SENATE OF PAKISTAN

REPORT OF THE STANDING COMMITTEE ON
DEFENCE AND DEFENCE PRODUCTION

ON

PAKISTAN INTERNATIONAL AIRLINES (PIA)

PRESENTED BY

SENATOR NISAR AHMED MEMON
CHAIRMAN COMMITTEE
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CONTENTS

A. Executive Summary 3

B. Minutes of the meetings from 2005-2008

1. Minutes of the meeting of 24th February 2005 36
2. Minutes of the meeting of 14th April 2005 45
3. Minutes of the meeting of 24th May 2005 49
4. Minutes of the meeting of 20th July 2005 56
5. Minutes of the meeting of 2nd September 2006 66
6. Minutes of the meeting of 7th December 2006 73
7. Minutes of the meeting of 28th August 2007 80
8. Minutes of the meeting of 14th September 2007 91
9. Minutes of the meeting of 28th May 2008 98
10. Minutes of the meeting of 10th November 2008 105
A. EXECUTIVE SUMMARY

The Senate Standing Committee on Defence and Defence Production held 10 meetings from 24th February 2005 to 10th November 2008 with the senior management of Pakistan International Airlines (PIA) on issues of utmost importance to the Airlines and passengers, who travel by PIA. All the meetings were chaired by Senator Nisar A Memon. A Sub Committee headed by Senator Mrs. Rukhsana Zuberi was also formed during this period which studied in detail the sale of A300 B4 and B 747-200 (Pax) aircraft and leasing of A310 aircraft by PIA.

The first meeting of the Committee was held on 24th February 2005 at PIA Headquarters, Karachi. The agenda before the Committee was:

i) PIA Aircraft sale policy with specific details of recent sale of Airbuses and Boeings.

ii) PIA, lease policy with specific details of F-27’s and Airbuses (Passenger & Freighters).

iii) Purchase Price Components of Boeing 777.

iv) Aircraft spare parts management and disposal policy.

v) Recruitment and promotion policy, with specific reference to Balochistan.

After the introductory remarks Senator Nisar A. Memon, Chairman Committee gave the floor to Chaudhry Ahmad Saeed, Chairman PIA to brief the Committee on the items of agenda. Chairman PIA asked the concerned Directors to give presentation to the Committee about their respective Departments.

Syed Kamran Hassan (Director Marketing) stated that Fleet modernization was an integral part of the business plan (2003 – 2011) which envisaged retiring of the entire A300 B4 and B747-200(PAX) fleet and induction of their replacement. Briefing the Committee on the sale of B747-200 and A300 B4 he stated that the average age of A300 fleet is 24 years while that of the B747-200(PAX) is 30 years. These aircrafts were costing the airline more on account of higher fuel consumption and maintenance cost. The sale of aircraft was advertised both locally and internationally. 14 parties submitted their offer for B747-200(Pax) and/or A300 B4 fleet. After the offers were evaluated, a report was represented to PIAC Board for final approval. A decision would be taken in the Board meeting scheduled for 3rd March 2005. Referring to the timing of the sale of F-27 Aircraft, Chairman PIA stated that these planes are required to be grounded on 28th February 2006 therefore they are being offered for sale in flying condition rather than in scrap value after that date.

Senator Farhat Ullah Babar asked the following questions:-
When and at what level the decision to sell the A300B4 and B747-200(Pax) aircraft was taken? Chairman PIA responded that the Board gave its decision a year ago, but we had to retain the aircraft for Hajj 2005. We placed the matter before the Board again for extension in date of sale of Aircraft as otherwise we had to lease aircraft for Hajj.

Is it correct that the sale of these aircraft is taking place after installation of new navigational equipment worth $2 million? Chairman PIA responded that the equipment worth $2 million would be later removed and installed on new aircraft.

Is it true that similar aircraft are in use in Saudi Airline and Iran Air? The Minister of State for Defence responded that the aircraft were being sold because of higher operational cost. Other airlines might be using these types of aircraft due to different business plans.

Senator Sardar Mahtab Ahmad Khan supported the business plan of PIA and asked the following question:-

Did PIA mention in the advertisement the state in which the aircraft would be transferred to the buyer? Chairman PIA responded that the buyers would have the entire history of the aircraft available to them and they would also inspect the planes.

The business plan was approved in 2002. There was a feeling that after 9/11 airlines would be getting bankrupt and since PIA was buying new generation aircraft was it not the right time then? This was what PIA did. That was buying time and not selling time so it was a considered opinion to buy.

Senator Kamran Murtaza asked the following questions:-

Should PIA not convey the decision regarding removal of equipment from the aircraft to the interested parties in writing to avoid any litigation in future? Chairman PIA responded that the format of the advertisement is a standard one operative in the airline industry.

Why was the advertisement not splashed in the international press rather than just one magazine? Chairman PIA responded that besides the magazine the advertisement was also posted on a widely read website by the name of SPEED NEWS that was the reason PIA got 41 enquiries.

Senator Rukhsana Zuberi asked the following questions:-

Would PIA require these aircrafts for the next Hajj season? Can those be retained till that time? Retaining them would be expensive whereas leasing aircrafts would be less expensive. Had PIA offered spare parts of these
aircrafts for sale? The Committee asked for feasibility study prepared by PIA comparing sale of A300B4 and 747-200(Pax) and leasing of A310 aircraft along with supporting documents.

Chairman, PIA responded that spares were not advertised and their sale would be negotiated later on. The advertisement was for sale of aircraft while spares would be separately bid.

ii) Did PIA receive closed bids or open bids through fax? The Chairman again responded that they were not closed bids.

Senator Asif Jatoi asked the following questions:-

i) It was feared that selling of A300B4 and 747-200 would affect passenger usability as passengers were shifting to other airlines for larger cargo facility since A310, which the PIA was going to lease, had smaller cargo capacity.

Chairman PIA replied that PIA would have a better and fuel efficient fleet with less maintenance cost. A300B4 did not operate on full capacity. They had separate aircraft for cargo, which was delivered as soon as passengers arrive.

Related to Item – ii, Senator Muhammad Akram asked the following questions:-

i) Was it necessary to lease F-27 or some other aircraft can be inducted? Why did GOP not approve the financing of new aircraft as a replacement of F27? Chairman PIA remarked that Bombardier was selected by the evaluation Committee of the Board. A summary was submitted to the government, which was placed before the ECC. It was turned down on the ground that PIA wanted financing in Pakistani rupees. PIA had no choice but to lease a Fokker since spare parts were available and the Crew did not require any training. If PIA decides on another Make or Type it would be on wet lease, which was expensive. The Committee desired that cost details about lease of Fokker may be sent to the Committee.

Senator Mahtab Ahmad Khan asked as to why GOP refused Pak. Rupee financing. Chairman PIA responded that PARCO was granted Rs. 300 million local Rupee financing. They converted that amount into dollars and prepaid their loan, which resulted in the depreciation of the rupee. GOP realized that it may not be able to keep the dollar – Rupee parity so it stopped rupee financing for everybody.

Senator Kamran Murtaza asked why no cargo flight operated from Quetta? Chairman responded that PIA brought cargo from Quetta to Karachi from where it was sent abroad. No exporter from Balochistan had faced any problems regarding air lifting of export cargo from Quetta.
Senator Rukhsana Zuberi asked about the difference between A300 and A310 and A300B4? And what maintenance facilities PIA had for the new aircraft? The Chairman responded that PIA had six A300B4 in its fleet. The A310 and A300B4 take the same spare and cockpit crew but PIA needed slightly lower number of seats that is why A310 were being acquired. Regarding maintenance facility the Chairman stated that PIA engineers are trained for both the aircrafts. Moreover the maintenance cost of A300 and A310 was lower.

Senator Asif Jatoi suggested that A330 would have been a better choice compared to A300 and A310 moreover other airlines were also opting for A330. Chairman PIA responded that A330 is an expensive aircraft and the other airlines were using these on long routes and not for short hauls. Moreover the issue pertains to aviation policy about which PIA had reservations.

Senator Ismail Buledi inquired why F-27 aircraft was being used on Makran sector if its mechanical life was over. Chairman PIA responded that the life of this aircraft was 90,000 landings and up to this number the plane was within safety limits. Three such aircraft have been grounded while others are in service as they have yet to complete their life.

Related to item – iii & iv oh the agenda, Senator Rukhsana Zuberi stated that the international press pointed towards a vendor who had won a $10 million contract for supply of seats. She asked for prices of all components and payments made. Kamran Hassan, Director Marketing responded that for replacement part no replacement price would be charged.

Senator Kamran Murtaza asked about the recruitment policy of contractual employees. Chairman PIA responded that PIA paid Rs.10 million to the contractor who in turn paid Rs.2000 to each employee. PIA relieved the contractor and offered a five year contractual employment to people working for the contractor and was paying them Rs.5000 – 10,000 each. Contractual employees are mostly from Karachi but this imbalance would be corrected.

