the market be treated equally.

69. **As regards Pakistan International Airlines P&L accounts, the carrier suffered losses (financial costs included) in the range of PKR 77 billion (USD 737 million) during 2015-2016**. The company's Balance Sheet shows negative equity attributable to accumulated losses for PKR 250 billion, or USD 2.5 billion.[15] In the past, the Government of Pakistan provided direct capital injections to PIA to avoid the carriers' bankruptcy. Whereas all direct subsidies to Pakistan International Airlines have been discontinued, indirect subsidy mechanisms remain. Government guarantees are still provided for PIA to undertake commercial loans, including aircraft leases. Such benefits are not available to PIA's competitors.

70. **As per the company's 2015-2016 financial reports, PKR 88 billion were received in short and long-term GOP-guaranteed financing**. Guaranteed borrowings (many of which, are continuously rolled over upon maturity) represent a much-needed cash flow source, in the context of PKR 33 billion in (record-high) yearly operational losses. The carrier is de facto exempted to pay for airport and ANS services provided by PCAA, and is not honoring or delaying payments to other government or state-owned entities (accumulated PKR 42,000 million, in payables for fuel, airport and ATC

[1515] Pakistan International Airlines Financial Statements, 2015, 2016

charges provided by CAA). No such benefits, in terms of guaranteed access to debt and rolled arrears with other government-owned service providers are conferred to PIA's private competitors.

71. **Among other things, state support may cause the aided entity to make output allocation decisions in disconnect with its financial outcome**. Reportedly, despite the large losses incurred in the domestic market, PIA's large offering of capacity creates an excess in supply, negatively affecting market yields for all participants, turning domestic routes below breakeven costs, and curving the financial stability of private competitors.[16]

Box 5: State Aid treatment in the EU

A competitive neutrality (CN) framework is one (i) within which public and private enterprises face the same set of rules and (ii) where no contact with the state brings competitive advantage to any market participant. It should be noted that none of the competitive neutrality principles are specific to SOEs. But all of them can pertain to them because the SOEs can benefit from others being prevented from entering markets (and vice-versa); the SOEs can enjoy cost and revenue advantages (and disadvantages) and SOEs can benefit from preferential rules, or enforcement (and vice-versa).

The issue of State Aid is strictly monitored and enforced in many countries, as it represents a clear deviation from Competitive Neutrality principles, where SOEs and private sector participate in the production of the same goods or services. Perhaps the most widely known regulatory framework dealing with State Aid can be found in the European Union. As a conduit to maintain competitive neutrality in the airline sector, EU's State Aid Rules have been applied in a handful of cases, mostly dealing with air carrier restructuring in Eastern European countries.

Three main guiding rules apply in the EU: (i) Market Economic Investor Principle – where terms and conditions are acceptable to a private investor under normal market economy conditions; (ii) Horizontal Guidelines on Restructuring Firms in Distress; based on a restructuring plan, compensatory measures to promote competition, and own contribution. "One-time, last time" principle is enforced, after which airlines are expected to conduct their business without additional support and based on market principles; (iii) Incompatibility of State Aid to recover Operating losses, except for PSOs and socially relevant endeavors. Moreover, EU rules demand that State Aid is made transparent by individual states.

Source: http://ec.europa.eu/competition/state_aid/overview/index_en.html.

xii) Conditions for carriage of exported perishables by air are disadvantageous for shippers

72. **Stakeholders in the air cargo industry in Pakistan have voiced their concerns regarding the practices of certain foreign carriers that control between 50-60 percent of the total tonnage exported by air, especially for transporting perishable products that have a short shelf life.**[17] The local carrier PIA only holds 10 percent of the market share of air cargo market, and has increasing problems to cater for the demand of shippers, in view of its financial problems. Foreign carriers used to accept export cargo only under the condition of receiving an indemnity bond from shippers and forwarders. Indemnity bonds allow the carrier to deny any monetary claims from its clients, in the case of mishandling or any other cause (other than force majeure). Such rights to seek compensation for negligence (or other cause) are protected by international conventions and stipulated in the conditions of carriage (usually printed

[16] Based on discussions with industry stakeholders, World Bank Mission, February 2018.
[17] Air cargo agents have also voiced concerns about the level of rates for perishables charged by gulf airlines. Such claim merits further study.

in the reverse of the master airwaybill, emanating from IATA, Resolution 600b). Such practice, which still appears to be carried-out by PIA, would merit further study, as it might be considered an abusive practice by players holding a sizeable percentage of the market. Ultimately, this might impose large losses for agricultural exporters, that have limited ability to hedge risks.

xiii) Vertical integration between airport and airline can affect competition conditions

73. **NAP-2019 highlights that the private sector shall be encouraged to construct or operate new or existing airports on (BOO) Build, Own & Operate /(BOT) Build, Own & Transfer basis or other arrangements.** So far, civilian use airports in the country are still owned and operated by PCAA. An attempt to introduce private sector participation in CAA-controlled airports did not successfully materialize in the past.

74. **The exception to the former is Sialkot Airport. Sialkot Chamber of Commerce & Industry was given approval for the construction of an International Airport at Sialkot on Build, Own & Operate (BOO) basis.** The greenfield airport started operations in 2007 and nowadays has 9 international routes and 1 domestic route to Karachi. Meanwhile, Sialkot airport is the sole owner of SIAL airlines, a startup carrier that has been recently provided with an AOC (Air Operator Certificate) by PCAA. The carrier is expected to initiate services soon, although the specifics of SIAL's operations are not publicly known, notably if the airline will be based in Sialkot Airport or not, and the extent of route overlap with other incumbent airlines.

75. **Whereas there is a legitimate rationale for vertical integration in certain instances (for instance, generation of efficiencies), direct vertical integration between airport and airlines are typically discouraged as they might bring undesirable effects for competition.** This occurs when there is dominance in the upstream market. In such cases the upstream dominant player (airport) might try to foreclose the downstream, competitive market, by exercising its power.

76. **Table 3 provides a summary of Government interventions restricting competition along the air transportation value chain**.

Table 3: Summary of Government interventions affecting competition: Air services

Type of rules	Typology of barrier	Barrier	Issues	Anti-competitive effects
Rules that discriminate and protect vested interests	State support measures	State Aid to Pakistan International Airlines	PIA receives indirect subsidies in the form of guarantees and free services rendered by CAA	State Aid can distort competition in diverse ways, causing: (i) inefficient output and pricing decisions; (ii) inefficient firms to remain in the market, and efficient firms to exit; (iii) discouragement for efficient firms to enter the market; (iv) distortions in investment decisions. Providing State Aid to an entity over its competitors: (i) allows the subsidized entity to take a larger share of the market than it would have had in the absence of that state aid, even if it was far less efficient than its competitors; (ii) removes the incentives to improve efficiency, sustain quality in services, and invest in product innovation; (iii) removes incentives to adopt costly, corrective efficiency-seeking measures. An aided entity can sustain larger levels of output and market share, regardless of expenses and pricing, as it can artificially cover its costs with cash inflows from guaranteed debt. In the absence of commensurate demand, oversupply of capacity generates

Type of rules	Typology of barrier	Barrier	Issues	Anti-competitive effects
				downward pressures on air fares, negatively affecting profitability for all players.
	Discriminatory or discretionary application of rules	Financial standing criteria for air carriers is enforced unevenly	Private carriers are subject to financial standing criteria not enforced on PIA	Tilts plain level field against private carriers, as less efficient firm can operate regardless of financial outcomes
		Public Service Obligations exist on domestic routes, yet not enforced evenly	Only PIA services social routes whereas NAP-2015 mandates all airlines to do so	Limits competition, imposes disproportionate burden on national carrier on routes that are typically non-profitable
		Preferential treatment of State-owned airline	National carrier is prioritized when allocating traffic rights negotiated by Pakistan	Affects quality of service, leaves more efficient players at disadvantage
Rules that reinforce dominance or limit entry	Requirements for registry	High paid up capital requirements	Entrants shall provide PKR 500M guarantee plus deposits	Reduces pool of potential entrants in a capital-intensive, low-margin industry such as aviation.
		Stringent fleet size and age requirements	Minimum fleet and aircraft maximum age requirements are stringent for the size of the industry and global practice	Deters entry and limits quality of service; allows inefficient firms in the market
		Operational restrictions on new entrants increase costs	New entrants are to operate for at least one year domestically to start international operations	Deters entry and limits quality of service; allows inefficient firms in the market
	Relative ban on entry and expansion of activities	Limited wet leasing flexibility	CAA imposes maximum 180-day wet leases and aircraft age restriction	Constraints supply responses to market changes and limits the ability of carriers to compete more flexibly
		Substantial ownership and control limits the pool of entrants	Maximum foreign ownership is 49 percent	Limits the pool of entrants
		Air Service Agreements still restrictive	Traffic rights, number of allowed carriers and point designation are limited	Limits output of carriers, possible market sharing, limits geographical scope.

71. To tackle the aforementioned restrictions along the air transportation value chain, a set of entry points for reform were identified and prioritized based on their importance and feasibility (see Table 4 in Section III below).

III. ENTRY POINTS FOR REFORM OF THE AIR TRANSPORT SECTOR

Table 4: Recommendations to strengthen competition in the air transport sector

Recommendations	Responsibility	Priority
1. Recommendations regarding airport infrastructure supply		
1.1. Consider assessing the possibilities for vertically unbundling the provision of airport infrastructure services from regulatory functions	Parliament and Government CCP	High
2. Recommendations regarding ground handling (ramp and passenger services)		
2.1. Provide a level playing field between all handling operators in servicing domestic airlines	PCAA and CCP	High
2.2. Provide a level playing field amongst fuel providers in accessing the airport infrastructure	PCAA and CCP	High
3. Recommendations regarding ancillary services (fuel, catering)		
3.1. Consider eliminating Pakistan State Oil's exclusive rights to supply fuel to certain airports attributed	PCAA and CCP	High
3.2. Clarify access rules to catering services	PCAA and CCP	High
4. Recommendations regarding airline passenger and cargo services		
4.1. Consider revising the scope of public service obligations that fall-upon domestic air carriers in order to better tackle existing market failures 4.1.1. Provide for a level playing field in terms of enforcing public service obligations	Government, Parliament & PCAA and CCP	Medium
4.2. Evaluate adopting international standards to guide licensing criteria so as to limit discretion 4.2.1. Ensure that financial fitness tests are equally applicable to carriers, including PIA	Government, Parliament & PCAA	High
4.3. Allocate traffic rights in a competitive and transparent way	PCAA	Medium
4.4. Consider the adoption of a framework including criteria for granting state support measures that limits the anticompetitive effects of the financial advantages, including in the air sector 4.5. Ensure PIA accesses foreign exchanges on an equal footing with private airlines	Government, Parliament & PCAA and CCP	Medium
4.6. Take stock and evaluate lifting restrictions that cap traffic rights with Pakistan's bilateral partners	Government, Parliament & PCAA	Medium

