

COMPETITION COMMISSION OF PAKISTAN

ENQUIRY REPORT

(Under Section 37 of the Competition Act, 2010)

IN THE MATTER OF ALLEGED EXORBITANT INCREASE IN AIRFARES BY PRIVATE AIRLINES

**Shaista Bano | Syed Umair Javed |
Arshad Javed | Maliha Quddus | Zulfiqar Ali**

Dated: 15 February 2016

BACKGROUND

1. This Enquiry Report concludes the investigation into the alleged exorbitant increase in airfares by private airlines operating on domestic routes for the time periods October 1-6, 2015 and February 2-4, 2016 (the '**Investigation Period**') by the Competition Commission of Pakistan (the '**Commission**').
2. The Commission took notice of various media reports suggesting exorbitant increase in airfares by private airlines on domestic routes following the cancellation of a large number of flights by the Pakistan International Airline ('**PIA**') owing to disputes between pilots and the management.
3. The Commission also received a letter from the Civil Aviation Authority (CAA) which expressed the concern that since PIA flights were cancelled a lot of passengers opted to fly on private airlines that offered seats at a very high fare in view of the increased demand. It stated that some of the fares went over PKR 26,000 one way. It is further stated that the National Aviation Policy 2015 pursues deregulation of all fares and allows the market forces to determine the fares. The Commission also took notice of various media reports that claimed that the normal one-way fare from Islamabad to Karachi was PKR 10000-12000; however following the PIA strike private airlines charged upto PKR 24000-25000 for each flight¹.
4. The Commission on 6 October 2015 initiated an enquiry under Section 37(1) of the Competition Act, 2010 (the '**Act**') and appointed Ms. Shaista Bano, (Director General, C&TA), Ms Maliha Quddus, (Deputy Director, C&TA) and Mr. Zulfiqar Ali, (Management Executive, C&TA) (hereinafter the '**Enquiry Committee**') to investigate

¹ "Private airlines take full advantage of Palpa's protest", Business Recorder, 8 October 2015,
"Private airlines taking undue advantage of PIA pilots strike: Rabbani", GEO .TV, 7 October 2015
"Future of PIA up in the air", The News, 11 October 2015.

the matter for possible violations of the Act, and to submit a report on findings to the Commission.

5. On 6 October 2015 issued a Special Order, under Section 36 of the Act was issued to M/s Airblue Limited, M/s Shaheen Air International Limited and M/s Air Indus Airline (Private) Limited (the '**Respondents**') who were required to submit the following information to the Commission:
 - a. A list and details of the domestic routes being operated by them;
 - b. The number of aircraft being operated by them;
 - c. Number of passengers being carried on each route over the past three (03) months by them;
 - d. A list and detail of the airfares being charged on each route over the past three (03) months including the current airfares and clearly indicating the increases;
 - e. Details of the airfare determination mechanism being employed by them.
6. In addition, PIA was also requisitioned to provide information regarding cancelled flights and in response it submitted that the number of domestic flights cancelled from 1st October 2015 to 7th October 2015 was 69, which affected a total number of 4931 passengers.
7. Air Indus in its submissions stated that effective from 1 July 2015 to date the Airline's operations have been suspended by the Civil CAA. They have challenged the legality of the suspension in Sindh High Court. Also Air Indus stated that Shaheen Air and Air Blue charged excessive fares in comparison to Air Indus' fares by at least 10-15%. With regards to the price determination mechanism it is noted that their strategy was to cover operating costs. Air Indus was of the opinion that the cost of airfares should have been reduced in line with the decline in the cost of jet fuel.
8. On 26 January 2016 staff of Pakistan International Airlines (PIA) announced a strike over concerns regarding PIA's privatization. Flight operations remained suspended from 2-9 February 2016.

9. In addition to the ongoing enquiry on 4 February 2016 the Commission authorized the Enquiry Committee to also examine whether there was any exorbitant increase in airfares by private airlines as a result of this strike. The following two officers were also added to the Enquiry Committee: Syed Umair Javed, (Director, C&TA) and Arshad Javed (Deputy Director M&A). The Enquiry Committee was directed to submit its findings within two weeks.