Senator Farhat Ullah Babar stated that PIA purchased Boeing 777 from MS Taxila and Ms. Taxila in turn purchased these planes from the Boeing Company. He asked whether there was any difference between the amount paid by PIA to Ms. Taxila and the amount Ms. Taxila paid to Boeing. He asked PIA management to provide a copy each of the agreements between PIA and Ms. Taxila and between Ms. Taxila and Boeing. Chairman PIA responded that purchase contract had been signed with Boeing. MS Taxila was a financing arrangement and represented by Axim Bank, which created that company. The agreement was assigned to Ms. Taxila. Mr. Zahid Hamid Minister of State for Defence stated that there were no two sets of prices. Lease money would be paid to Ms. Taxila for 12 years, which would be equal to the price of the planes. All this arrangement was made to obtain favorable terms for PIA.
Related to Item – v, Senator Mouhim Khan Baluch raised question about Balochistan domiciled candidates who were not offered jobs despite their good performance in test and interview. He also raised the issue of Balochistan domiciled contractual employees, who had not been promoted and were paid meager salary. Chairman PIA responded that 3 candidates qualified as trainee officers. The candidate who was third on the merit list objected that candidates, who stood 1st and 2nd were not genuine Baloch therefore PIA should offer job to him. Chairman PIA further stated that in the previous 4 governments merit was not followed nor jobs advertised. The Airline needs to lay off 4000 – 5000 employees only then it would be in a position to pay higher salaries to employees on the operation side. Moreover time scale promotions in PIA have been stopped and exams are now held for determining promotion eligibility.

Under “Any other item”, Senator Ismail Buledi agitated the termination of PIA flights between Turbat -Sharjah and Turbat-Dubai, which were operative for 1 ½ years only. PIA Management had told him that Middle East Countries did not give landing rights to aircraft without T-CAS equipment. They also said that Fokkers were being replaced and the new aircraft would have the required equipment therefore presently Fokker service to Sharjah and Dubai from Turbat cannot be resumed. Senator Buledi asked for a confirmed date by which Turbat – Middle East flights would resume. If PIA cannot resume flights to these destinations then NOC be awarded to a private airline to operate on the route. He also demanded that Quetta – Turbat – Gwadar service should be launched. Chairman PIA argued that there was some misunderstanding about the matter. He stated that CAA had given in writing that 737 can operate from Pasni. Then they said it cannot and he had to apologize for it. On the insistence of the Committee Chairman PIA agreed to operate the two leased Fokker with T-CAS equipment on Turbat- Gulf route by 15th June 2005. If by that date PIA was not able to resume these flights Senator Buledi may invite any private airline to operate on that route.

Chairman Committee asked whether PIA was confirming the delay in F-27 replacement because of change in financial procedure. Chairman PIA stated that PIA had asked for subsidy on Northern Areas route and the Committee should recommend to GOP for provision of subsidy to strengthen PIA’s case. The Committee was informed that PIA Board would decide the issue in its meeting on 3rd March 2005.

The second meeting of the Committee on PIA was held on 14th April 2005 in Committee Room No.4 of the Parliament House. The agenda before the Committee was sale and lease of Airbuses by PIA. Chairman Committee Senator Nisar A. Memon invited Senator Rukhsana Zuberi to apprise the Committee about her questions regarding the agenda item.

Senator Rukhsana Zuberi stated that in a meeting of the Committee held on 24th February 2005 at Karachi, she had asked for the comparative feasibility prepared by PIA regarding leasing and selling of Airbuses, which had not been provided. The leasing of Airbuses was re advertised and again MNG and Fly Air were the successful bidders. Senator Zuberi asked as to how a company went beyond the advertisement by bidding for training of crew, provision of spare parts and maintenance of aircrafts. She suggested that
the aircrafts be given on wet lease in which case PIA would generate revenues of $ 40 million. The Minister of State for Defence stated that PIA management took cognizance of the Senator’s observations and invited fresh tenders but again MNG was the highest bidder.

Syed Farooq Shah, Deputy MD PIA stated that leasing of Aircrafts was a better decision in the context of future employment prospects of the crew and flight engineers. He clarified that contract for sale of Aircrafts was different from the contract for maintenance and spare parts. The Chairman inquired as to why this approach was adopted or was it an industry practice. Mr. Shah Nawaz Rehman, Director PIA stated that sale of aircrafts was different from the leasing contract. Senator Sardar Mahtab Ahmed asked whether any compromise was made on the aircrafts lease price in order to ensure service contract for the crew and flight engineers. The Director responded that the highest bid received for the planes was higher compared to last time. The Chairman suggested that in future sealed tenders should be invited and all bidding parties should be invited to witness the opening of tenders.

Senator Rukhsana Zuberi further stated that she had requested that PIA accounts and business plan may be sent to the Auditor General of Pakistan or to a Chartered Accountant for scrutiny. Syed Farooq Shah, Deputy MD responded that Chartered Accountants were involved in preparation of the business plan. Senator Rukhsana Zuberi stated that had the aircrafts been offered on wet lease, PIA would have retained the ownership of these aircrafts. The Deputy MD responded that wet lease would be expensive for PIA while in the present arrangement PIA has no maintenance liability.

The Committee constituted a Sub-Committee of the following members to look into the entire matter of selling of A300B4 and leasing of A310 Aircraft by PIA and submit its report by 15th May 2005.

i) Senator Rukhsana Zuberi Convener

ii) Senator Muhammad Akram Member

iii) Senator Asif Jatoi Member

The other items discussed by the Committee were non provision of contract documents between PIA and Ms. Taxila and Ms. Taxila and Boeing Co. by PIA. The Chairman provided a newspaper cutting to PIA Management about Air Hostesses retiring age, which said that Air Hostesses had approached the Supreme Court pleading that retiring them at the age of 35 was discriminatory compared to the retirement age of their male colleagues. The Chairman ruled that since the case was subjudice the Air Hostesses in question may not be harassed and forced to leave until the case is decided.
The third meeting of the Committee on PIA issues was held on Tuesday 24th May, 2005 in Committee Room No.1 of the Parliament House. The agenda of the meeting was:

(i) To discuss the report of the Sub-Committee.
(ii) Surplus Contracted Employees.
(iii) Irregularities reported Vis a Vis selection of Manpower Suppliers.
(iv) Motor Transport Contract / Outsourced.
(v) Clearing / Forwarding Contract Irregularities.
(vi) Engagement of Consultants and Lawyers.
(vii) Purchase of Reservation System Performance and Benefits / Costs.
(viii) Procurement of Engineering Parts.
(ix) International Posting of PIA Employees.

The Chairman Committee invited Senator Rukhsana Zuberi to present report of the Sub Committee. Senator Zuberi, Convenor Sub-Committee, stated that the Sub-Committee has been seeking information from PIA management but got incomplete and incorrect information. The feasibility report regarding the sale of A-300 B4 and the lease of A310 was not provided to the Committee as well as the Sub-Committee. She read the recommendations of the report which were as follows:-

(i) Lease of six A 310 be cancelled forthwith. Even after paying any penalty, PIA would be saving lot of foreign exchange being wasted, as these 310 were lying in storage for cannibalization.

(ii) The proposed sale of six A300 B4 for paltry amount of 10.1 US$ million be stopped & these aircrafts be brought back into service.

(iii) All the officials of PIA, who have been misleading the Standing Committee, should be immediately suspended & inquiry initiated against them.

(iv) Action under appropriate laws be taken against all the officials planning & trying to execute a deal, which is going to cause huge losses.

Responding to the findings of the Sub Committee report Mr. Tariq Kirmani, Chairman PIA stated that report does not cover the technical side. PIA initially had 10 A300 B4’s of which eight were owned by PIA while two were leased. The two leased planes were returned one after the other while one of PIA’s own planes had a near crash in Dubai in 2003 while one such plane crashed in Jeddah. In 2004 another plane was grounded as it had completed 34,000 landing cycles beyond which it was not viable to fly the plane. He informed that most of these planes were about to complete their life. The PIA Board directed that buyers should submit sealed bids, which direction was adhered to. PIA had gained from of the sale of these aircrafts and in future too PIA management would take transparent decisions. PIA would sell these planes on “as is where is” basis.
Syed Farooq H. Shah, Deputy MD PIA stated that comparison of A300 B4 and A310 was based on different yard stick but now PIA has based it on the same denominator. The report says that with the induction of A310 there would be loss of 48 seats while PIA maintains that it will lose 25 seats per plane.

Senator Farhat Ullah Babar stated that selling of A300 B4 and leasing of A310 was damaging for PIA. The Sub-Committee report highlights that PIA would loose if these planes were sold and new ones leased.