4.7. Evaluate lowering the capital requirements applicable to carriers 4.7.1. Reassess the ownership nationality rules that hinder the potential pool of market entrants	Government, Parliament & PCAA	Medium
4.8. Consider revising the minimum fleet size applicable in order to facilitate entry and expansion in the market	Government, Parliament & PCAA	High
4.9. Consider revising the wet lease regime so as to increase the financial options at the carriers' disposal	Government, Parliament & PCAA	High
4.10. Streamline the access regime to international routes by Pakistani airlines	Government, Parliament & PCAA	Medium
4.11. Revise the system of mandatory indemnity bond for international cargo	Government, Parliament & PCAA	High

III. ANNEXES

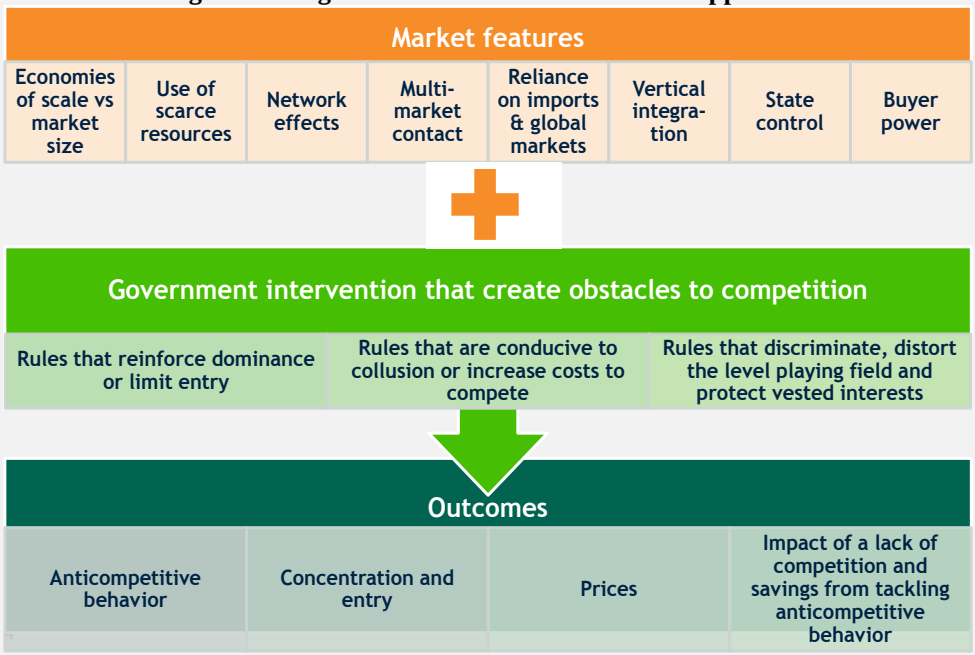
Annex I: The MCPAT Framework

Box 6: The World Bank Market and Competition Policy Assessment Tool (MCPAT)

The MCPAT is a methodological instrument of analysis developed by the WBG Markets and Competition Policy team to identify specific problems at the market level and prioritize competition tools accordingly—markets to be prioritized as well as the tools vary by country – and in some cases, complement each other. Having a practical nature and a focus on implementation, this methodology has been developed based primarily on the experience of the WBG Markets and Competition Policy Team implementing pro-competitive reforms in more than 45 developing countries. Therefore, The MCPAT provides a standardized and comprehensive tool with which to understand i) competition dynamics created by market feature (including supply-side characteristics and buyer characteristics) and ii) identify and assess the potential anticompetitive effects of Government intervention in markets. The interaction between these two elements can then be analyzed to determine the risk of anticompetitive behavior, both in terms of collusion and exclusionary abuse of dominance.

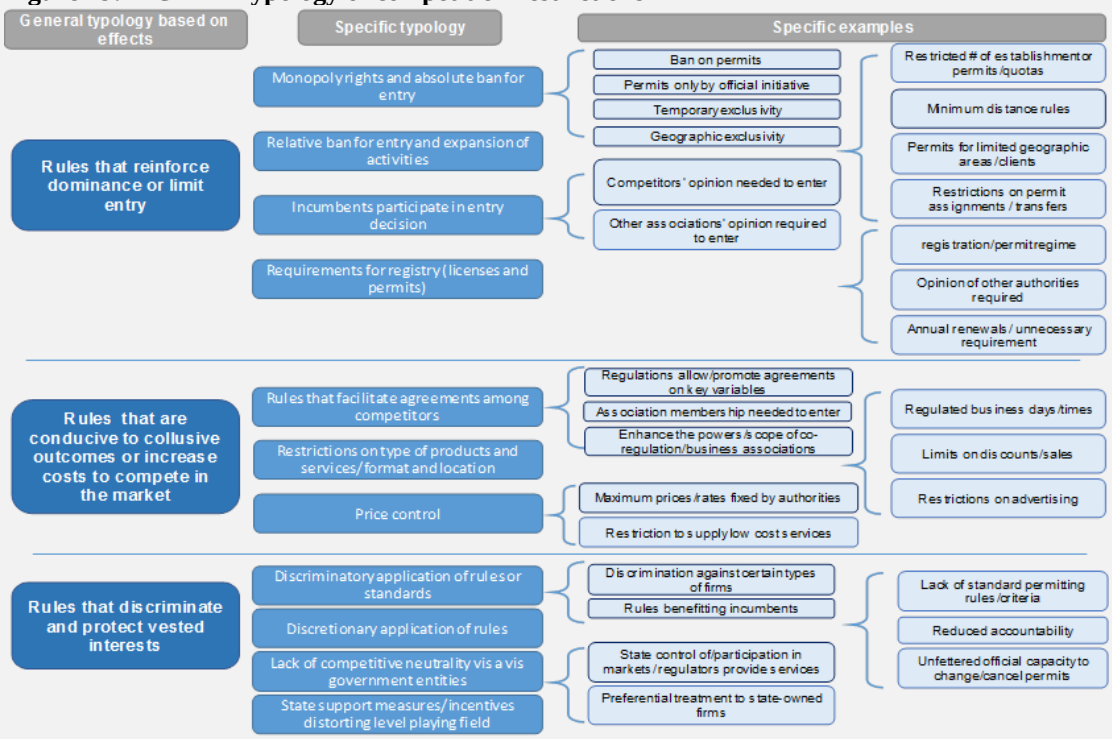
This assessment can then inform the development and prioritization of effective strategies to promote competition through changes in policies, regulations, and rules.

Figure 18: High level overview of the MCPAT approach



As described in Figure 19, the MCPAT builds on the identification of those rules and regulations that may have anticompetitive effects on the basis of the following typology:
(1) Rules that reinforce dominance or limit entry;
(2) Rules that are conducive to collusive outcomes or increase costs to compete in the market;
(3) Rules that discriminate and protect vested interests.
Within each of these categories, specific sub-typologies of rules have been identified and illustrated with specific examples. This typology feeds into a holistic step-by-step methodology to promote competition reforms.

Figure 19: MCPAT Typology of competition restrictions



Source: World Bank Group's Market and Competition Policy Assessment Toolkit

Annex II: International capacity by airport and airport pair

Table 5: International capacity by airport and airport pair (2019)

	Weekly Capacity		Share	
	Frequencies	Seats	Airport	Total
Faisalabad				
Dubai (DXB)	14	2,646	48.1	1.4
Sharjah (SHJ)	7	1,134	20.6	0.6
Doha (DOH)	5	720	13.1	0.4
Jeddah (JED)	4	596	10.8	0.3
Bahrain (BAH)	3	408	7.4	0.2
Total			*100.0*	*2.9*
Gwadar				
Muscat (MCT)	1	68	100.0	0.0
Islamabad				
Jeddah (JED)	33	9,068	20.1	4.9
Dubai (DXB)	28	6,715	14.9	3.6
Abu Dhabi (AUH)	23	4,217	9.3	2.3
Doha (DOH)	16	4,878	10.8	2.6
Riyadh (RUH)	13	2,843	6.3	1.5
Muscat (MCT)	10	1,846	4.1	1.0
London-Heathrow (LHR)	8	2,414	5.3	1.3
Kabul (KBL)	8	583	1.3	0.3
Istanbul (IST)	7	1,753	3.9	0.9
Sharjah (SHJ)	6	906	2.0	0.5
Manchester (MAN)	6	2,026	4.5	1.1
Urumqi (URC)	4	668	1.5	0.4
Bahrain (BAH)	3	750	1.7	0.4
Dammam (DMM)	3	447	1.0	0.2
Birmingham (BHX)	3	1,033	2.3	0.6
Madinah (MED)	3	884	2.0	0.5
Kuwait (KWI)	3	632	1.4	0.3
Tokyo-Narita (NRT)	2	640	1.4	0.3
Beijing (PEK)	2	640	1.4	0.3
Ras Al Khaimah (RKT)	2	334	0.7	0.2
Paris-De Gaulle (CDG)	1	320	0.7	0.2
Toronto (YYZ)	1	310	0.7	0.2
Copenhagen (CPH)	1	320	0.7	0.2
Milan-Malpensa (MXP)	1	320	0.7	0.2
Oslo (OSL)	1	320	0.7	0.2
Kuala Lumpur (KUL)	1	320	0.7	0.2
Total			*100.0*	*24.2*

Source: World Bank based in DIIO

Table 6: International capacity by airport and airport pair (2019) (cont'd)