10. On 4 February 2016 letters were sent to Airblue and Shaheen asking them to provide comprehensive data on their airfares in the month of January 2016 and from 01-04 February 2016. Both airlines were asked to submit their response by 8 February 2016. The Commission has drawn the attention of these airlines to the fact that unreasonable price increases by dominant businesses and collective price fixing between competitors are anti-competitive activities that should be avoided at all costs. The Commission issued a press release on 4 February 2016 requesting passengers to provide the Commission with any evidence of tickets that they purchased at exorbitant rates.

11. Replies were received from Shaheen on 8 February and from Airblue on 10 February. Data was analyzed and further information was sought in particular regarding passenger load on the following routes:
 - a. KHI-ISB
 - b. ISB-KHI
 - c. KHI-LHE
 - d. LHE-KHI

12. It is pertinent to mention here that the PIA flight operations ceased in between February 2-9, 2016 but due to the short time limit for the submission of its findings the Enquiry Committee was able to examine data for the period February 2-4, 2016.

ISSUES

13. The Enquiry Committee was tasked to see whether any violations of Section 3 of the Act took place. Specifically the issue before the Enquiry Committee are:

- a. Whether the Respondents hold a dominant position in the relevant market; and
- b. Whether the Respondents abused their dominant position by unreasonably increasing airfares during the investigation period.

A. WHETHER THE RESPONDENTS WERE DOMINANT IN THE RELEVANT MARKET

RELEVANT MARKET & DOMINANT POSITION

14. In terms of Section 2(1)(e) of the Act dominant position is defined as:

‘Dominant Position’ of one undertaking or several undertakings in a relevant market shall be deemed to exist if such undertaking or undertakings have the ability to behave to an appreciable extent independently of competitors, customers, consumers and suppliers and the position of an undertaking shall be presumed to be dominant if its share of the relevant market exceeds forty percent’.

15. Section 2(1)(k) of the Act defines "relevant market" as:

*“relevant market” means the market which shall be determined by the Commission with reference to a **product market** and a **geographic market** and a product market comprises of all those products or services which are regarded as interchangeable or substitutable by the consumers by reason of the products’ characteristics, prices and intended uses. A geographic market comprises the area in which the undertakings concerned are involved in the supply of products or services and in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighboring geographic areas because, in particular, the conditions of competition are appreciably different in those areas;”*

16. In light of this definition relevant market entails a: Relevant product market and a relevant geographic market. In assessing the relevant product market we need to identify: the range of products that are considered as substitutes by the consumer. Considering price, intended use, quality, and other significant characteristics. What alternative products can others supply, and under what circumstances will they do so? It is important to see whether other suppliers can switch to supplying the particular product in a relatively short period of time. Potential competition i.e. barriers to expansion and entry.
17. The closest possible substitute for domestic air travel could be domestic travel by road, however, it largely depend on the distance between the destinations in question. Travel by road could only be an alternative if the destinations are not at a lengthy distance, otherwise, traveling by road cannot be considered as a close substitute of traveling by air.
18. The demand for air travel can be categorized into two broad categories that include business travel and leisure travel. Leisure travelers tend to book their tickets in advance and this segment is more price sensitive i.e. demand is price elastic. Leisure travel usually reaches a peak during the start and end of summer vacations and around Eid holidays. The other segment involves business travel and as per our understanding from airlines in question these segments are less sensitive to price movements, they tend to book their tickets closer to flight dates. Their demand is price inelastic, as they have to travel for specific business engagements with the main concern being travelling to and from the destination on time. According to Airblue a majority of tickets are booked 72 hours before the flight and they can assume that apart from the peak season majority of travelers are business travelers. Since October is not a peak season, majority of travelers affected by flight disruptions were business travelers who had an inelastic demand i.e. they have to travel regardless of higher prices. The strike was an unprecedented incident and the demand was inelastic as it solely depended on air travel.