Senator Muhammad Akram stated that in the Sub-Committee meeting at Karachi it was informed that Fokker and other planes are old too and the entire plan had to be appreciated in the light of financial constraints. The information provided by the management explicitly said that they were selling 22 years old planes and leasing 9 years old ones to modernize the fleet. If correct and complete information was not provided people would reach the wrong conclusion.

Chairman Committee asked Senator Zuberi to explain why she alluded to the figures of $10.8 million and $10.1 million. Senator Zuberi replied that the bid documents provided to the Sub Committee showed that the amount in question was hand written and there was over writing as well. Chairman PIA stated that the bid documents were opened in one sitting in the presence of bidders. The correct figure is $ 10.1 million and not $ 10.8 million. Chairman Committee directed PIA to show the original documents with $ 10.1 million to Senator Zuberi to remove her doubts.

Senator Muhammad Akram stated that if timely and proper maintenance was carried out PIA would not be required to sell these aircrafts as other companies were still flying them. Deputy MD PIA stated that the life of A300 B4 was 34000 landing cycles as stipulated by the manufacturer. The planes have either reached or about to complete their life. PIA followed the procedures suggested by the manufacturer as well as the procedures laid down by CAA.

Senator Rukhsana Zuberi stated that a report by Stanley Paul said that the planes can fly an additional 5000 hours. Chairman Committee asked if there was a cannibalization procedure in PIA and inquired if the CAA had carried out a technical evaluation of these planes. Mr. Tariq Kirmani, Chairman PIA responded that it depended on the manufacturer’s report whether the plane was in A, B or C category. In category D complete ripping of the plane is required and it takes 45 days to put the plane together. CAA is the local monitoring authority. They do not inspect each frame of the plane.

The full Committee did not agree to the recommendations of the Sub Committee that the sale of planes should be stopped. The Committee decided that in view of the clear commitment of Chairman PIA that these six aircraft were not airworthy and that the procedure of inviting bids had been made transparent and highest price had been received therefore the Committee left it to PIA to decide whether to sell these planes or otherwise. Moreover, there was no need to cancel the lease agreement since Chairman PIA had just committed that there planes were needed for its operation. Senator Muhammad Akram
stated that there may be many questions pertaining to selling of these aircrafts but news of withholding their sale would not go well in the corporate world. Chairman Committee stated that he would leave the issue of action against any official, who may have concealed information or gave wrong information, to the good judgment of the new Chairman. Senator Zuberi and Senator Babar disagreed with Chairman Committee and placed on record a note of dissent.

The fourth meeting of the Committee on PIA was held on Wednesday 20th July 2005 in Committee Room No.1 of the Parliament House. The agenda before the Committee was as follows:-

i) Overdue pending information from PIA;

ii) Contradictory information from PIA and CAA on the sale of six air buses;

iii) Transparency issues

iv) Specific questions raised by Senator Rukhsana Zuberi regarding Sale/lease of A300 B4 sent to PIA on 8th July, 2005.

v) Reports on recent possible mid air collision between PIA and Air Blue.

Senator Farhat Ullah Babar stated that in the meeting of 24th February 2005 the then Chairman PIA had made a statement that GPS equipment would be removed from A300 B4 planes. Now the Management is taking a position that if GPS equipment was removed then INS equipment would have to be installed which was far more expensive. They also argue that the equipment was not removed so as to keep the aircraft worthiness certificate valid. Senator Babar agreed with the latest position but was of the view that there seemed to be lack of transparency.

Senator Mouhim Khan Baloch asked the management to look into the reservation problem of Parliamentarians. He also raised the issue of starting of PIA Service between Gwadar and Sharjah which had still not materialized. He further informed that people of Balochistan got visas for performing Umra but did not get seats on PIA to travel to Jeddah. He demanded that flights between Balochistan cities and DG Khan / Multan may also be started for the convenience of businessmen from Balochistan.

Senator Sardar Mehtab Ahmad showed concern about the financial benefits ignored by PIA while selling A300 B4 and leasing in of A310. The cost benefit of selling and leasing of the planes was not carried out on rational financial grounds. He was of the view that the amount to be paid for leasing in air crafts for Hajj season was much higher than what PIA received by selling the 6 air craft. As an example, he stated that PIA leased one engine to Tri Star for $ 1.2 million per year so what could be the revenue generated by PIA if it leased 12 engines and if the aircraft were sold in pieces? PIA received 10.1 million for the 6 air crafts which comes to $ 1.683 million per plane.
Senator Rukhsana Zuberi stated that in the meeting of 24th February 2005 Members asked for reasons which necessitated the decision to sell six A300 B4 aircraft and it was stated that the decision was based on feasibility report and the marketing plan prepared by the management. She said that the feasibility report despite various reminders had not been provided to the committee. Senator Zuberi informed that the said report was not even placed before the PIA Board. She also informed that PIA was losing passenger business as the A310 had inadequate cargo space and mostly an A310 is followed by a freighter which carried passenger’s luggage. She also raised objection regarding the economic implications of retaining A300 B4 and leasing A310. Senator Zuberi also objected to the incorrect calculation of the fuel cost and no cost reported in “other cost”. If PIA leased A310 it would entail buying spare engine which again was not reported and so was the training cost of crew and maintaining personnel, who would be new to A310.

She further asked if the sale of the air crafts was not based on feasibility report, what factors compelled PIA to sell A300 B4 and lease A310 aircraft. Last time the Committee was told that PIA lost four A300 B4 air crafts during the last couple of years and that these were not safe. She informed that cracks in A300 B4 were detected by Airbus personnel and they had offered to fix them but apparently the opportunity was not availed.

Senator Zuberi further stated that the tender document of A300 B4 did not mention GPS equipment being offered as the aircraft was already installed with LTN 92, which was a requirement for air worthiness. Why the management argued that INS equipment had to be installed on these aircraft. At that point she presented the tender document to the committee The Chairman Committee stated that in the last meeting Chairman PIA had informed that the planes were being sold since they were not safe but now there were different statements. He asked DG CAA to give his position on the air worthiness issue. Air Marshall Pervez Nawaz, DG CAA stated that the aircraft were air worthy and their certificates were valid. If the aircraft are in storage for 60 days then test flights are necessary. Secondly GPS or INS is necessary for air worthiness. Thirdly cracks in the body of the aircraft had certain limitations and it could still fly.

Senator Rukhsana Zuberi also asked why it was necessary to have test flights of A300 B4. Chairman Committee asked whether PIA could retain the aircraft till the next Hajj and Umra season and lease them out subsequently.

Senator Kamran Murtaza asked the following questions:-

(a) At the time when crack was detected on A300 B4 plane what action was initiated by PIA Management to ensure that the aircraft was safe.

(b) Since the aircraft are air worthy why these cannot be used by PIA.

(c) Since GPS is not being removed, was PIA asking for extra amount from the buyer for this gadget.
(d) The amount spent on the six planes sold on “as is where is” basis.

(e) According to the sale agreement the law of England will apply in case of a dispute between PIA and MNG. He asked why this clause was agreed to.

(f) Why the contract document is confidential? Why not open it to people in related business.

Syed Farooq shah, Deputy MD PIA stated that commitment about GPS was made by the previous Chairman as at that time Muhammad Tariq Farooq, Chief Engineer PIA had informed that previously LTN 92 was installed on this plane but after 20 years LTN 72 was introduced in the market and was installed. In 2001 when spares for this gadget were not available PIA opted for GPS. The tender documents did mention that the planes were being offered without GPS but that was wrong information.

Senator Rukhsana Zuberi asked whether PIA had informed the bidders that the air crafts were being sold on “as is where is” basis and whether they knew that the aircraft would be installed with GPS and new seats etc. She was of the view that if PIA gave these planes on wet lease it could get $ 2600 per hour for these. Tariq Kirmani, Chairman PIA responded that the Aircraft were undoubtedly offered on “as is where is” basis but they had to be air worthy, which was mentioned in the tender document. Senator Kamran Murtaza asked Chairman PIA whether he was satisfied with the deal. The Chairman responded that there was no problem with the sale of these air craft and these should be dispensed with. The maintenance cost of old planes was very high and there were stringent inspection requirements.

Senator Mouhim Khan Baloch stated that since PIA is a commercial organization it should have good planes, efficient staff, serve good food and charge reasonable fares. Moreover many air hostesses who should be at home are still serving PIA. Senator Zuberi added that the senior flying staff inclusive of the stewards be given other back office assignments. Chairman PIA responded that there was no consideration of age for air hostesses in PIA and if they could work satisfactorily they continue. Previously the Supreme Court reinstated some air hostesses that PIA had retired at the age of 45.

Chairman Committee asked about the replacement of F-27’s. Chairman PIA responded that the Airline had arranged finances and would get the new planes by June 2006. Chairman Committee asked whether feasibility comparing A300 B4 and A310 planes had been presented to the Board. Mr. Rashid Hassan, Director Corporate Planning stated that the plan in question was not presented but the changed plan was presented to the Board.