	Weekly Capacity		Share	
	Frequencies	Seats	Airport	Total
Karachi				
Dubai (DXB)	63	19,111	33.6	10.2
Jeddah (JED)	29	9,144	16.1	4.9
Sharjah (SHJ)	21	3,402	6.0	1.8
Muscat (MCT)	19	3,424	6.0	1.8
Doha (DOH)	14	4,557	8.0	2.4
Abu Dhabi (AUH)	13	2,097	3.7	1.1
Bahrain (BAH)	10	1,394	2.5	0.7
Bangkok (BKK)	8	2,404	4.2	1.3
Madinah (MED)	8	2,428	4.3	1.3
Beijing (PEK)	7	1,757	3.1	0.9
Istanbul (IST)	7	2,023	3.6	1.1
Riyadh (RUH)	6	2,274	4.0	1.2
Colombo (CMB)	5	725	1.3	0.4
Baghdad (BGW)	2	244	0.4	0.1
Dammam (DMM)	2	317	0.6	0.2
Al Najaf (NJF)	2	244	0.4	0.1
Toronto (YYZ)	1	310	0.5	0.2
Kuala Lumpur (KUL)	1	320	0.6	0.2
London-Heathrow (LHR)	1	393	0.7	0.2
Tehran (IKA)	1	278	0.5	0.1
Total			*100.0*	*30.5*
Lahore				
Jeddah (JED)	30	8,786	22.0	4.7
Dubai (DXB)	24	6,393	16.0	3.4
Abu Dhabi (AUH)	20	3,674	9.2	2.0
Doha (DOH)	14	4,585	11.5	2.5
Muscat (MCT)	13	2,122	5.3	1.1
Riyadh (RUH)	10	2,440	6.1	1.3
Kuwait (KWI)	7	1,015	2.5	0.5
Istanbul (IST)	7	1,708	4.3	0.9
Dammam (DMM)	6	1,018	2.5	0.5
Sharjah (SHJ)	6	906	2.3	0.5
Bahrain (BAH)	4	1,000	2.5	0.5
Madinah (MED)	3	957	2.4	0.5
Tehran (IKA)	3	630	1.6	0.3
Ras Al Khaimah (RKT)	3	501	1.3	0.3
Urumqi (URC)	3	501	1.3	0.3
London-Heathrow (LHR)	3	1,033	2.6	0.6
Toronto (YYZ)	2	620	1.5	0.3
Tashkent (TAS)	2	300	0.7	0.2
Kuala Lumpur (KUL)	2	324	0.8	0.2
Oslo (OSL)	1	320	0.8	0.2
Mashhad (MHD)	1	210	0.5	0.1
Manchester (MAN)	1	320	0.8	0.2
Milan-Malpensa (MXP)	1	320	0.8	0.2
Copenhagen (CPH)	1	320	0.8	0.2
Total			*100.0*	*21.4*

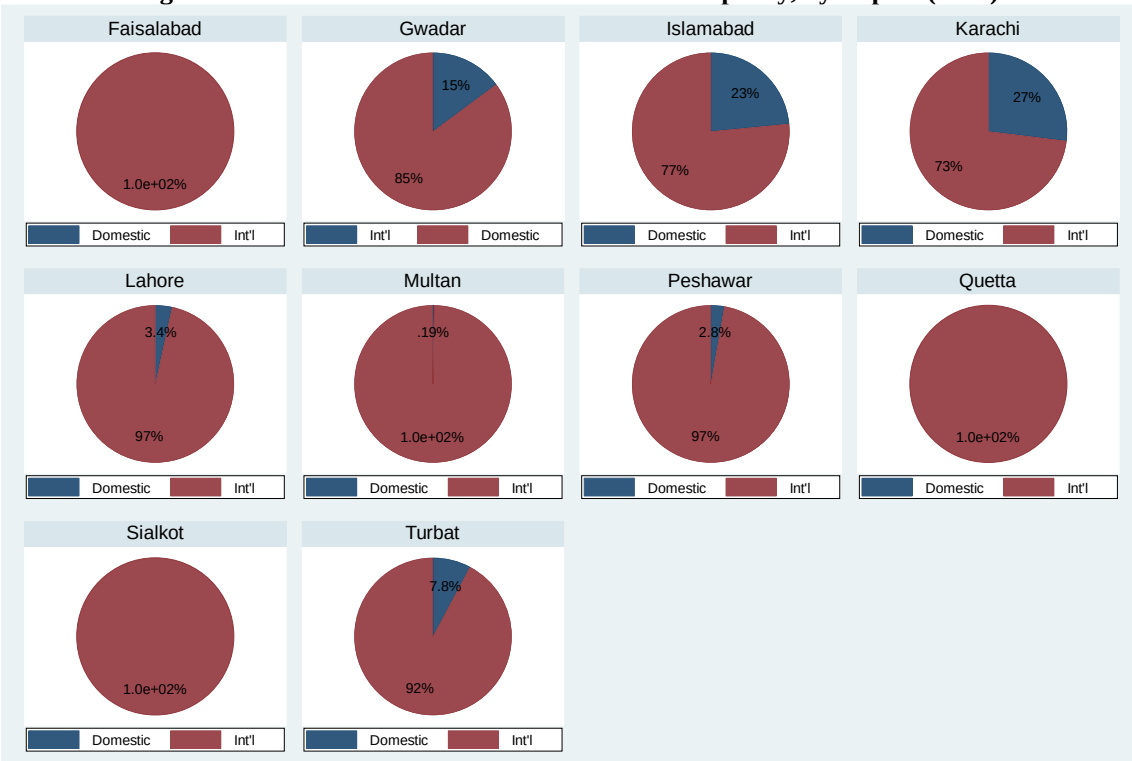
Source: World Bank based in DIIO

Table 7: International capacity by airport and airport pair (2019) (cont'd 2)

	Weekly Capacity		Share	
	Frequencies	Seats	Airport	Total
Multan				
Dubai (DXB)	17	3,099	25.2	1.7
Jeddah (JED)	17	4,609	37.5	2.5
Sharjah (SHJ)	11	1,753	14.3	0.9
Doha (DOH)	6	864	7.0	0.5
Bahrain (BAH)	6	884	7.2	0.5
Madinah (MED)	3	618	5.0	0.3
Muscat (MCT)	3	453	3.7	0.2
Total			*100.0*	*6.6*
Peshawar				
Dubai (DXB)	15	3,515	23.6	1.9
Sharjah (SHJ)	13	2,055	13.8	1.1
Jeddah (JED)	10	2,669	17.9	1.4
Doha (DOH)	9	1,306	8.8	0.7
Abu Dhabi (AUH)	8	1,200	8.0	0.6
Riyadh (RUH)	7	1,852	12.4	1.0
Bahrain (BAH)	4	1,032	6.9	0.6
Ras Al Khaimah (RKT)	3	501	3.4	0.3
Al Ain (AAN)	2	298	2.0	0.2
Madinah (MED)	1	330	2.2	0.2
Muscat (MCT)	1	149	1.0	0.1
Total			*100.0*	*8.0*
Quetta				
Sharjah (SHJ)	3	486	46.2	0.3
Dubai (DXB)	3	567	53.8	0.3
Total			*100.0*	*0.6*
Sialkot				
Dubai (DXB)	18	4,879	46.7	2.6
Sharjah (SHJ)	9	1,451	13.9	0.8
Doha (DOH)	7	1,008	9.6	0.5
Muscat (MCT)	5	770	7.4	0.4
Bahrain (BAH)	5	680	6.5	0.4
Riyadh (RUH)	2	317	3.0	0.2
Jeddah (JED)	2	884	8.5	0.5
Paris-De Gaulle (CDG)	1	320	3.1	0.2
Dammam (DMM)	1	149	1.4	0.1
Total			*100.0*	*5.6*
Turbat				
Sharjah (SHJ)	3	204	60.0	0.1
Muscat (MCT)	2	136	40.0	0.1
Total			*100.0*	*0.2*

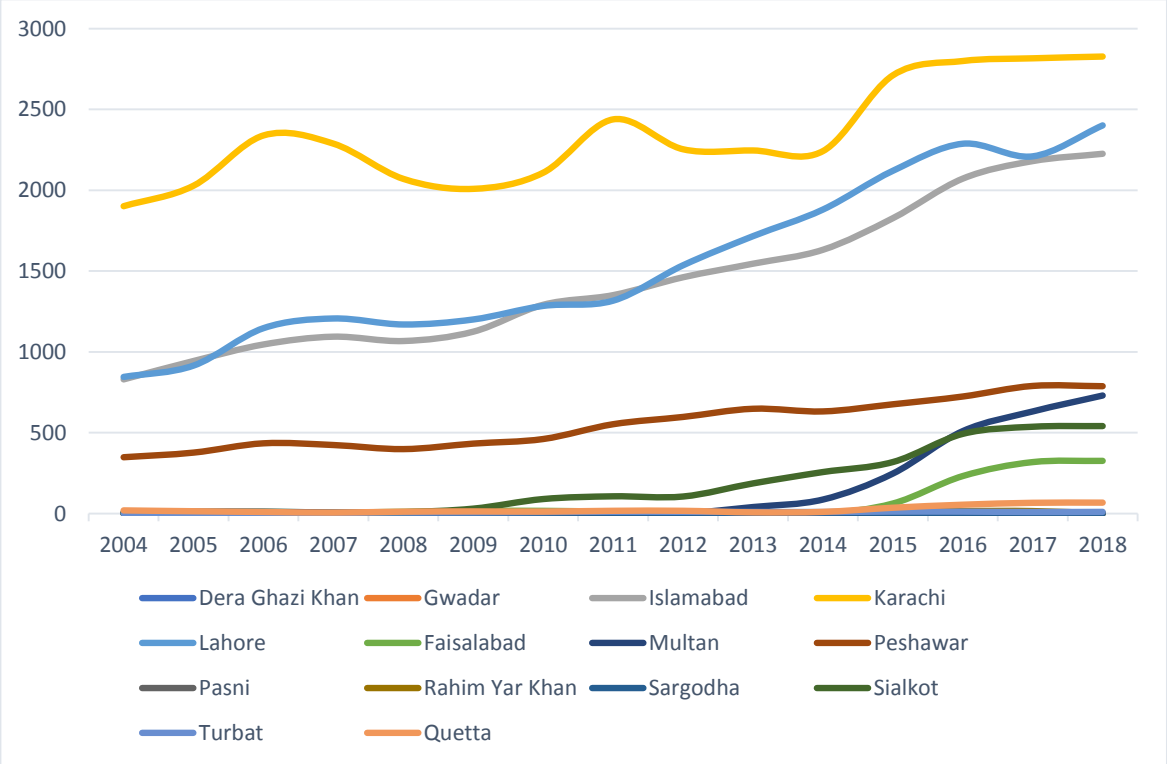
Source: World Bank based in DIIO

Figure 20: Outbound domestic and international capacity, by airport (2019)