19. Moreover, it has also been observed that there are significant entry barriers for example high investment costs associated with setting up of an airline. There are also barriers to expansion, as an airline cannot increase the number of flights to and from a particular destination overnight. This is owing to the fact that a fixed number of slots are pre allotted by the CAA to each airline at an airport. Furthermore procuring new airplanes requires regulatory formalities, which is not possible in the short term.
20. In view of above, it appears that for the purpose of this enquiry, the relevant product market is the 'market for domestic passenger air travel'.
21. The airline industry is highly regulated in Pakistan and is being regulated by CAA. The relevant geographic market, therefore, pertains to the whole of Pakistan. Considering the relevant product and geographic markets, for the purpose of this enquiry, the relevant market appears to be 'the market of domestic passenger air travel in Pakistan, to and from various destinations within the country; inclusive of all flights operating for the purpose of commercial airline passengers'.
22. There are four airlines carrying passengers on the domestic routes being: PIA, Shaheen Air, Airblue and Air Indus with the latter not undertaking any flight operations during the period under review due to suspension from the CAA as submitted by the airline.
23. As per the above definition, in order for an undertaking to hold a dominant position in the relevant market either it should have a market share of 40% or above, or it should have the ability to behave to an appreciable extent independently of competitors, customers, consumers and suppliers i.e. exhibit significant market power. Market power can be defined as the ability profitably to sustain prices above competitive levels or restrict output or quality below competitive levels.
24. According to figures released by the CAA for 2013-14 the shares of PIA in the domestic market is 51%, Shaheen Air 24.2%, Airblue 12% and Air Indus 8.8%.

25. PIA, the national flag carrier, is the market leader in domestic passenger air travel market in Pakistan and has a dominant position on the domestic routes. Usually, PIA operates on majority of the domestic routes and the two airlines set their price in accordance with the status of booking on PIA and the residual demand. The strike by PIA pilots from October 1, 2015 and subsequently from February 2-9, 2016 resulting in cancellation of large number of scheduled flights on the domestic routes lead to the passenger load being shifted to other operating airlines i.e. Airblue and Shaheen Air.
26. To reiterate the month of October is not a peak season a majority of travelers affected by flight disruptions were business travelers who have an inelastic demand i.e. they have to travel regardless of higher prices. The strike was an unprecedented event where the dominant player PIA was forced to cancel a total of 69 domestic flights from October 1-7 affecting a total of 4,931 passengers. Since PIA was temporarily out of the relevant market its market share on domestic routes was to some extent shifted to Airblue and Shaheen. A similar situation occurred during the strike by PIA employees from February 2-9, 2016.
27. It can be argued that during the investigation period, Airblue and Shaheen became dominant on the pretext that they had the ability to behave independently of competition, customers, consumers and suppliers and thus have significant market power during the period. However, it is important to consider that the concept of dominance is intrinsically linked to time. For a player to be dominant, it must exercise substantial market power for a significant period of time. The investigation period is too short for Airblue and Shaheen to have meaningfully applied their new found 'dominance' knowing well that PIA's absence from the market was merely temporary. It can therefore be concluded that neither Airblue nor Shaheen are dominant players during the investigation period.

B. WHETHER THE RESPONDENTS ABUSED THEIR DOMINANT POSITION BY UNREASONABLY INCREASING AIRFARES DURING THE INVESTIGATION PERIOD:

UNREASONABLE INCREASE IN FARES

28. As stated in paragraph 27 above the Respondents are not dominant and hence there is no question of abuse the latter. Due to the allegations made in the media alleging a three-fold increase in fares, however, the Enquiry Committee finds it prudent to still conduct an analysis of the airfare and see if there were significant increases in airfares as was being alleged.

29. Section 3 of the Act provides:

'Abuse of Dominance: (1) No person shall abuse dominant position (2) An abuse of dominant position shall be deemed to have been brought about, maintained or continued if it consists of practices which prevent, restrict, reduce, or distort competition in the relevant market'.

ANALYSIS AIRBLUE OCTOBER 1-6, 2015

30. In its response to the Commission's queries Airblue stated that:

"In order to survive in an extremely competitive market airlines worldwide rely on Revenue Management systems that dynamically apply fares based on market supply and demand".

31. It was further noted that its passengers have the flexibility to plan their trips in advance to avail maximum discount on making advance purchases.

