

# Amidst the what, how, when to privatize

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**As airline privatization began in the late 20th century, the airline industry historically subject to strict control by nation-states for security and industrial policy reasons underwent an overhaul of the regulatory environment.**

Airlines, no longer bound by stringent regulatory constraints, started engaging in intensified competition with new players for new avenues of profits, both domestic and international, as the profits declined.

A somewhat similar pattern is observed in the case of Pakistan International Airline (PIA). The PIA was making profits in the highly monopolized domestic market in the absence of any competition.

As permission was granted to 12 private airlines to operate on domestic routes and the open sky agreement was signed between Dubai and Karachi in the late 90s, the competition increased, and financial losses started surging.

The northern corridor, encompassing the airports in Islamabad, Lahore, and Peshawar, was opened up to international traffic, allowing foreign airlines to conduct international flights from these cities. A notable shift occurred as passengers from the northern cities increasingly favored direct international flights from their local airports over transiting through Karachi.

On top of it, in 1999 and 2002, PIA leased a total of fourteen Boeing 747 and 777 aircraft, while the other airlines, already privatized British Airlines and Lufthansa, had already adopted the low-cost carrier (LCC) model with a standardized fleet.

The transition from a flag carrier to the LCC model involved a regulatory framework based on key elements of business legislation, including property law, competition law, corporate law, dispute settlement mechanisms, environmental legislation, and other pertinent aspects.

The Aviation Act 1980 found the basis of the two-decade-long process of British Airlines (BA) privatization and a liberal aviation policy in the United Kingdom. This legislation amended the responsibilities of the Civil Aviation Authority (CAA) in executing its licensing functions, which dismantled numerous barriers to entry into the domestic market.

At the same time, several British airlines marked their presence in the international market. On CAA's recommendations, BA relinquished its routes to Saudi Arabia in exchange for British Caledonian's unprofitable routes to South America, providing a mutually beneficial resolution.

Also, BA got permission to maintain its position at London Gatwick in exchange for financial assistance to foster the development of up to fifteen new European routes from provincial airports. Until 1991, airlines lacking a presence at Heathrow before 1977 were prohibited from accessing the airport.

However, in 1991, this restriction was lifted, enabling new operators, including the UK carrier Virgin Atlantic, to obtain slots at Heathrow.

In Europe, the European Commission adopted a cautious three-phased strategy. The overarching objective was to extend the 'fifth freedom,' promoting liberalized access to intra-Union flights and the discontinuation of any preferential treatment for national flag carriers shortly.

Lufthansa, like its counterparts, had no tendency to enhance efficiency because of the shielded domestic market and state subsidies. The escalating global competition from the earlier privatized BA and the low-cost American carriers compelled Lufthansa to cut costs, restructure corporate decision-making for greater flexibility, and actively pursue global partnerships to broaden its route networks and share operational expenses.

So Lufthansa implemented an extensive restructuring initiative, Program 93, reducing its workforce. Under Program 93, an agreement was implemented immediately, enforcing a wage freeze, increasing the pilot work hours by 7 %, introducing two lower starting salary levels for new hires, and linking overtime pay to monthly salary.

This wasn't it. The airline privatization had spillover effects on the capital markets. The move to privatize Lufthansa brought about "Finanzplatz Frankfurt" and the book-building method. This initiative responded to the outflow of capital from Germany and cries for greater transparency amidst scandals like Schneider and Metallgesellschaft.

The privatization of airlines was then followed by the privatization of airports and other services that include cargo handling, and terminals, though the pursuit of this trend is not without its challenges.

The 2008 IATA Annual Report highlighted that the process of commercialization has led to a notable rises in airport and aeronautical cost bases, which are instrumental in determining charges. Moreover, the anticipated improvements in efficiency and productivity have not consistently come to fruition.

In Pakistan, The National Aviation Policy 2015 revealed that almost all the airports were running in losses in that year, including popular tourist destinations like Gilgit, Skardu, and Chitral owing to insufficient passenger traffic and commercial activities.

To address the operational losses and tap the tourism potential inherent in these smaller airports, the National Aviation Policy 2015 recommended the adoption of Public-Private Partnership (PPP)

models.

The National Freight and Logistics Policy also recommended that the government should consider the separation of the CAA Airport Services Department, and transferring the airport operator's functions to the private sector to avoid a conflict of interest between the service provider and user of the services.

It was emphasized that new and existing airports should be considered for public-private partnership on the build-operate-transfer (BOT) model.

In the case of PIA, in addition to strategic fleet planning, workforce restructuring, and public-private partnership, a land commercialization policy can also be adopted by Pakistan Civil Aviation Authority (PCAA) to maximize the utilization of airport land for non-aeronautical commercial and recreational purposes in remote or nonoperational airports.

If the airport land is commercially viable for private investors and/or provincial governments, it would attract private investments and encourage provincial government participation, fostering a synergistic approach to make airports self-sufficient.

Evident from BA and Lufthansa and Pakistan's own experience, the effective privatization of natural monopolies necessitates an effective regulatory framework. This will not only complement privatization efforts but also contribute to enhanced efficiency and competitiveness. However, Pakistan grapples with the challenge of modernising its regulatory framework.

Numerous government attempts to modernise regulations have faced resistance from the entrenched, outdated governance structure primarily due to the persisting bureaucratic setup inherited from the colonial era nullifying any attempt towards sustainable transformation.

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