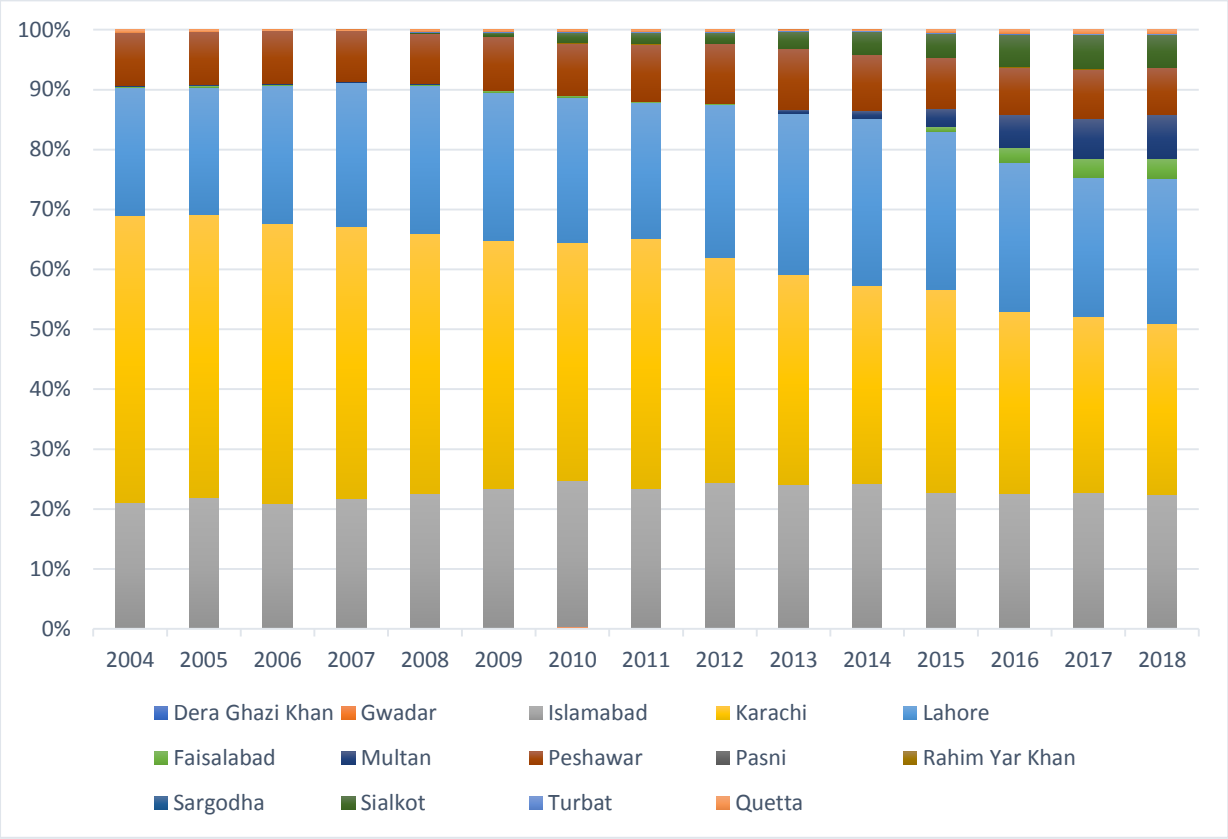
Source: World Bank based in DIIO

Figure 21: Outbound international capacity (000' seats) by origin airport



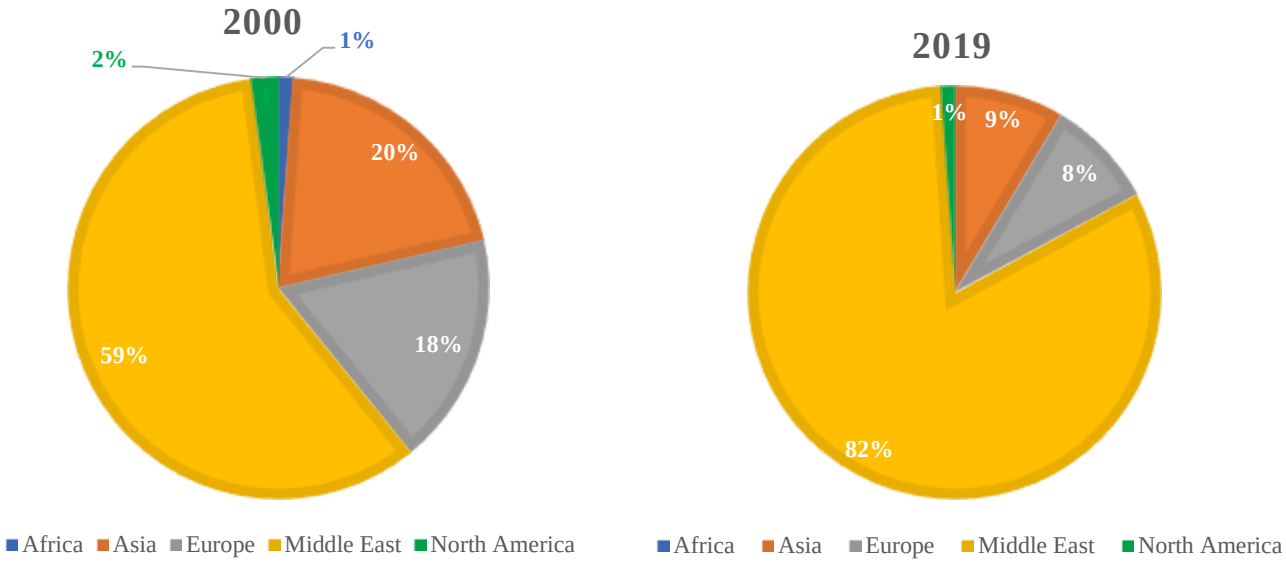
Source: World Bank based in DIIO

Figure 22: Share of outbound international capacity (seats) by origin airport



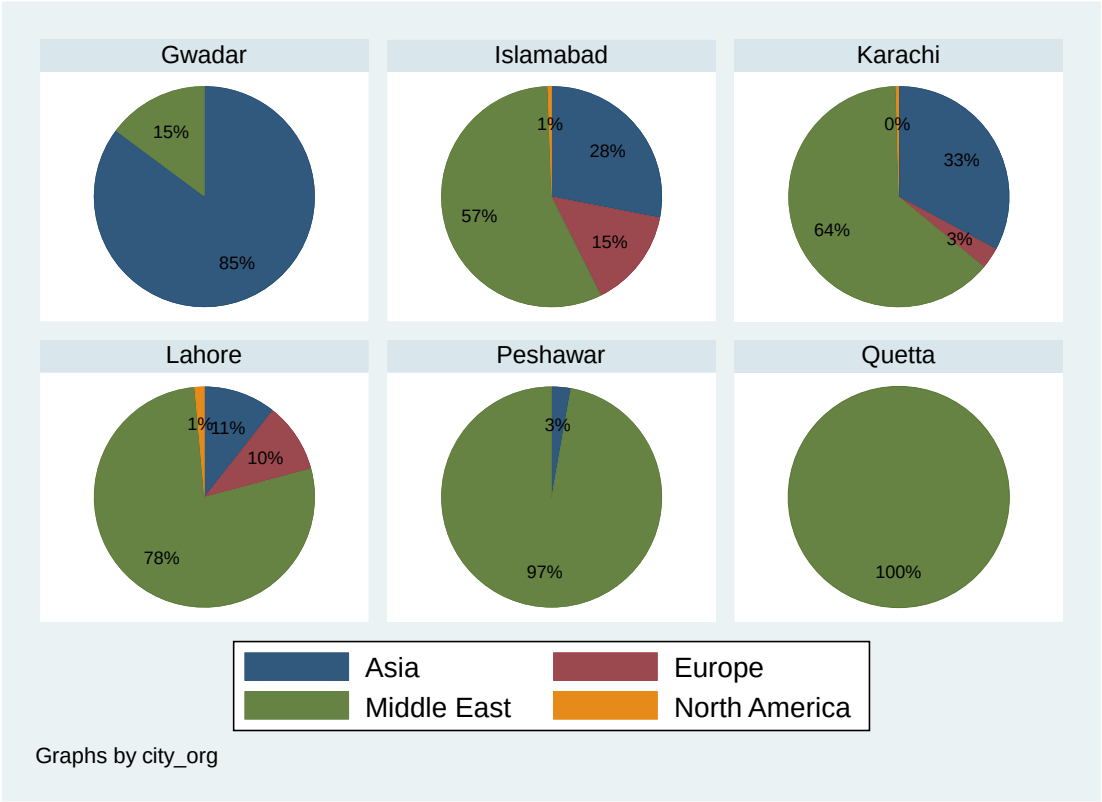
Source: World Bank based in DIIO

Figure 23: Share of outbound international seats by destination region (2000 and 2019)



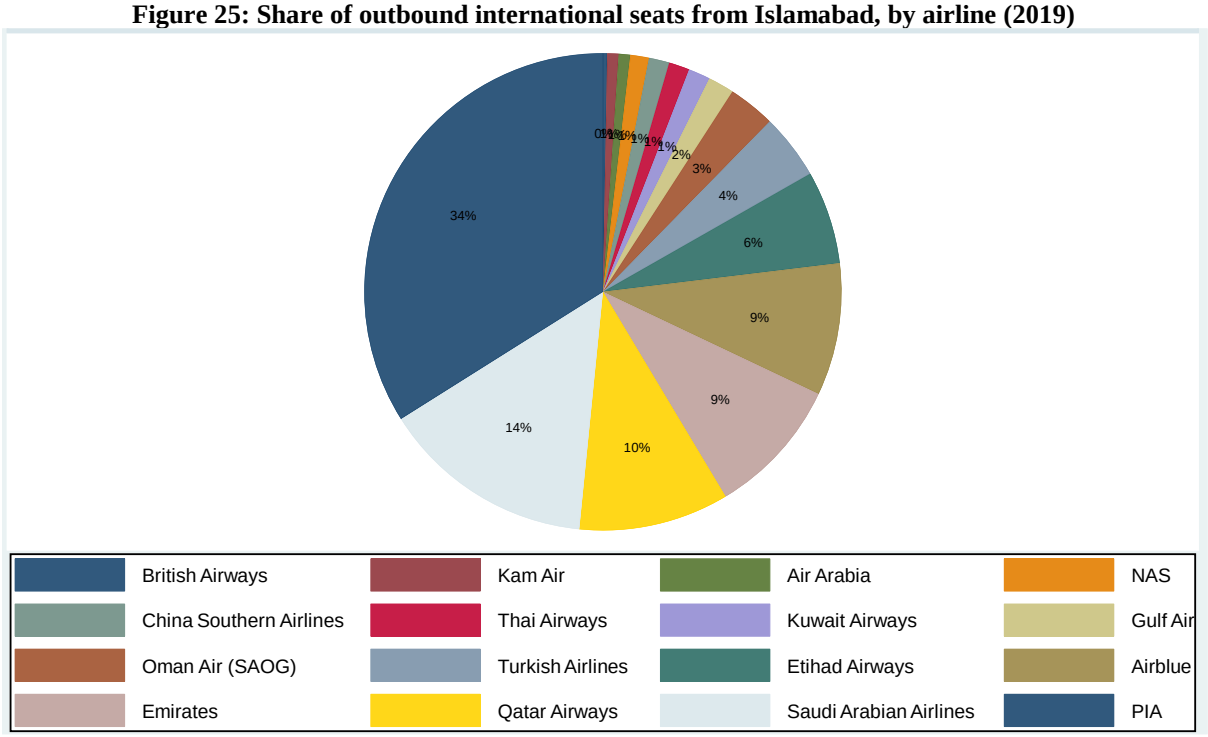
Source: World Bank based in DIIO

Figure 24: Share of outbound international seats by destination region and airport (2019)