Senator Kamil Ali Agha stated that PIA management should tell the Committee why fares on Lahore Islamabad sector had not been reduced. He requested the Government to withdraw the monopoly enjoyed by PIA on that route. Senator Rukhsana Zuberi stated that from the discussion it was clear that the decision of selling of planes
was not based on safety or financial feasibility. PIA should come up with all audited accounts and work out the expenditure being incurred on A300 B4 and A310 leased aircrafts. The management was asked to look into the feasibility of retaining A300 B4 for that year’s Hajj & Umra operations but they said that they had limited slots at Jeddah Airport so they were leasing bigger 747 aircraft. Currently PIA had taken the position that they are not clear about the economics of Umra/Hajj operations therefore they cannot decide about using old planes.

Senator Rukhsana Zuberi suggested that PIA management should give answers to the questions of the Members on oath. Responding to Senator Kamil Ali Agha about not reducing fares on Lahore Islamabad sector, Chairman PIA stated that PIA did not monopolize this route. Private airlines did not operate on this route because it was not feasible at low fares compared to the cost of operation.

Concluding the meeting, Chairman Committee said that PIA was a public organization and PIA Management had to sort out its internal issues and solve problems of people, who are dissatisfied especially at the higher level so that they stop providing this kind of information to the public. Transparency was very essential and as witnessed lack of transparency in the tender process was brought up vigorously. PIA should provide authentic comparison of expenses on A300 B4 and A310 leased planes along with original agreements to the Committee.

The fifth meeting of the Standing Committee on Defense and Defense Production on PIA issues was held on September 2, 2006 in Committee Room No. 1 of the Parliament House. The Agenda of the requisitioned meeting was the following:

(i) Investigation details of Multan Fokker accident.
(ii) Present Working of all PIA departments.
(iii) Details of Finances and Government shares.
(iv) Management of gratuity and pension funds.
(v) Any other item with the permission of the Chair.

Agenda of the referred business pertaining to the following starred question was also included for discussion:

* Starred question No. 10 answered in the House on 15th March, 2005 regarding details of Agricultural Land acquired by the Government from the farmers of Villages Khaddar Khel, Mehmendi, Sheikh Buland Bande and Dervezi, District Kohat.

Senator Nisar A. Memon invited the PIA Management to brief the Committee on the Multan Air Crash. Air Commodore Junaid Amin, Head Investigation Team stated that Fokker Flight 688 left Multan at 1205 hours on 10th July, 2006 from runway 36. The Air Traffic Control observed that the plane was at low attitude than normal and tilting to its
right. The plane crashed at 1206 hours two kilometers north of the runway after being airborne for 55 seconds. 45 people were on board the ill fated aircraft of which 41 were passengers and 4 were members of the crew. Of the 41 passengers, 20 were destined for Lahore and 21 for Islamabad. At 1207 hours the Air Traffic Control informed the crash tenderers, who reached the site at 1215 hours. There had been no delay in the rescue operation.

Air Commodore Junaid Amin further stated that all eye witness had been interviewed and parts of the plane taken into custody and preserved. No abnormality was detected in the fuel samples. The left engine was in order while the right engine showed internal damage to the turbine. There is a possibility that the right engine did not generate power. CVR and Turbine were sent to France and the UK respectively for examination while FDR had still not been downloaded. At this stage the investigation team knows partially as to WHAT had happened but the answer to WHY it happened had still to be determined. In approximately two months time i.e. till mid October, 2006 the inquiry would be completed. He also provided the composition of the inquiry team.

In response to a question by Senator Naeem Hussain Chattha Air Commodore Junaid Amin stated that at B1 speed the pilot can abort take off while at speed higher than B1, the Aircraft should take off and after attaining a height of 400 feet the pilot could make an emergency landing.

Senator Rukhsana Zuberi suggested that investigation should have been outsourced to a foreign company because it was a specialized job otherwise it would take a long time to complete. Countries like Australia and Japan etc. are outsourcing such investigations. She asked whether reports of previous plane accidents had been published. She further stated that according to her information the Captain was over fatigued.

The PIA Management responded that CAA was responsible for conducting such inquiries and such accidents are not out sourced. AVM M. Safdar Deputy DG. CAA stated that all investigations pertaining to civil aircrafts are given to International Civil Aviation Authority (ICAA) and they publish the reports. In reply to a question by Senator Nisar A. Memon, AVM M. Safdar stated that no inquiry conducted by Pakistani experts in the past was rejected by the International Civil Aviation Authority. It was checked and found that the crew was not tired and was given proper rest. The captain who has to rest for ten hours according to the book was rested for ten hours five minutes in this case.

In response to a question by Senator Mushahid Hussain Sayed whether the statement made by Major® Tanvir Hussain Syed, Parliamentary Secretary for Defence before the National Assembly, that Fokker planes are ‘flying coffins’ was correct, the PIA Management responded in the negative and argued that an aircraft is either air worthy or otherwise. Shahnawaz Dara SVP Flight Safety said that compared to other airlines PIA crew fly less hours. During the last 36 years the minimum rest time for pilots between two flights was 8 hours but since last year it was increased to 10 hours and this was in conformity with international standards. The Committee asked PIA to send a copy
of the standards applicable in PIA and other international air lines to the Secretary of the Committee containing details of both the cockpit and cabin crew.

Senator Nisar A. Memon stated that an aircraft is permitted to take off given a certain combination of load on board and the temperature on ground. The higher the temperature on ground, less load the aircraft must carry to take off. Is it true that the ill-fated Fokker was carrying passengers plus freight load beyond limits given that temperature? Mr. Tariq Kirmani, Chairman PIA responded that on that particular date and time the temperature on the runway was 36 degree centigrade and the aircraft was carrying 1000 kg less weight than required. The Chairman asked the concerned authorities to send the inquiry report to the Committee whenever it is received. Rao Sikandar Iqbal Minister for Defence stated that the inquiry report would be received in 3-4 months time and he had committed that it would be placed before Parliament.

Related to Agenda item ii to v, Mr. Tariq Kirmani, Chairman PIA stated that PIA Management had coined three C’s which stand for convenience to customers, comfort of customers and competitiveness of air line for customers. He stated that customers could book seats through mobile phones, go to the airport and buy a ticket paying by credit card or cash. PIA had 3500 agents’ world wide including 37 in the UK and now more outlets were being opened. Flight entertainment was important and was being monitored by a six member team. As far as competitiveness was concerned PIA was doing well since its market share had gone up from 47% in 2005 to 65% in 2006.

Senator Rukhsana Zuberi stated that Mr. Javed Sheikh who worked as GM Fuel at PIA took leave and worked with IATA and then Aero Exchange. He rejoined PIA and was pleading for purchase of parts from his former employer, Aero Exchange, which was unethical. Chairman PIA responded that Mr. Javed Sheikh was Senior Vice President responsible for Procurement and Logistics. He went on leave without pay to work in Aero Exchange, an IT based company. Moreover it was not necessary to buy from Aero Exchange. AVM Gul stated that PIA was a member of Boeing and Airbus, who informed it about the nearest available part and the airline which possessed it.

Senator Asif Jatoi raised the following points.

i. That PIA Website was not working properly.

ii. Economy Class and Economy Plus on 777 are the same.

iii. 50% of the entertainment sets on the 777 plane that he traveled on did not function properly or were out of order.

AVM Gul replied that the website is now functioning properly. A row of seats in the Economy Plus were being removed to increase the space between rows of seats. In A310 sleepers have been installed in the Business Class so as to give a different look than the Economy Class. Senator Syed Dilawar Abbas stated that normally customers face problem in getting a seat on PIA while seats on the plane are found vacant. Chairman
PIA responded that PIA recovered Rs. 6 million from agents for fake over booking. Mr. Asif (PIA) stated that previously agents fed fictitious names but PIA cleared 80000 seats in previous months and now PIA had stopped doing business with those agents.

In response to another question regarding Management of Pension Funds Mr. Arif Majeed, SVP Finance PIA stated that the fund would continue to be maintained in Defence Certificates till its maturity in 2008. It was giving a return of 18-19%. Thereafter the fund would be diversified as the rate of return in Defence Certificates for future investment had gone down.

Related to Referred Business, Major General (R) Muhammad Ashraf Chaudhary Acting Secretary Defence stated that land near Kohat was acquired for Pakistan Air Force and 63% payment had been made to the owners. However, some land owners had gone to the court praying that compensation paid by the Government be increased as the present rate was low. The first court hearing would be held on 5th September, 2006. The Ministry of Defence would accept the decision of the Court. The Committee ruled that since the matter was subjudice the Committee could not discuss it.