32. Airblue operates a total of 57 weekly domestic flights and on average carries more than 35,000 passengers every month. The domestic routes operated include:

- a. ISB (Islamabad)-KHI (Karachi)-ISB

- b. KHI-LHE (Lahore)-KHI
- c. KHI-RYK (Rahimyar Khan)- KHI
- d. ISB- MUX (Multan)-ISB

33. Airblue is currently operating on a fleet of 9 aircrafts. The management of Airblue informed the inquiry committee that in the week of 1-7 October 2015 two of its aircraft have been out of service for maintenance purposes.

34. The number of passengers carried by Airblue are as follows:

Table 1				
Sector	July	August	September	Grand Total
	Passengers travelled			
ISB-KHI	8,507	10,248	8,544	27,299
KHI-ISB	9,197	10,297	9,246	28,740
KHI-LHE	9,583	9,256	7,828	26,667
LHE-KHI	9,210	9,593	7,163	25,966
KHI-RYK	140	133	-	273
ISB-MUX-ISB	289	405	283	977
Grand Total	37,510	40,550	33,391	111,451

35. Airblue stated that it does not have the capacity in the short term to increase the number of flights to cater for increased demand as it is constrained by the number of slots it has at an airport. For example Airblue currently has two slots each at Karachi and Islamabad airports. In response to an increase in demand the airline has the option of flying an aircraft with a higher capacity on the route however, Airblue only has one aircraft with a passenger capacity of 300 that is exclusively dedicated to the Hajj service.

36. Regarding the Revenue management system (RMS) Airblue informed the Enquiry Committee that the airline can set different parameters for determining the basic fare some of which are demand and supply, size of the aircraft, the route, time of booking ticket, passenger load on other airlines etc. There are approximately fifty-three (53) fare classes the highest fare class is Y1 and the lowest fare class is H4. The lowest fares are invoked when the booking is made in advance, as the time of the flight approaches near the higher

fare classes are invoked depending on the availability of seats. As per practice bookings for domestic flights are usually made 2-3 days in advance of the flight.

37. Through the revenue management system airlines *"allocate inventory with a focus on dynamically balancing supply and demand in the market. By effectively managing variations in demand over time, airlines ultimately maximize revenue"*. By managing the availability of booking classes according to demand, an airline can smoothen demand variations throughout the year and achieve an optimal customer (or fare) mix. Submissions made by Airblue state that *"to effectively manage demand, airlines must effectively respond to seasonal changes. During the high season (e.g. the summer), discount-booking classes might be closed to reduce demand and maximize revenue potential. This strategy is intended to optimize demand and supply by selling a greater proportion of seats in the higher booking classes"*. It further states that: *"a prime goal of revenue management in the airline industry is determining optimal seat allocations by booking class to maximize revenue"*. The use of Revenue Management system is a standard practice throughout the airline industry including PIA and Shaheen.
38. In terms of the airfares charged after October 1, 2015 the airline maintains *"there has been no significant or abnormal change in the charged fares to the passengers in the past few days. In general, Airblue fares are always in-line with the market and are generally aligned with PIA"*.
39. Comparing the number of passengers that travelled on KHI-ISB and ISB-KHI routes in the week during October 1-7 2015 with a typical peak season week for example of July 23-29 2015 it can be observed that making allowances for flights cancelled, Airblue has carried more passengers in the week of October 1-7 2015 than July 23-29 2015. For instance on 23rd July the airline carried 706 passengers on the route and on 1st October it carried 864 passengers, an increase of 22%. Similarly on 25th July it carried 801 passengers and on 3rd October 866, an increase of 8%. On 28th July it carried 721 passengers and on 7th October 811 passengers, an increase of 14%. Therefore it appears that as a result of the PIA strike, Airblue faced an additional influx of passengers.

40. It is observed that the fare class allocation system is manually controlled and is based on demand. The week between 1-7 October was not a peak season and it appears that there has been an unprecedented increase in demand as can be seen in Table 2 which compares the number of passengers that travelled on the ISB-KHI and KHI-ISB route during the period October 1-6 2015, with the week of July 23-29 2015, the latter being the Eid Holiday week.