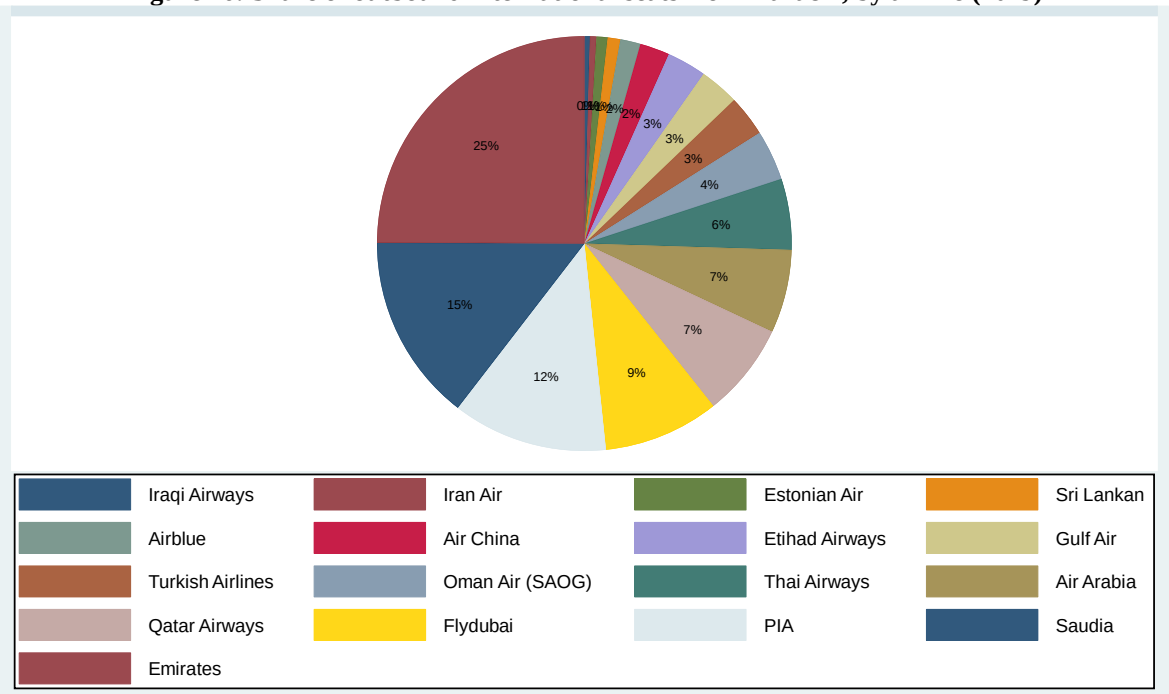
Source: World Bank based in DIIO

Figure 25: Share of outbound international seats from Islamabad, by airline (2019)



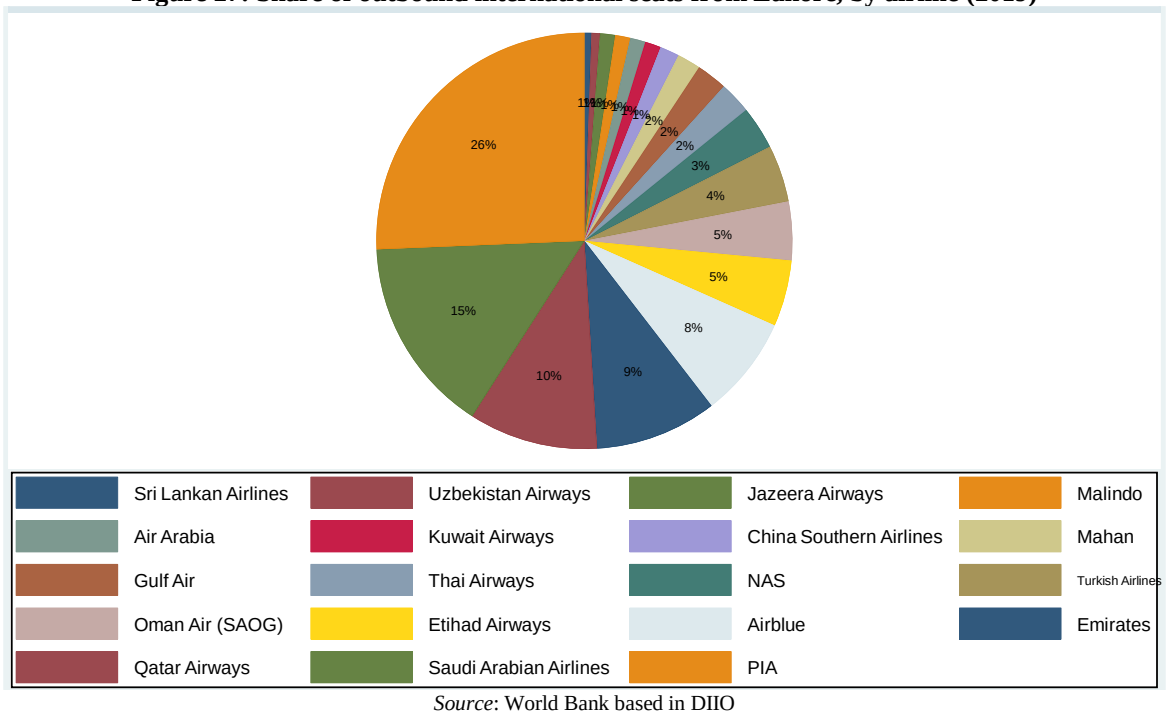
Source: World Bank based in DIIO

Figure 26: Share of outbound international seats from Karachi, by airline (2019)



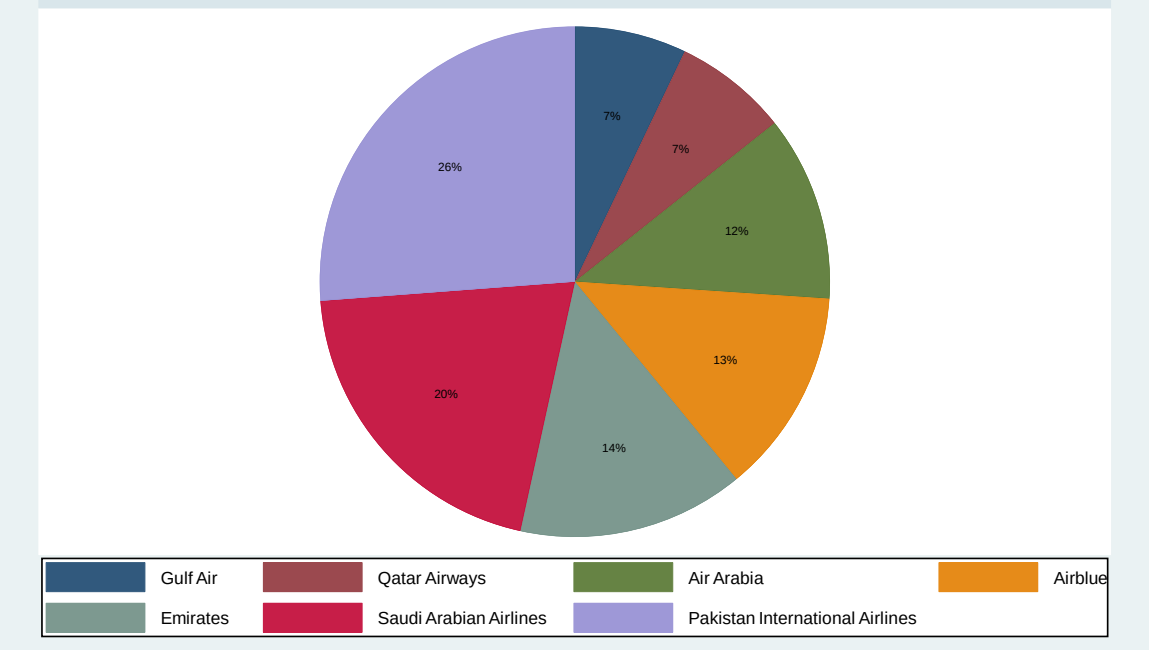
Source: World Bank based in DIIO

Figure 27: Share of outbound international seats from Lahore, by airline (2019)



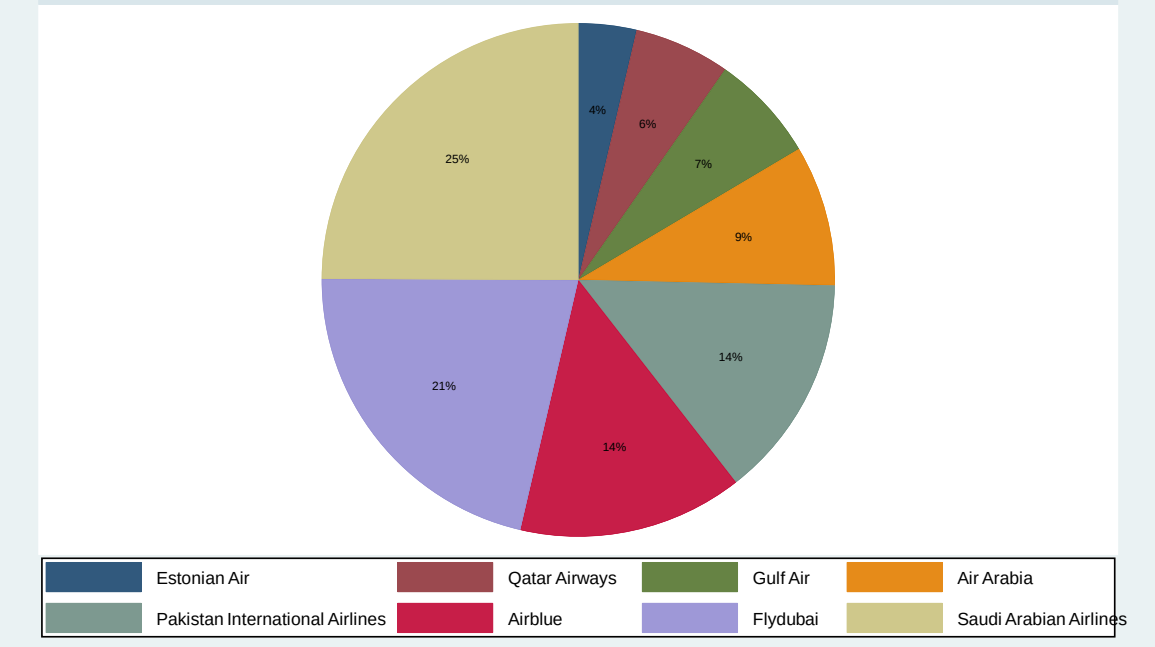
Source: World Bank based in DIIO

Figure 28: Share of outbound international seats from Peshawar, by airline (2019)