The sixth meeting of the Committee on PIA matters was held on 7th December, 2006 in Committee Room No. 4 of the Parliament House. The agenda before the Committee was:

i) Whether Civil Aviation Authority has issued air worthiness certificate in respect of C-130 Aircrafts being used for passengers in lieu of Fokker Aircrafts. Furthermore, whether C-130 are insured and fitted with seatbelts and Oxygen Masks.

ii) The condition and air worthiness of Boeing -737 Aircrafts in the light of statement made by the Parliamentary Secretary of Defence on the floor of the National Assembly.

iii) Plans for reconnecting destinations cut off due to grounding of Fokker Aircrafts.


Agenda pertaining to Civil Aviation Authority (CAA) was:

i) Presentation by Civil Aviation Authority on its Organizational Structure, Operations and the new Aviation policy.

ii) Action taken in response to advertisement appearing in a section of a press pertaining to chartered Umra flights.
Senator Nisar A. Memon Chairman Committee invited Mr. Tariq Kirmani, Chairman PIA to give his statement on the agenda items. Chairman, PIA stated that PIA was a commercial company competing nationally and internationally with other airlines. He informed that revenue has gone up by 12.8% while fuel cost had gone up by 16%. PIA needed fuel efficient planes of which it has one Boeing 777 and two ATR’s at present. Another five ATR’s would be joining the PIA fleet by April, 2007. He said that the reasons for inefficiencies are namely; fuel inefficient aircrafts and non existence of the practice of fuel hedging. PIA has 18000 employees for 42 planes, which means there are 400 employees per plane. The market share of PIA in 2003 was 73%, in 2004 63% while in January, 2006 it went down to 47 %. The latest figure for Jan-Sep, 06 shows that market share has gone up to 69.7% while on the international sector it is 49.2% despite competition. After this statement the Chairman asked the Members to discuss agenda item-i.

Senator Muhammad Enver Baig (special invitee) asked the CAA whether they had authorized C130 aircraft to transport paid commercial passengers to Northern Areas. Why the cabin crew of C130 purchased tickets while on duty on those planes? AVM, Safdar Khan, Deputy DG, CAA responded that the Authority had not issued any document allowing C130 to operate commercially neither had the CAA been notified to operate civil passengers on C130 but CAA had referred the case to Government of Pakistan. Senator Baig further inquired as to why CAA had not issued show cause to PIA in this regard. Deputy DG responded that CAA regulates air space of commercial flights and does not regulate military planes.

Senator Prof. Khurshid Ahmed asked whether under the law civil operations are the exclusive responsibility of CAA or has the PAF extra jurisdiction to operate commercial flights for civil purposes. Mr. Shahid Ullah Baig, Joint Secretary, MOD stated that the use of C130 was necessitated due to grounding of Fokker Air Crafts and it was done to facilitate the people of Northern Areas. Responding to another query whether the aircraft was covered under the international civil aviation authority rules he said that it was an abnormal occasion and special permission was granted for the operation of C130. Despite busy schedule C130 aircraft were pulled out to operate for civil purposes.

Mr. Tariq Kirmani, Chairman PIA informed that fare charged from passengers was transferred from PIA to PAF. Senator Prof. Khurshid Ahmed asked whether there was an agreement between PAF and PIA and if the answer was in the affirmative then how CAA figured in. Major Gen. Mir Haider Ali Khan, Additional Secretary responded that he would find out the exact position and inform the Committee accordingly. He stated that C130 flights did not operate without rules and regulations.

Senator Muhammad Enver Baig inquired whether it was true that recently a passenger traveling on C130 died because of lack of oxygen. Senator Asif Jatoi stated that at 25000 feet if the aircraft cabin losses pressure a person would lose consciousness in 3 minutes. Capt. Shahnawaz Dara replied that C130 does not fly above 25000 feet, however, if cabin pressure drops, oxygen available in the aircraft is adequate for 16 minutes. Moreover, C130 carried portable oxygen bottles for such emergencies. Senator
Rehmat Ullah Kakar inquired as to who would be responsible for any mishap on the C130: PIA or PAF. Chairman, PIA responded that passengers traveling in C130 are the responsibility of PIA.

Senator Muhammad Ismail Buledi stated that PIA authorities had assured that they would start a flight on the Turbat-Sharjah Sector in November 2006 after receiving ATR planes but that did not happen. He also raised the issue of 75 bearded PIA employees, who were sent on forced leave. Senator Kamran Murtaza alleged that recently candidates from Balochistan were called for interview but they were sent back without interview. He wanted to know the reasons for the same.

Chairman, PIA stated that PIA Management encouraged recruitment from all areas of Pakistan while promotions are granted on merit. Regarding the Turbat-Sharjah flight he said that when he promised that flight, PIA was still operating Fokker Aircraft, which are no more in service. In the next few months 7 ATR planes would join the fleet and PIA would operate on Turbat-Sharjah Sector starting January, 2007. Regarding the bearded employees Chairman, PIA stated that these 78 people had been sent on training and would be placed on other appropriate jobs.

Senator Muhammad Enver Baig stated that every passenger was paying fuel surcharge then why was it that other carriers were making profits while PIA was running losses. He said that despite massive losses, a foreign consultant by the name of Philip Morris and other employees also, were being paid $10,000 per month. He asked about the rationale of such appointments. Senator Kakar also named a few employees who were paid five figure salaries. Senator Enver Baig alleged that CAA was good at collecting taxes but did not provide requisite service and was not a good regulator. There have been 330 layoffs due to non serviceability of aircrafts.

Senator Prof. Khurshid Ahmed stated that service on PIA aircraft use to be good but now it had deteriorated. PIA was not being run as a service industry and there were repeated engineering failures every month. Referring to PIA vision 2001, Senator Rukhsana Zubari stated that there were wrong decisions regarding leasing/selling of aircraft. She also questioned the purchase of Boeing-777 especially if there was just one non-stop route to Canada. Chairman, PIA responded that high salaries were the only answer to run a commercial company. The persons hired were professionals from abroad. Even now PIA was looking for a chief financial officer because Chairman PIA did not get requisite information from the Finance Department. For jobs in the Finance Department airline experience was not necessary.

In reply to agenda item regarding advertisement appearing in a section of a press pertaining to chartered Umra flights, AVM Muhammad Safdar Khan, Deputy DG, CAA stated that a company by the name of AST was given license to operate Umra flights. The operator without fulfilling other conditions issued an advertisement in the press. CAA noticed the ad in the newspaper on 20th September, 2006 and taking swift action closed the Company’s office at the airport on 21st September, 2006. Subsequently on 23rd and 25th CAA issued warnings in newspapers so that people were not cheated and did not lose
their money. The license issued to the company was to allow it to take certain steps to obtain a certificate. AST had to obtain an air operating certificate from CAA. The initial license allowed them to set up physical infrastructure and bring in aircrafts. Thereafter, the company had to acquire a certificate to operate on domestic routes for six months before it could operate on international route for which another application had to be submitted. The Committee recommended that the license of the company should be cancelled immediately, after review of the license conditions.

In response to queries regarding recruitment from Balochistan Brig. (Retd) Zafar Mahmud, Director CAA informed that some vacancies pertaining to Balochistan had been filled while the others would be filled soon. In PG-9 there were 11 officers from Balochistan which was according to the required quota. Senator Rehmat Ullah Kakar asked whether Air Blue would be allowed to operate on Quetta-Islamabad sector if they applied for permission. AVM, Muhammad Safdar Khan, Deputy DG, CAA responded that there was no restriction by the CAA. Senator Kamran Murtaza asked why Quetta Airport was closed twice during the last week. Mr. Shahid Ullah Baig, JS MOD stated that Airports are closed for certain reasons. During last week two VIPs traveled to Quetta and the Airport was not closed as it is only Ministry of Defence, which gives orders for closure of Airports.

Senator Kamran Murtaza asked about air hostesses, who have been hired from abroad. Mr. Tariq Kirmani, Chairman PIA responded that most airlines hired crew internationally. PIA hired air hostesses from Russia to facilitate PIA passengers on that route. Senator Asif Jatoi asked about the reasons of flight PK-308 having missed a disaster a few days ago. PIA, Management responded that the matter was under inquiry and the Committee would be informed after the report was received.

The seventh meeting of the Committee on PIA matters was held on Tuesday 28th August, 2007 in Committee Room No. 1 of the Parliament House. The Agenda before the Committee was as under:-

i. Briefing on Current Financial Position of PIA.

ii. Discussion on Questions raised by Senators in the session of the Senate held on 15th August, 2007.

iii. Decision by PIA Management to retire 6000 employees to reduce losses.