Table2: Number of passengers travelling by Airblue KHI-ISB and ISB-KHI			
	Passengers carried		Passengers carried
23rd July	706	1st October	864
24th July	790	2nd October**	406
25th July	801	3rd October	866
26th July	734	4th October***	421
27th July	536	5th October****	447
28th July	721	6th October	825
29th July*	581	7th October	811
Total Passenger	4,869	Total passengers	4,640

* PA 204 cancelled. ** PA 200 &PA201 cancelled

PA200&PA201 cancelled *PA200 and PA201 cancelled

41. FARE ANALYSIS: The average fare for ISB-KHI and KHI-ISB are shown in Table 3 below, it may be noted that Airblue operates a total of 4 flights daily on the said route. The average fare for the three (03) month period (July 2015 - September 2015) for ISB-KHI is PKR 11,572 and KHI-ISB is PKR 11,210. The average fare in the seven (07) day period from October 1-7 2015 is PKR 11,726 and PKR 11,027 for the routes respectively. This indicates that the fare was 1.3% higher on the ISB-KHI route than on average and the Karachi-Islamabad fare was 1.6% less than the average.

Route	July	August	September	Avg.3 months	October 1-6	%Change
KHI-ISB	11,591	11,170	10,868	11,210	11,027	-1.6%
ISB-KHI	10,719	13,538	10,459	11,572	11,726	1.3%

42. However, it may be stated that July and August were peak months with the Eid holidays occurring in July, and August being the end of the summer holidays. Therefore comparing the average fares for the week October 1-6 with the average fares in the immediately preceding month i.e. September 2015 is a more rational comparison. The results presented in Table 4 below clearly show an increase in the fares on ISB-KHI and KHI-ISB routes by 12.1% and 1.5% respectively.

Route	September	Oct 1-6	%Change	Difference
KHI-ISB	10,868	11,027	1.50%	159
ISB-KHI	10,459	11,726	12.10%	1,267

43. Airblue operates a total of 4 flights daily on the KHI-LHE and LHE-KHI route. The average airfare on this route for the period October 1-6 and a three-month average of July - September are shown in Table 5 below. In comparison the average fare increased from PKR 9,757 to PKR 10,573 for LHE-KHI flights and PKR 10,338 to PKR 11,281 for LHE-KHI flights in the period October 1-6, showing an increase 8.36% and 9.12% respectively.

Route	July	August	September	Avg.3 months	Oct 1-6	%Change
KHI-LHE	9,380	9,643	10,248	9,757	10,573	8.36%
LHE-KHI	9,657	11,548	9,809	10,338	11,281	9.12%

44. Comparing the fares of October 1-6 with the month of September in Table 6 below shows that there has been a 3.17% increase in the fares on the KHI-LHE route and a 15.01% increase in fares on the LHE-KHI route.

Route	September	Oct 1-6	%Change	Difference
KHI-LHE	10,248	10,573	3.17%	325
LHE-KHI	9,809	11,281	15.01%	1,472

45. Further analysis was undertaken with regards to the number of tickets sold in different fare classes to ascertain whether a greater proportion of tickets were sold in the higher fare classes. This analysis was done for the ISB-KHI and KHI-ISB route for each flight between October 1-7 2015 and July 23-29 (please refer to Tables 7 and 8 below). There is no clear pattern with regards to number of seats sold in each fare class.

46. There are isolated instances where a high proportion of seats were sold in the highest fare class. For example, PA201 on 3rd October had a passenger load of 224 out of which 47% of seats sold were in the higher fare classes (PKR 10,000 and above), 45% in the middle fare classes (PKR 8,000 to PKR 10,000) and the remainder in the lower fare classes (PKR 5,000 and below).

October	PA200	PA201	PA204	PA205
1	18	39	18	15
2			19	35
3	31	16	25	24
4			34	45
5			31	47
6	34	43	15	40
7	49	21	41	39

July	PA200	PA201	PA204	PA205
23	42	43	54	33
24	46	45	54	53
25	52	54	32	47
26	32	43	42	44
27	33	44	28	32
28	35	41	40	28
29	43	30		44

47. On only one flight PA205 from ISB-KHI on 4th October it has been observed that the highest number of tickets were sold at the highest fares classes i.e. out of 208 seats 30 were

sold at the highest fare of PKR 26,901. It has also been observed that during the peak season of July 23-29, Airblue has sold tickets for as high as PKR 29,726 and PKR 30,261.