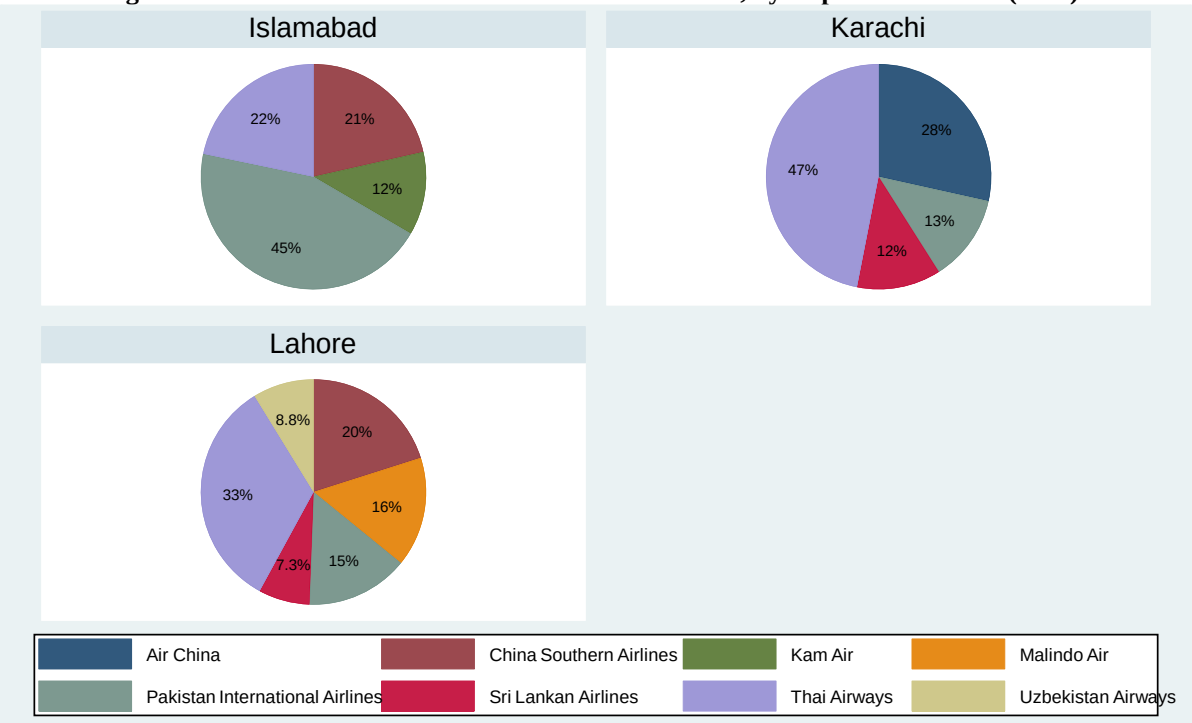
Source: World Bank based in DIIO

Figure 29: Share of outbound international seats from Multan, by airline (2019)



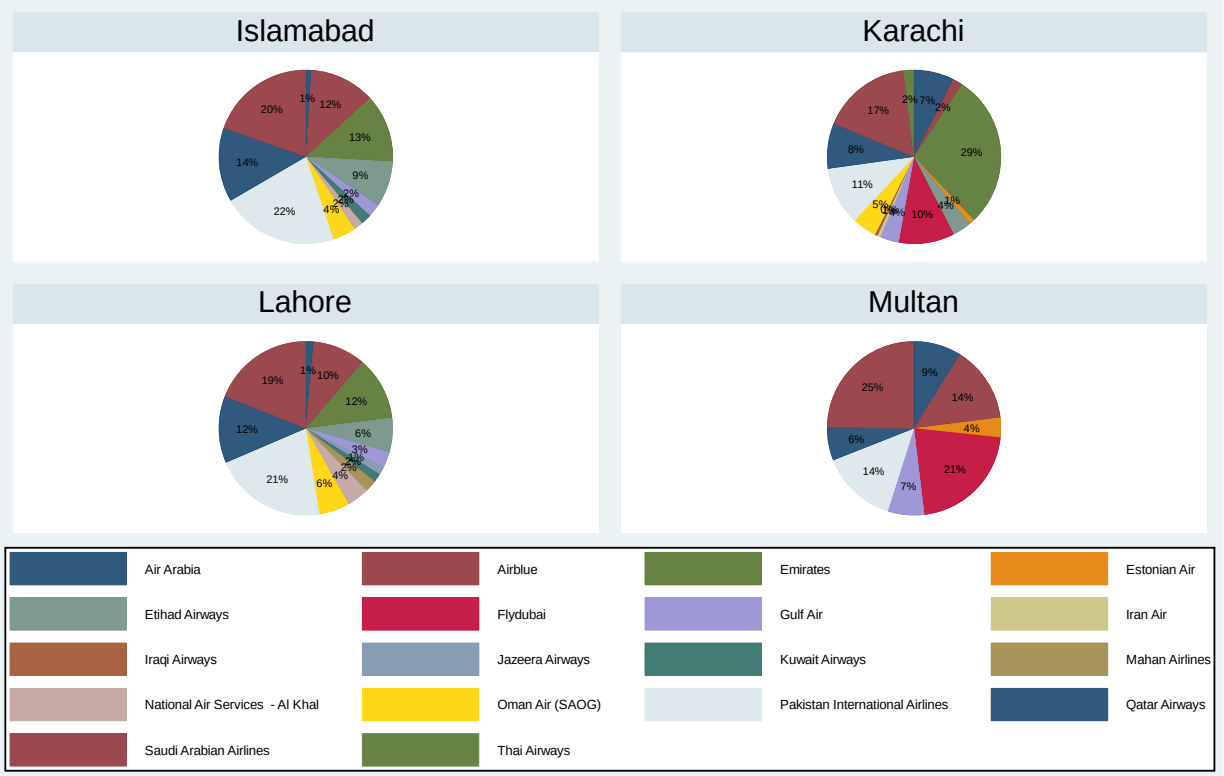
Source: World Bank based in DIIO

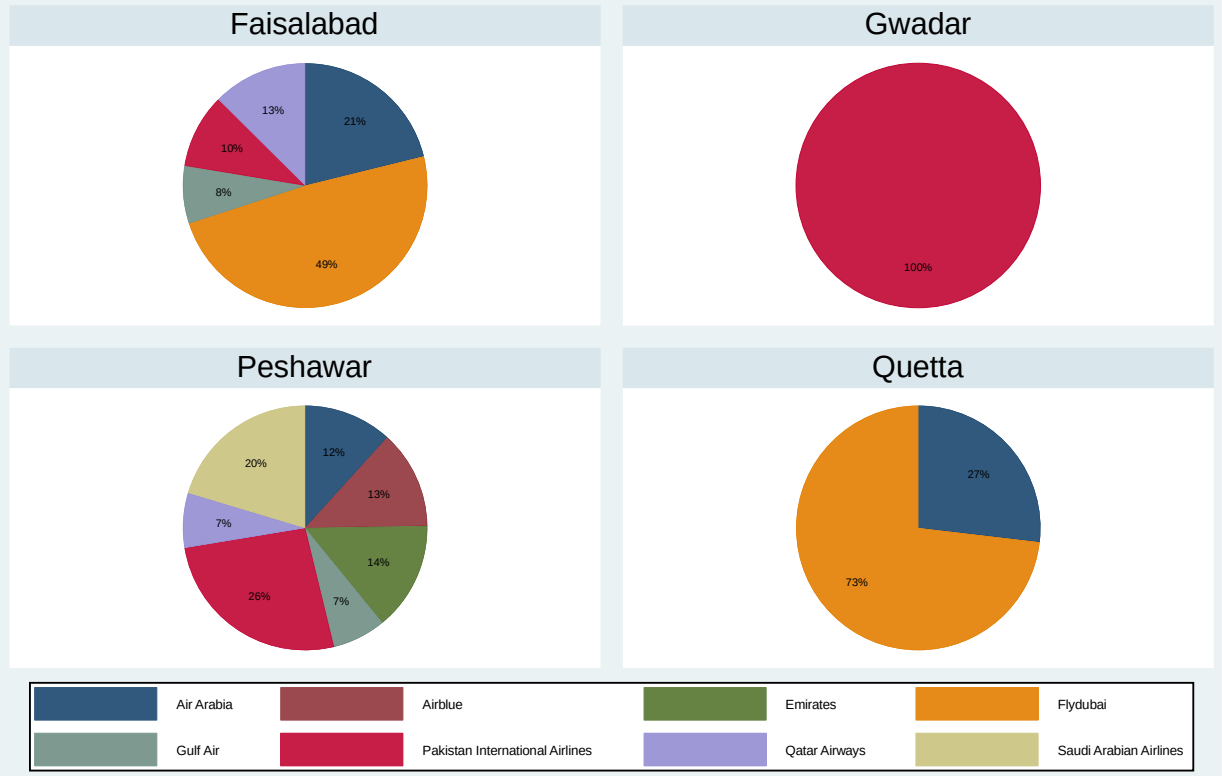
Figure 30: Share of outbound international seats to Asia, by airport and airline (2019)