Senator Nisar A. Memon, Chairman Committee said that in the Senate Session held on 15th August, 2007 a number of supplementary questions were asked by members in response to the Starred Questions answered on that day, Thus this meeting was convened basically to discuss those questions. Thereafter he invited Chairman PIA to make presentation on the agenda items. Mr. Zaffar A. Khan, Chairman PIA gave a broad overview of the financial position of PIA. He gave the following 3 reasons for the current bad financial position of PIA:-
i) Costs had gone up because of higher fuel charges, higher wages and higher maintenance cost but revenues had not increased proportionately therefore, PIA had not been able to manage its costs.

ii) PIA was over staffed and the number of people per aircraft was high. PIA had more than 400 employees per aircraft whereas the international standard was 200 employees.

iii) The biggest problem in PIA was the governance structure. There had been compromises on merit, on commercial considerations and on complying with law.

He said Competition was another factor posing serious challenges to PIA while infrastructure limitations and work culture were the other factors hampering the growth of the Airline. PIA required good workshops, trained mechanics and simulators for the newly acquired Boeing 777 and ATR. Mr. Zaffar Ali Khan further stated that due to the new team’s work plan EU restrictions had been removed, route rationalization was being carried out, costs were being controlled, employee engagements rationalized and financial restructuring was being carried out.

Senator Syed Dilawar Abbas stated that every time there was a new Chairman the Airline went down in all respects. He asked as to who could and who would motivate PIA employees in the future. He asked about the new management’s plan, so that the Committee could extend support to it.

Senator Kamran Murtaza stated that non profitable routes were being closed specially in Balochistan where PIA had monopoly. Why was PIA making loses while all other airlines were making profits? Had the management taken any action against people who brought PIA to this stage? If 99 percent passengers on PIA were Pakistanis then what was the justification for hiring air hostesses from abroad. What action had been taken against that wrong decision?

Senator Asif Ali Jatoi asked why EU took cognizance and stopped PIA flights to Europe. The planes banned by EU are used to fly Senators and the general public between Karachi and Islamabad. He further stated that the previous Chairman had said that 747’s are gas guzzlers but PIA operated those on short routes like Karachi - Lahore and Lahore – Islamabad. The latter being a 20 minutes flight.

Senator Prof. Khurshid Ahmed asked the following questions:

i. Whether it was true that 6 to 7 thousand out of 18000 employees were contract employees at the lowest level?

ii. The management should provide to the Committee Secretariat the last four salary increases in PIA.
iii. Whether it was true that market value of Roosevelt Hotel was $ 1 billion and it was being considered for sale for $ 400 million? And that the consultancy for sale had been awarded to Citibank.

iv. Whether it was true that lunch was not being served on the flight operating to Milan which was a 10 hour flight and only breakfast was served.

v. Whether it was true that booking on PIA flights was not available for the next 3 to 4 months.

vi. Whether 4000 employees were in the process of being laid off?

Senator Rukhsana Zuberi asked as to why Boeing 777’s were purchased when US routes were not allowed. She suggested that the Auditor General of Pakistan should conduct audit of leasing of aircraft by PIA. She was of the view that ban on EU flights was a failure of CAA. She asked about the role of MNG and Sunrise Point in PIA. She also inquired about the role of kitchen consultants in PIA and the amount paid to them for their services.

Senator Enver Baig disagreed with Chairman PIA about fuel costs as a factor and argued that fuel prices in India were higher than in Pakistan. Despite this other airlines were making profits but PIA was running losses. PIA incurred an operating loss of Rs. 12.7 billion while in January-June 2007 it was estimated to be Rs. 7.50 billion. Accordingly its accumulated losses would increase to over Rs. 31 billion and its current liabilities would exceed its current assets by Rs. 32 billion. There was no excuse for higher fuel costs because fares had been increased and every passenger was charged fuel surcharge.

Senator Abbas Komaili (mover) asked the following two questions:-

➢ In what proportion compared to fuel charges have fares gone up especially when fuel surcharge was charged on every ticket.

➢ Why had PIA terminated flights to Tehran when Iran Air and Mahan Air were operating profitably on the same route?

Senator Muhammad Ismail Buledi (mover) asked the following questions:-

➢ In which year over recruitment was done in PIA?

➢ When did PIA start making losses? Who was the Chairman at that time?

➢ PIA should inform the Committee of the difference between salaries of the local staff and the foreign staff?
Are the 119 Balochistan domiciled employees of PIA genuine residents of Balochistan? He asked for their Matric and domicile certificates.

The rural urban ratio of Balochistan employees?

The number of senior level employees of Balochistan?

6 out of 193 PIA employees posted abroad belonged to Balochistan. He asked for their Matric certificates and domicile certificates and the number of employees who have stayed more than three years on posting abroad.

Whether officers and staff were maintained on stations which had been closed down.

Senator Dr. Kauser Firdaus (mover) stated that foreign air hostesses had been hired on higher salaries despite the losses made by PIA, while local air hostesses were paid much less. She suggested that the challenge for the management was to stall privatization and make PIA a profitable organization.

Senator Nisar A. Memon, Chairman Committee announced the following decision:

i. A 2 member Sub-Committee comprising of Senators Rukhsana Zuberi and Asif Jatoi was formed with the following terms of reference:-

“To study the replies submitted by PIA to questions raised by members and further questions to be raised by the members of the Committee and submit a report to the Committee along with its recommendations to improve overall position of PIA”.

Minister of State should assist in logistics / administrative matters. The Committee should submit its report within two months.

The eighth meeting, a requisitioned one, of the Committee on PIA was held on Friday, 14th September, 2007 in Committee Room No. 4 of the Parliament House. The Agenda before the Committee was “Sale of Roosevelt Hotel in New York’s upscale Manhattan district despite sustained opposition from the property’s owner, Pakistan International Airlines Investments Limited” (PIAIL). Senator Nisar A. Memon, Chairman Committee invited Dr. Najeeb Samie, MD PIAIL to make his presentation to the given agenda.

Dr. Najeeb Samie, MD PIAIL stated that PIA Investments Limited was a subsidiary of PIAC which owned 99 percent stakes in the former. PIAIL was set up in 1979 by PIA and Prince Faisal Son of King Khalid bin Abdul Aziz of Saudi Arabia both owning 50 percent share each in the Company. Initially Roosevelt was taken on lease for 30 years from two Jew brothers. In 1988 title of Roosevelt Hotel was acquired by PIAIL.
Again losses were incurred after 9/11 and 2003 when the Hotel was placed on the auction block. Dr. Samie further stated that there were 2 scenarios regarding selling of Roosevelt Hotel. In the case of outright sale PIA would receive an estimated net $ 132.36 million. If shares sale method was adopted it would be a better option and would fetch estimate $ 229.09. Scribe Hotel in Paris had 217 rooms and was a 4 star deluxe facility. In 2005-06 profits were down because the Hotel was under renovation, which was carried out by utilizing retained earnings.

Mr. Ahmed Jawad, Secretary Privatization Commission stated that in June 2006 GOP declared to privatize Roosevelt Hotel. Deutche Bank and Citigroup both submitted tenders but only Citigroup was competitive. In the second round of bidding Citigroup and Cushman & Wakefield were found to be most competitive. The Committee comprising of PIAC, Ministry of Finance and the Privatization Commission would assess the sale bids. The Financial Advisors would give their recommendations to the Privatization Board which would in turn give its recommendations to the Cabinet Committee on Privatization (CCOP), and then to the Cabinet. The Financial Advisors had yet to give the net amount that would go into PIA coffers.

Senator Prof. Ahmed said that the Hotel had been incurring losses since 1979 but nothing was done to remedy the situation. He questioned the role of the MOD in that scenario. He said there was no convergence between the position of PIAC, PIAIL, MOD and Privatization Commission. He said he concurred with PIAC as they were rethinking not to sell the Hotel. He asked the following questions:-

i. What were the terms and conditions of the 4 short listed companies who competed for the position of financial advisor? Which company was the most competitive?

ii. Prime Minister of Pakistan had linkage with Citigroup therefore there was a political angle to it, was that aspect considered. The Chair intervened and said that Prime Minister used to work for Citibank but there was no linkage now.

iii. The market value of property had been quoted between $ 3 million and $ 1 billion. The Committee should be informed of the exact value of the property.

iv. If the value of 1 percent share of Prince Faisal was more than $ 8 million then value of 99 percent share would be much higher.

Senator Eng. Rukhsana Zuberi inquired about the GOP guidelines to the Privatization Ministry and argued that on the contrary GOP was going into business and giving guarantees in the Gas Pipeline business. Family silver was being sold to purchase aircrafts which had raised serious questions. The few millions that PIA would get out of the Roosevelt Hotel sale may not suffice for the purchase of even one plane. It was very
strange that every transaction in Pakistan had Citigroup attached to it. She alleged that the information available to Citigroup was not available to all other bidders.

Senator Kamran Murtaza stated that would the sale proceeds of Roosevelt Hotel enable PIA to purchase new planes. If the Hotel was profitable why sell it, what was the rationale behind it. He asked whether PIA or PIAIL was taken into confidence before the decision to privatize it was taken. He inquired whether it was possible to sell shares of the Hotel to interested Pakistanis.