48. In view of above, it appears that on ISB-KHI and KHI-ISB route comparing the average fare charged between the period under consideration with the preceding 3 months average fare, the change in fare was 1.3 % and -1.6%. On the similar route, comparing average fare of period under consideration with the average fare in immediately preceding month, the change comes out to be 12.1% & 1.5% respectively.

49. On KHI-LHE and LHE-KHI route comparing average fare during the period under consideration with the average fare in immediately preceding three months; the change comes out to be 8.36% & 9.12% respectively, while comparing the average with the average fare in the immediately preceding month, the change comes out to be 3.17% & 15.01%.

ANALYSIS -- AIRBLUE FEBRUARY 02-04 2016

50. Airblue were asked to submit airfares charged for each passenger during the period 01-04 February 2016. The average of these fares was calculated and compared with the average fares in the immediately preceding month i.e. January 2016. The results are as follows:

Table 9: Average Airfares Airblue (PKR)				
Route	Jan-16	02-04 Feb 2016	%Change	Difference
KHI-ISB	9022	11788	31%	2766
ISB-KHI	10737	11118	4%	381
KHI-ISB-KHI	19759	22906	16%	3147
KHI-LHE	9770	11836	21%	2066
LHE-KHI	11509	11588	1%	79
KHI-LHE-KHI	21279	23424	10%	2145

51. The average fare on the KHI-ISB route increased by 31% and the fare on the ISB-KHI route increased by 4% therefore, the net impact on the KHI-ISB-KHI route is approximately a 16% increase. It may be noted that a considerable amount of this increase

of 31% on the KHI-ISB route is due to the two special flights operated by Airblue. The fares were higher on the special flight due to: (a) special arrangements made by the airline and (b) since these were special flights the bookings were done a short time before the flight.

52. The highest fare charged on the KHI-ISB route in January was PKR 20,024 and from 02-04 February the highest fares was PKR 20,398 a difference of PKR 374. The highest fare on the ISB-KHI route in January was PKR 23,541 and in 01-04 February it was PKR 19,341 a fall of PKR 4,200.

53. On the KHI-LHE route the average fare increased by 21% and on the LHE-KHI route the average fare increased by 1% resulting in a net impact on the KHI-LHE-KHI route is a 10% increase. The highest fare on the KHI-LHE route in January was PKR 23,436 and in February was PKR 21,651. The highest fare on the LHE-KHI route in January was PKR 26,586 and in 02-04 February it was PKR 18,606.

54. It may be noted that Airblue operated extra flights on each of the abovementioned routes between 01-04 February 2016.

ANALYSIS -- SHAHEEN OCTOBER 1-6 2015

55. Shaheen Airlines has a total operating fleet of 16 aircrafts and the number of flights and passengers carried on the domestic route are as follows:

Route	Number of flights	Passenger Load
KHI-ISB	249	41122
ISB-KHI	247	40869
KHI-LHE	306	48645
LHE-KHI	300	46553
KHI-MUX	64	9268
MUX-KHI	63	7865
KHI-PEW	12	1940
PEW-KHI	13	2062

56. With respect to “fare determination mechanism”, the airline stated that the fare or price at its most basic consists of all costs plus our profit margin (the “yield”). Some of the direct costs for flight include:

- a. Fuel costs: is in-between 62% to 74% of the total cost per flight.
- b. Taxes – GST, FED, Income (WHT); customs duties for imported parts and aircraft;
- c. CAA has various charges including landing, parking, rental, airport fees, security charges etc.
- d. Pilots, crew and other staff salaries.
- e. Aircraft lease rental charges – approximating US\$200,000/- per month per aircraft.
- f. Insurance charges.
- g. Ground handling charges.
- h. Boarding costs for crew and pilots etc.
- i. Catering – currently only airline on domestic routes providing hot meals.