Source: World Bank based in DIIO

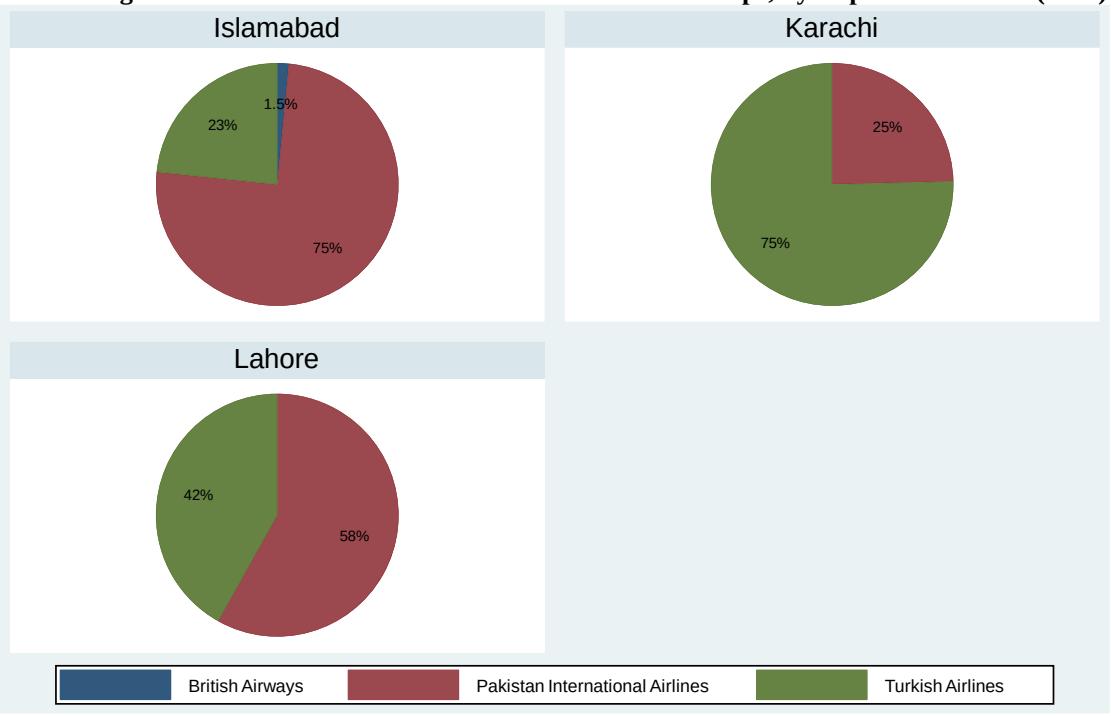
Figure 31: Share of outbound international seats to Middle East, by airport and airline (2019)





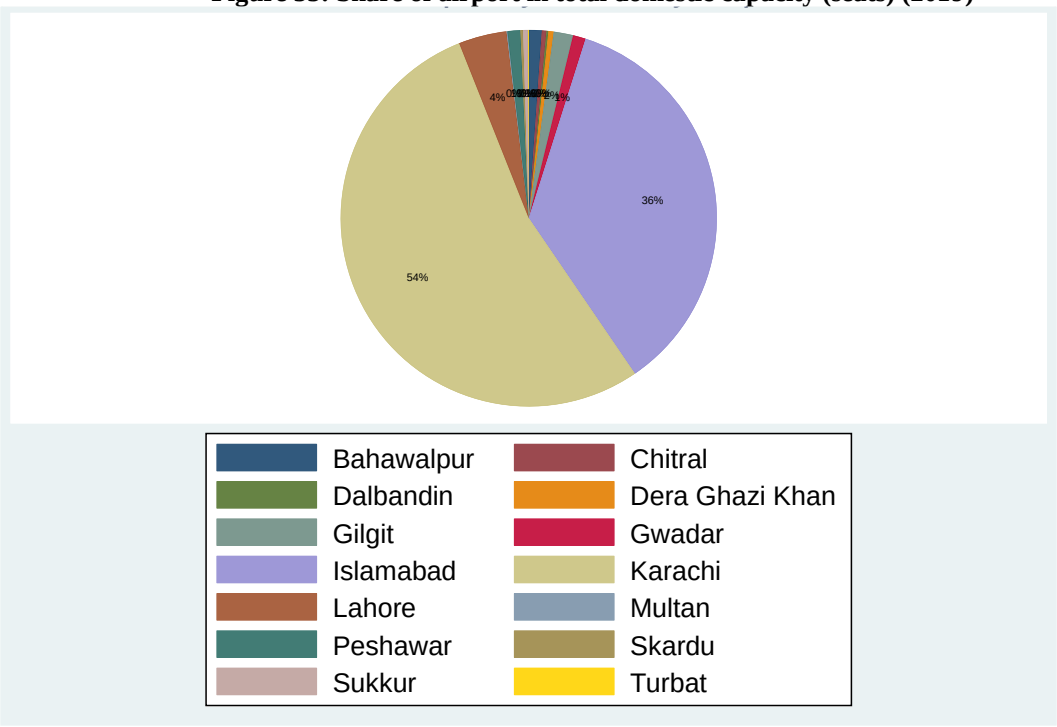
Source: World Bank based in DIIO

Figure 32: Share of outbound international seats to Europe, by airport and airline (2019)



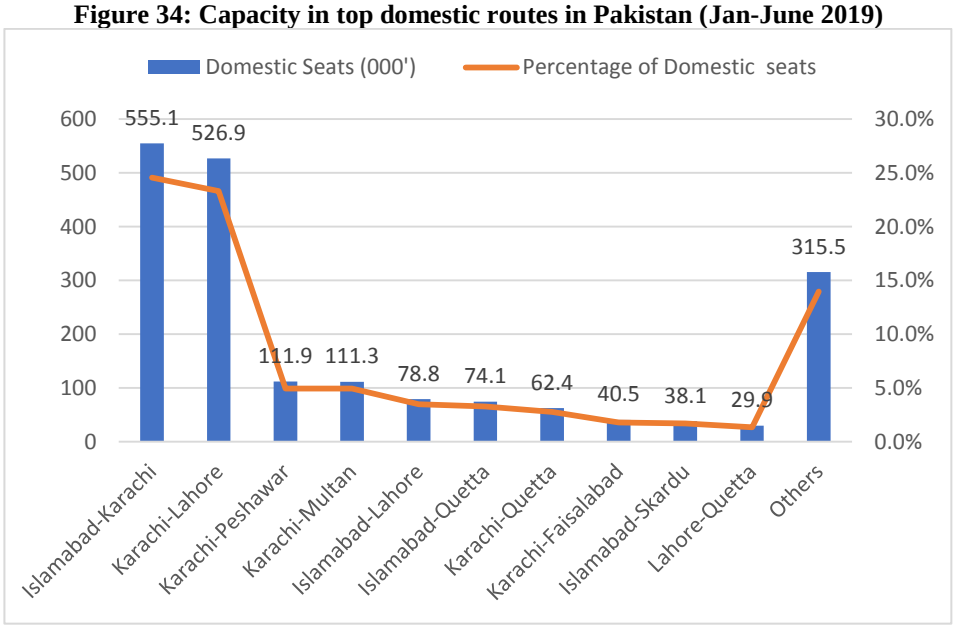
Source: World Bank based in DIIO

Figure 33: Share of airport in total domestic capacity (seats) (2019)



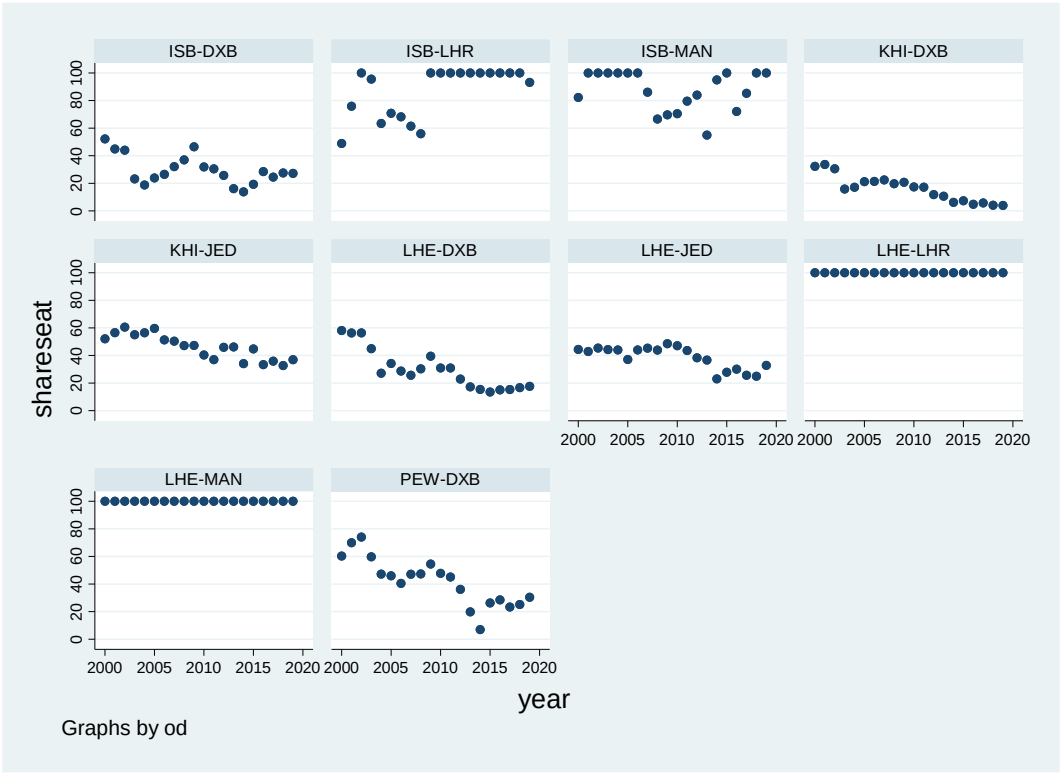
Source: World Bank based in DIIO

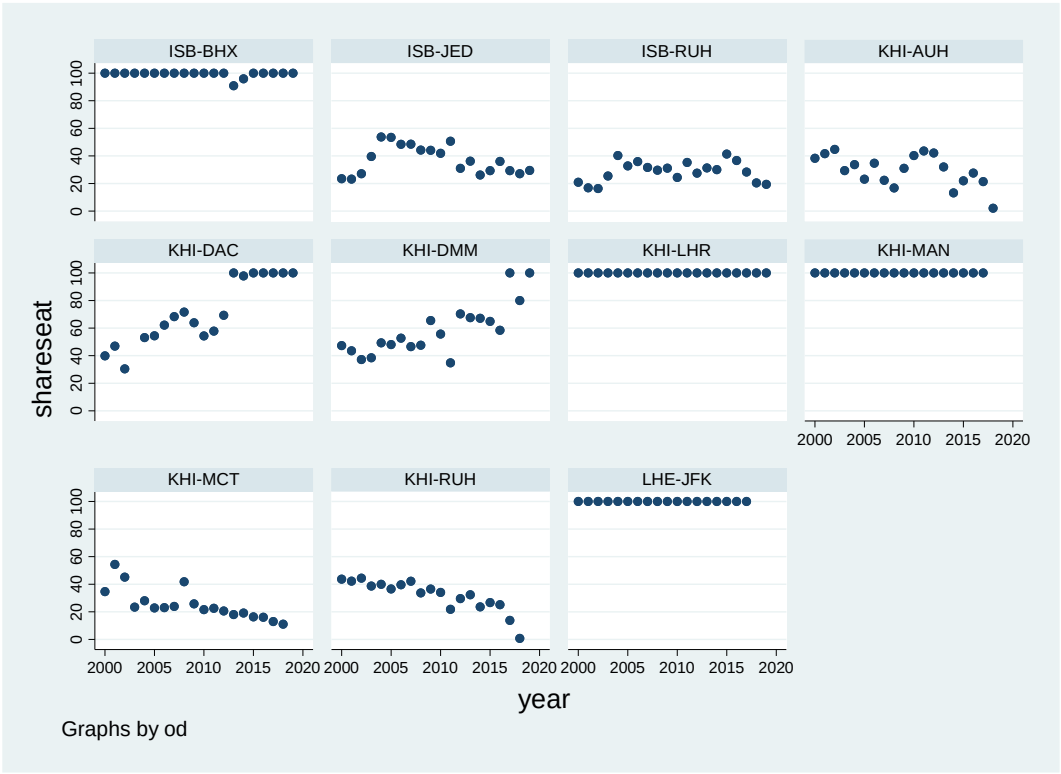
Figure 34: Capacity in top domestic routes in Pakistan (Jan-June 2019)