Senator Sardar Mahtab Ahmed Khan questioned the selection of Citigroup as financial advisor. He stated that in the last meeting of the PIA Board it was said that since the Hotel was making profits it should not be sold. In 2002 PIAC added a property by buying Hotel Scribe in Paris but now it wants to sell a property. If one goes by the arguments that GOP should not run businesses then PIA should also be privatized. The Privatization Commission should not proceed with selling of Roosevelt Hotel as there was no transparency in the entire process. He inquired whether PIA had called Annual General Meeting of the shareholders for seeking their view on the sale of Roosevelt Hotel.

Senator Syed Dilawar Abbas asked as to why the PIA Board ventured into investments like these when PIA was making losses in its core business. He opined that he did not agree with the family silver argument. PIA was the family silver and not these Hotels. The process of privatization should be transparent.

Senator Asif Jatoi asked why the Hotel was being sold when property prices in the US were depressed. It was said that out of the total price of $ 400 million PIA would receive $ 129 million only, which boils down to selling one Hotel to buy one B 777 plane or to cover one and half month’s losses. He asked would all this turn around PIA? No it would not, he argued. He asked Chairman PIA’s position on sale of the Hotel. He firmly believed that the Committee should pass a resolution against the privatization of Roosevelt Hotel.

Mr. Ahmed Jawad, Secretary Privatization Commission stated that PIA and PIAC had gone through every detail to suggest sale of the Hotel and the Privatization Commission, PIA and GOP were committed to sell the Hotel. 10 firms were offered to send their bids for appointment as financial advisors. Only 4 namely Citigroup, Deutche Bank, JP Morgan and Merrill Lynch applied. Final bids were received from Citigroup and Deutche Bank. He informed that top 500 bidders would be asked to bid for the Hotel and there would be public bidding. Presently the value of property had not been determined. The off and on quoted $ 1.2 billion figure was based on the claim by a company that it could raise that amount from the property and GOP was asked to repay in 99 years.

Senator Nisar Ahmed Memon inquired as to how much money had been lost by GOP/PIA in these hotels from 1979 to 1998. Dr. Najeeb Samie, MD PIAIL responded that no money had been lost. PIA advanced 72 million to PIAIL which had all been
repaid plus 5 percent interest on the said amount. Later PIA gave 60 million for renovation which had also been repaid plus 10 percent interest on the said amount.

Prof. Khurshid Ahmed stated that since the Hotel was making profits the Committee should not agree to the sale of Roosevelt Hotel. All Members present except Senator Syed Dilawar Abbas agreed to recommend that the Hotel should not be sold.

Senator Nisar Ahmed Memon concluded the meeting and stated that:-

i. Documents concerning bids received from Financial Advisors should be sent to the Committee including details of bidding procedure adopted as stated earlier.

ii. Minutes of the CCI meeting of 1991 should also be provided to the Committee.

iii. The privatization of Roosevelt Hotel should be stopped till the meeting of the Standing Committee on Defence is reconvened to consider the issue further.

The ninth meeting of the Committee on PIA was held on Wednesday 28th May, 2008 in Committee Room No. 1, Parliament House. The Agenda before the Committee was:

i. Briefing on top management changes in PIA.

ii. PIA future plans for profitability.

iii. Removal of 80 flight Engineers.

iv. Rationale of recent Hajj/Umra fare increase.

Senator Nisar A. Memon, Chairman Committee, invited the PIA management to brief the Committee on a given agenda. The Committee was informed that executives were hired on contracts on high salary and heavy emoluments were inducted in the airline despite the deteriorating financial position and accumulated losses. On 8th May, 2008, the positions of Directors have been reduced from 12 to 8 at present. The positions of General Managers and equivalents have been reduced from 65 (as on 12 May, 2008) to 47 at present as a result of mergers / downgrading of Divisions to Sections. The departments of Customer Services, Quality Assurance and Special Projects have been abolished and Flight Safety and HSE department has been downgraded to the level of Division. The divisions of Passenger Services and Ramp Services of ex-Customer Services Department have been merged and directly reporting to Managing Director. The division of Flight Services has been placed under Flight Operations Department due to similarity in nature of duties / functions of Cockpit and Cabin Crew. The above steps have brought considerable savings to the airline.
Senator Kamran Murtaza asked about the benefits attached to the position of Chairman PIA. Secretary Defence responded that part time chairman does not draw salary but has certain privileges like free travel during his incumbency. He further inquired whether any pilot had risen to the post of Managing Director in PIA? Mr. Aijaz Haroon, MD PIA responded that pilots in PIA have risen to the level of Deputy Managing Directors but it is the first time that a pilot has been appointed as Managing Director. Senator Kamran Murtaza stated that people senior to the MD were removed to appoint him as MD. The MD responded that there were seniors and juniors but till grade 9 seniority is a consideration and not after that. The Committee desired that the following information may be provided in a week’s time.

i. What are the benefits provided to Chairman PIA? Both full time and Chairman, who is also a Minister.

ii. Names of employees hired on big salaries in the past.

iii. How much saving will accrue to PIA because of downgrading and purging of employees?

Senator Saadia Abbasi inquired about the criteria for selection of board members and the authority, which makes the appointment. She stated that in the past people from the Air Force were appointed to senior positions in PIA but today there are none. She asked whether some of the board members also hold shares of PIA. She also inquired whether members of the board draw salary and allowances.

Mr. Kamran Rasool, Secretary Defence responded that PIA ownership is streamlined in a way that 90% shares are held by the Government while 10% are held by public listed companies while GOP monitors the operation of the Airline. The Prime Minister of Pakistan approves all appointments to the Board of PIA. Secretary Defence informed that Members of the Board are not paid any salary. However, they are paid Rs. 3500/- for a meeting and hotel accommodation if the meeting is held outside Karachi. The term of the Board Member is three years but open ended. The criteria for selection are to possess corporate experience. The Committee recommended that the policy of appointment to the Board should be reviewed to include public representatives and flying professionals.

Senator Kamran Murtaza asked Captain Aijaz Haroon, MD PIA about his views regarding privatization of PIA. The MD stated that this word was used by the corporate world when they fail to run an organization and then they privatize it. Secretary Defence stated that the MD can not take a decision on this issue. This task has not been assigned to him but all options are open.

The recent extraordinary surge in fuel prices has forced the entire aviation industry to review its operational structure. IATA had initially projected an industry profit of US$ 7.8 billion for the year 2008. Following an upsurge in fuel prices IATA has twice revised downwards its forecast and in March 2008 it projected a profit of US$ 4.5
billion with an average crude price of US $ 86 per barrel. PIA has also been hit very hard by the soaring fuel prices along with Rupee devaluation against the US dollar and unhealthy competition. In order to contain the impact of rising fuel prices, PIA has reduced utilization of older fuel inefficient fleet. The entire Boeing 747 fleet has been taken out from the schedule operation and will only be utilized for Hajj and Umra extra sections.

The current volatility in exchange rates has also adversely impacted PIA’s payment schedule of fleet related foreign exchange loans. PIA has already increased fuel surcharge on domestic and international routes. Emphasis is also given to increase Engineering sales and generating additional revenue from Catering and other non-transport sectors. Business Plan is being revised/reviewed keeping in view the volatility in exchange rates and its impact on PIA operations.

Senator Asif Jatoi asked the following questions:

i. How many sets of 777 pilots are maintained by PIA?

ii. Are the pilots of grounded 747 aircraft performing any duty?

iii. Were the 747 pilots paid during the period that the said aircrafts were grounded?

iv. Is it true that last year $60 million were spent on refurbishing 747 aircrafts?

v. Why are the 747 not being used as Cargo Planes?

vi. What is the fuel consumption comparison on any given route between the 747 and 777?

vii. Why are 777 used on shorter routes?

viii. Why does PIA not pay fixed salary to all its pilots?

MD PIA responded that international practice is to maintain 9 sets of pilots per aircraft. The pilots of 747 were paid for the period that the said aircrafts were grounded but presently five 747 aircrafts are in operation. He agreed that $ 50 million were spent on the overhaul of the engines and refurbishing of the 747s. MD PIA informed that there is fixed salary for the pilots but every pilot is paid extra allowance for the number of hours that he flies an aircraft.

Senator Nisar A. Memon stated that PIA has positive plans. He also asked MD PIA to work out a solution with CAA regarding landing rights for PIA aircrafts at Islamabad airport between 5 and 11 am, which will be discussed in July in a meeting with CAA to which MD PIA would also be invited. The MD responded that the management will prepare a business plan by 30th June 2008.
MD PIA informed that since 747s are in operation the flight engineers are backed on job and their termination letters have been withdrawn. Senator Kamran Murtaza asked about the cost incurred by PIA on court cases instituted by some flight engineers. Secretary Defence responded that lay off flight engineers was a business decision. As 747s were not in operation therefore the flight engineers were grounded. Mr. Makhdoom Ali Khan was paid Rs. 30 lakh for the legal cases.