57. **FARE ANALYSIS:** The average fare for ISB-KHI and KHI-ISB are calculated in Table 11 below. It may be noted that Shaheen operates a total of 6 flights daily on the route. The average fare for the three (03) month period (July-September 2015) for ISB-KHI is PKR 9,117 and KHI-ISB is PKR 8,938. The average fare in the six (06) day period from October 1-6 2015 is PKR 10,922 and PKR 11,249 on the routes respectively. In other words on the ISB-KHI route the fare was 19.8% higher than on average and the KHI-ISB route the fares were 25.2% higher than the average fare.

Route	July	August	September	Avg.3 months	Oct1-6	%Change
KHI-ISB	9,077	9992	9,192	8,983	11,249	25.2%
ISB-KHI	8,616	11050	8,887	9,117	10,922	19.8%

However, it may be stated that July and August were peak months with Eid occurring in the month of July, and August being the end of the summer holidays. Therefore in

comparison the average fare for the week starting October 1-6 with the average fare in the immediately preceding month i.e. September 2015 would be fair. On average the fare during the period October 1-6 on the ISB-KHI route is PKR 10,922 whereas the average fare in the month of September 2015 is PKR 8,887 i.e. an increase of 22.9%. On the KHI-ISB the average fare for October 1-6 is PKR 11,249 and for September 2015 it is PKR 9,192 i.e. an increase of 22.4%.

Route	September	Oct1-6	%Change	Difference
KHI-ISB	9,192	11,249	22.40%	2,057
ISB-KHI	8,887	10,922	22.90%	2,035

58. Shaheen operates a total of 8 flights daily on the KHI-LHE and LHE-KHI route. The average fares on this route are given in Table 13 below that shows the increase in average fares in the period October 1-6 as compared to the average fares of the three-month period from July-September 2015.

Route	July	August	September	Avg.3 months	Oct1-6	%Change
KHI-LHE	8,225	9,186	8,790	8,764	10,247	16.9%
LHE-KHI	8,213	9,613	8,557	8,794	10,550	20.0%

59. In comparison the fares from October 1-6 with the month of September in Table 14 below shows that there has been an increase in some fares and a decrease in others.

Route	September	Oct1-6	%Change	Difference
KHI-LHE	8,790	10,247	16.6%	1,457
LHE-KHI	8,557	10,550	23.3%	1,933

It appears from above that on average the increase in average fares during the period under consideration ranged was 16.6% and 23.3% respectively when compared with the average fares in preceding three months.

ANALYSIS -- SHAHEEN FEBRUARY 02-04 2016

60. Airblue were asked to submit airfares charged for each passenger during the period 01-04 February 2016. The average of these fares was calculated and compared with the average fares in the immediately preceding month i.e. January 2016. The results are as follows:

Route	Jan	Feb	%change	Difference
KHI-ISB	9,318	10,271	9.30%	953
ISB-KHI	10,259	10,297	0.40%	38
KHI-ISB-KHI	19,577	20,568	5%	991
KHI-LHE	9,609	11,080	13.28%	1,471
LHE-KHI	10,628	10,308	-3.10%	-320
KHI-LHE-KHI	20,237	21,388	5.70%	1,151

61. On the KHI-ISB route the average fare increased by 9.3% and on the ISB-KHI route fare increased by 0.4%. The net effect on the KHI-ISB-KHI route is an increase of 5%. The highest fare charged on the KHI-ISB and ISB-KHI route in January and February was PKR 27,000. On the KHI-LHE route the increase in average fare was 13.28% and on the LHE-KHI route the average fares fell by 3.10% so the net effect on the KHI-LHE-KHI route is 5.7%. The highest fares charged on this route in January and February was unchanged at PKR 27,000.

COMPARISON OF FARES WITH PIA

62. When compared to the average fares of PIA in January 2016 with the fares of Airblue in the same month. The results in Table 16 below show that the fares of PIA in absolute terms are higher than the fares charged by Airblue and Shaheen.