Source: World Bank based in DIIO

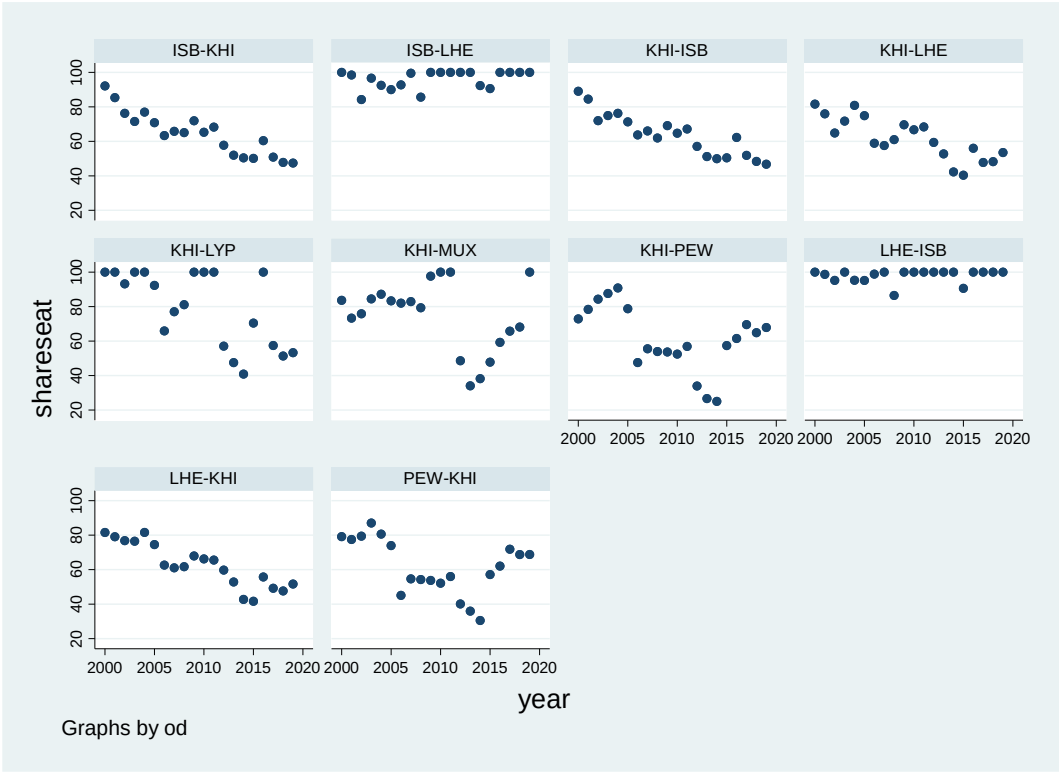
Figure 35: PIA's capacity share (seats) in international airport pairs (2000-2016)

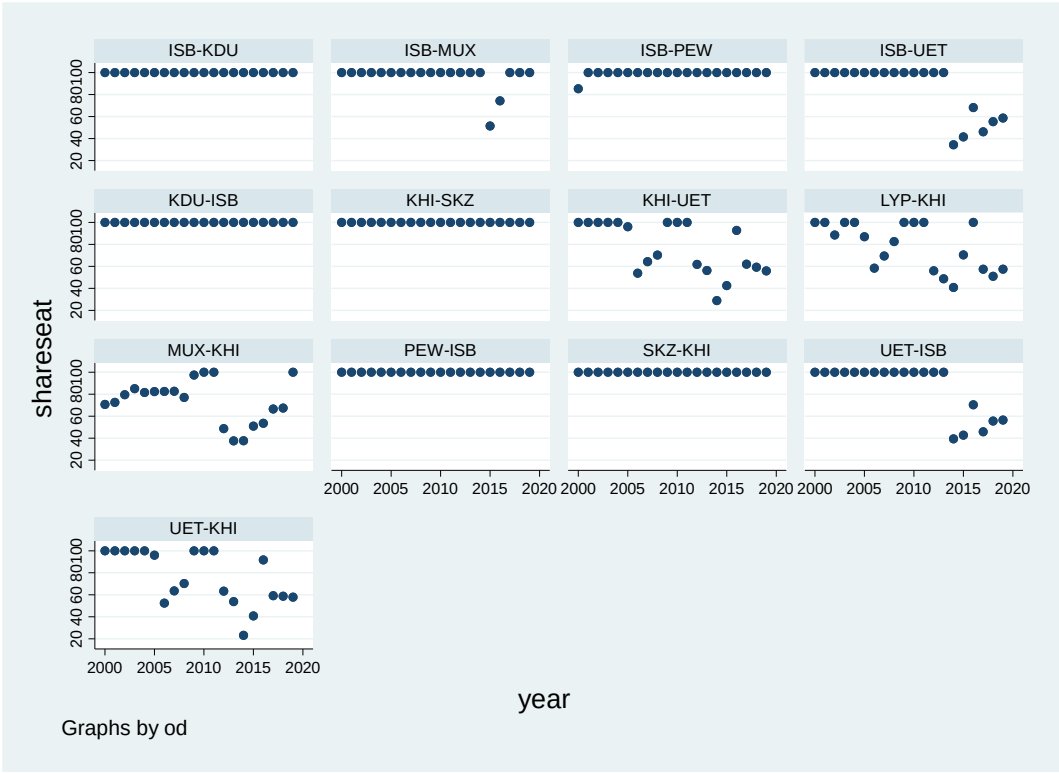




Source: World Bank based in DIIO

Figure 36: PIA's capacity share (seats) in domestic airport pairs (2000-2016)





Source: World Bank based in DIIO

Table 8: Air service agreements signed with bilateral partners

Contracting Party	Points in Pakistan	Designation	Agreed Capacity as per ASA (weekly)	Usage of capacity (weekly)		% Total int'l seats
				Pakistan	Other contracting party	
UAE (Dubai)	KHI	Multiple	Unlim.	13x (NL/PK)	49x (EK/FZ)	9.0
	LHE	Multiple	*n/a*	19x (NL/PK/PA)	10x (EK)	3.8
	ISB	Multiple	*n/a*	20x (NL/PK/PA)	10x (EK)	3.9
UAE (Abu Dhabi)	KHI	Multiple	*n/a*	3x (PK)	14x (EY)	1.2
	ISB	Multiple	*n/a*	13x (NL/PK/PA)	14x (EY)	2.2
	LHE	Multiple	*n/a*	9x (NL/PK/PA)	11x (EY)	2.0
Kingdom of Saudi Arabia	ISB,KHI,LHE LYP,MUX, PEW, SKT	Multiple	JED: Unlim. for PAK*	102x (NL/PK/PA): KHI-27x; LHE-21x; MUX-15x; ISB-16x	27x (SV) KHI-15x; LHE-12x; ISB-11x	14.2
	ISB,KHI,LHE LYP,MUX, PEW, SKT	Multiple	RUH: Unlim. for PAK*	26x (NL/PK/PA)	16x (SV)	5.9
Qatar	ISB,KHI,LHE LYP,MUX, PEW, SKT	*n/a*	*n/a*	2x (PEW)	68x (PEW, ISB, KHI, LHE, LYP, MXP, SKT)	8.2
Thailand	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	3.3
UK	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	4.3
Turkey	KHI	Single*	IST: 7x	Not operated	7x	1.0
	LHE	Single*	IST: 7x	Not operated	7x	1.0
	ISB	Single*	IST: 7x	Not operated	7x	1.0

Note: (*) to be confirmed

Table 9: Domestic socio-economic routes and performance standards

Route tier	City/Airport	IATA Code	Current Ops/week (June 2019)	Operating Carriers	Mandated ASKs
Primary	Bahawalpur	BHV	23	PK	At least 10% of the total capacity (ASKs) floated on Trunk routes
	D.G. Khan	DEA	6	PK	
	Faisalabad	LYP	26	PK	
	Multan	MUX	73	PK	
	Nawabshah	WNS	-	…	
	Rahim Yar Khan	RYK	51	PK	
	Sialkot	SKT	3	PK	
	Sukkur	SKZ	85	PK	
Secondary	Bannu (Socio-Political)	BNP	-	…	At least 5% of the total capacity (ASKs) floated on Trunk routes
	Chitral (Socio-Political)	CJL	14	PK	
	D.I. Khan	DSK	-	…	
	Dalbadin (Socio-Political)	DBA	4	PK	
	Gilgit (Socio-Political)	GIL	71	PK	
	Gwadar (Socio-Political)	GWD	26	PK	
	Hyderabad	HDD	-	…	
	Jacobabad	JAG	-	…	
	Jiwani	JIW	-	…	
	Khuzdar (Socio-Political)	KDD	-	…	
	Mirpur Khas	MPD	-	…	
	Mohenjo-daro	MJD	-	…	
	Muzaffarabad (Socio-Political)	MFG	-	…	
	Ormara	ORW	-	…	
	Panjgur (Socio-Political)	PJG	9	PK	

	Parachinar (Socio-Political)	PAJ	-	…	
	Pasni	PSI	-	…	
	Rawalakot (Socio-Political)	RAZ	-	…	
	Saidu	SDT	-	…	
	Sehwan Sharif	SYW	-	…	
	Sharif	SDT	-	…	
	Skardu (Socio-Political)	KDU	30	PK	
	Turbat (Socio-Political)	TUK	24	PK	
	Zhob (Socio-Political)	PZH	-	…	

Source: CAA and DIIO; Note: PK: PIA; NL; Shaheen; PA: AirBlue; Domestic flights schedule as per Aug-16