Route	PIA	Airblue	Shaheen
KHI-ISB	15,860	9,220	9,536
ISB-KHI	12,800	10,737	10,504

CONCLUSION

63. In terms of paragraph 21 above, the relevant market for the purposes of this enquiry appears to be the market for domestic passenger air travel in Pakistan.
64. In terms of paragraph 27 above, neither of the undertakings i.e. Airblue and Shaheen were dominant in the relevant market for domestic passenger air travel in Pakistan for the period October 1-6, 2015 and February 2-4 2016.
65. For the period October 1-6 2015 the Enquiry Committee analyzes the fares charged by Airblue and Shaheen on the KHI-ISB, ISB-KHI, KHI-LHE and LHE-KHI routes. The average airfare on each route during October 1-6 is compared with:
- a. 03 month average fare of immediately preceding months (average for months of July, August and September 2015).
 - b. Average fare of the immediately preceding month (September 2015).
66. **Airblue (October 1-6, 2015):** Comparing the average fares of October 1-6 with the average fares in September it is observed that on the KHI-ISB route average fares of October were higher than the September average by 1.5% (PKR 159) and on the ISB-KHI route by 12.1% (PKR 1,267). On the KHI-LHE and LHE-KHI route the increase was 3.17% (PKR 325) and 15.01% (PKR 1,472) respectively. It has been observed that the maximum fares charged during the peak season were higher than the maximum fares charged during the period under review. There were also fewer instances where a higher percentage of maximum fare classes were invoked.
67. **Shaheen (October 1-6, 2015):** Comparing the average fares of October 1-6 with the average fares in September it is observed that on the KHI-ISB route the average fares of October were higher than the September average by 22.4% (PKR2,057) and on the ISB-KHI route by 22.9% (PKR 2,039). On the KHI-LHE and LHE-KHI route the increase was 16.6%(PKR 1,457) and 23.3% (PKR1,933) respectively. It may be noted that airfares on various routes in absolute terms was never higher than that of PIA and Airblue. For example

on the ISB-KHI route the average fare of Shaheen from October 1-6 was PKR 10,922 on the same route the average fare of Airblue was PKR 11,726 and for PIA PKR 11,566.

68. For the period February 2-4 2016 the ER analyzed the fares charged by Airblue and Shaheen on the KHI-ISB, ISB-KHI, KHI-LHE and LHE-KHI routes. The average airfare on each route during February 2-4 is compared with the average fare in the immediately preceding month (January 2016).

69. **Airblue (February 2-4, 2016):** As compared to the average fare in January 2016 the average fares of Airblue on the KHI-ISB route increased by 31% and increased on the ISB-KHI route by 4%. On the KHI-LHE route fares increased by 21% and LHE-KHI route fares increased by 1%. Airfares for 3 of the 4 routes examined witnessed a nominal increase. On the KHI-ISB route fares increased by 31% which was due to the 2 special flights operated by Airblue. Fares on this flight were higher due to special arrangements made and last minute bookings. In absolute terms the increase in airfares is PKR 2,766 which is nowhere near the exorbitant increases as alleged in the media.

70. **Shaheen (February 2-4, 2016):** As compared to the average fare in January 2016 the average fares of Shaheen on the KHI-ISB route increased by 9.3% and increased on the ISB-KHI route by 0.4%. On the KHI-LHE route fares increased by 13.28% and LHE-KHI route fares fell by 3.10%.

71. It may be concluded from the analysis of the data that on the routes examined the increase in airfares was nominal and the Enquiry Committee could not find any exorbitant three-fold increase as alleged in the media neither did it receive any evidence from consumers to substantiate this allegation.

72. It may also be noted that the above scenario was temporary in nature and the normal market conditions were restored once the strikes were called off.

73. It is proposed that the Commission should continue to keep a close eye on the behavior of all market players in the domestic airline industry, in particular, any exorbitant and unreasonable price increase and collusive behaviors, among other things.

Shaista Bano
Director General
Enquiry Officer

Syed Umair Javed
Director
Enquiry Officer

Arshad Javed
Deputy Director
Enquiry Officer

Maliha Quddus
Deputy Director
Enquiry Officer

Zulfiqar Ali
Management Executive
Enquiry Officer

Islamabad, 15 February 2016