Kamran Murtaza inquired about the increase in the next Hajj ticket price. He informed that India’s Hajj fare is less than PIA fare. MD PIA responded that PIA management had a meeting with the Ministry of Religious Affairs, who asked to compare the air fares of India, Bangladesh and Sri Lanka. The exercise was carried out and it was observed that the difference was only Rs. 300. Senator Kamran Murtaza further asked as to why Umra fare is enhanced during the month of Ramzan. The MD responded that PIA has a multi fare system wherein the ticket price goes up as the seats get filled.

Senator Saadia Abbasi asked if PIA could offer reduced fare for Pakistanis working in Saudi Arabia on Hajj flights coming back from Jeddah. MD PIA responded that the Saudi Government does not allow PIA to pick up passengers on return.

The 10th meeting of the Standing Committee on Defence and Defence Production on PIA was held on Monday 10th November, 2008 at the Parliament House. The agenda before the Committee was briefing by Managing Director (PIA) on the financial position of PIA.

Mr. Aijaz Haroon, MD PIA stated that PIA had suffered a loss of Rs. 38 billion in the last 9 months and the year had been unfavorable for the aviation industry as a whole. In July 2007 IATA was expecting a profit of $ 9.6 billion for the aviation industry but later the figure had been revised which show an industry profit of $ 5.2 billion. The MD outlined the following main reasons for PIA losses:

i) PIA resorted to short term borrowing with high interest rates.

ii) Devaluation of the Pakistani rupee has added Rs. 22.7 billion to the liabilities of the airline in the last 7 months.

iii) Rise in the oil price has added another $ 39 billion to the expenditure of PIA.

The fuel cost as percent of revenue stands at 55%. Previously fares were reduced and loss making routes were given incentives. Resultantly revenue per kilometer also reduced. Operating expenses were also reduced as compared to 2007. As of September 2008 the debt burden of PIA stood at Rs. 143 billion of which Rs. 83.1 billion was for the aircrafts purchased recently while Rs. 59.9 billion was borrowing for working capital. Total loss for the year was about 38.4 billion.
Immediate short term measures have already been taken by the management which includes fare increase and increase in fuel surcharge. The management is shifting to Sabre GDS in UK to reduce expenses. Seat reconfiguration in Boeing 747-300 has been carried out resulting in additional 150 seats in 5 aircrafts. Some PIA offices abroad have been downsized while in some cases operation officers have been withdrawn. The management also planned to develop a medium-long term strategy for the airline, which envisages:

(i) Improvement in employee/aircraft ratio.

(ii) Increasing frequency of better performing routes.

(iii) Modernization of the fleet wherein 12 (A310) and 7 (Boeing 737) would be replaced. The management was planning to replace 737-300 aircraft and A310 aircraft and to induct A320/737 NG family aircraft in addition to adding a few more ATR aircrafts.

Due to access capacity and no checks, all the Gulf carriers were carrying a sizeable number of 6th freedom traffic from Pakistan resulting in siphoning off Rs. 25 billion revenue from Pakistan. These airlines charged less on Islamabad-London and Islamabad-New York routes compared to fares charged for the same destinations from their hubs, which did not allow PIA to sell its superior product at premium. The issues which needed urgent review were deregulation and selective implementation of national aviation policy, generous grant of excess capacity and allowing northern gate ways to foreign airlines with no reciprocal benefits to the airlines of Pakistan

MD PIA further stated that GOP should consider the following measures which would generate additional revenues for the national exchequer.

(i) FBR should consider imposing tax on all international tickets with more than one sector.

(ii) CAA should regulate fares to maintain them at minimum economic level.

(iii) CAA should give preferential treatment to PIA on slot timings and request from Gulf Carriers should be entertained in odd hours.

Senator Rukhsana Zuberi asked about price paid by PIA to get maintenance contract from foreign airlines. The planes that were sold were still in operation in Europe. She said that business plan submitted by the management to the ECC should be presented to the Committee too. She suggested that special audit of B777 aircraft purchase and leasing of aircraft should be conducted. She asked the names of engineers who recommended purchase of B777 aircrafts and also inquired as to who transferred billions worth of spares to the UK.
Senator Prof. Khurshid Ahmed stated that the problems highlighted by the Management were not new. Fuel prices definitely had an impact but things got derailed when they were not checked on time. Why the Board, MOD and the Management not look into what went wrong at an appropriate time. There were political interventions in the airlines in the past and the appointment of incompetent people and failure of the management to respond to the occasions further worsened the situation. The management claims that downward trend in losses have been stopped but as can be noted operational losses have increased and oil prices and exchange rate can not be blamed for operational losses. The management should inform the Committee as to how much saving had been affected by each remedial step to determine which step is delivering. Fourthly was there any objective resolution of performance for absorbing 6600 people by PIA. Were these people appointed between 1996-99 on political basis or because of violation of criteria? And what would be the implications on the high employees/aircraft ratio? How does the Management plan to repay the employees fund amounting to Rs. 1 billion expended by it? Finally the MD talked about outsourcing some services including the kitchen. How outsourcing will economize expenditure. He asked about the price at which fuel was hedged.

Senator Syed Dilawar Abbas asked the following questions:

(i) Whether PIA had checked which routes could be offered on low price and why was it necessary to compete with airlines of the Gulf region.

(ii) Rationale of offering VSS to employees on the one hand and absorbing 6000 contract employees on the other.

(iii) We are talking about inducting new aircraft but what will be the return on that investment.

(iv) Since oil has come down to $ 55 per barrel will there be any reduction in the fares as fuel prices were the main factor in hiking up the fares.

(v) What kind of reduction in agents’ commission is being brought about?

Senator Talha Mahmood stated that the growth of PIA losses have increased over time in the last couple of years. He was of the view that there was no transparency in the purchase of aircrafts. He suggested that instead of Qadirpur gas field PIA should be privatized.

Senator Asif Jatoi stated that the management should not blame fuel prices and exchange rate for the losses. He asked the following questions:

(i) What was the price of oil on 7th May and what is the price today?

(ii) Why economy plus seats on UK flights have been discontinued?
(iii) Reasons for discontinuing PNR number on computer booking?

(iv) What is the average cost of meal provided by PIA? He said that food quality was getting worse.

Mr. Aijaz Haroon, MD PIA said that there was no cargo traffic from Pakistan but on the other hand Antanov 225 aircrafts are seen coming to Karachi regularly.

Senator Kamil Ali Agha asked the following questions:

(i) How many people had been reinstated in PIA from February till date and the cost paid or to be paid in terms of their salaries and benefits?

(ii) Was the reinstatement done on the orders of a court of law or a person?

(iii) Whether the people who were being absorbed fulfilled the same criteria as prescribed by the management?

Senator Jan Muhammad Jamali asked about the number of Balochistan domiciled employees reinstated by PIA. He asked PIA management to reconsider the high $600 round trip Islamabad – Kabul fare especially for officials, parliamentarians and embassy staff. He asked MD PIA to investigate the 9th November 2008 incident when Quetta-Islamabad flight did not take off on time and was later cancelled because of non-availability of night landing facility at Quetta Airport. How much revenue did PIA lose because of this flight cancellation?

Senator Kamran Murtaza asked the following questions:

(i) How much fuel PIA consumed per month?

(ii) Since oil prices were going down what would happen to the fares?

(iii) Whether the management would resist pressure on taking back the laid off employees and how many of those employees had gone to the court and lost their case?

(iv) Whether provision of meals on flights could be optional which may lower the cost of the ticket?

(v) Since the last 6 years the Committee had been told that facility of night landing facility was installed at Quetta but when would it be operational?

Senator Saadia Abbasi was of the view that PIA’s problems could be over come with privatization (divestment of shares) but there should be a plan. PIA could increase revenue by giving incentives on low traffic routes. Boeing 777 purchase was a process which put the airline in problems. She asked whether B777 was the best choice and what
were the reasons to compel PIA to buy that plane. She questioned paying back-dated benefits to contract employees.

Senator Muhammad Ismail Buledi suggested that since oil prices had gone down PIA should reduce Hajj fares. He asked about night landing facility at Quetta which had not been operational till date. He asked how many people from Balochistan out of the 4000 had been confirmed by PIA recently and how many Balochistan domiciled employees had been posted abroad.

Mr. Aijaz Haroon, MD PIA stated that there was consensus regarding holding of inquiry about past aircrafts purchases. However it was beyond his authority to conduct inquiry as it was the job of Government to do so. The first decision that the new Management took was to stop leasing aircrafts. One way cargo facility was not profitable but PIA had Combi’s to take care of cargo. A 300 could be converted into a cargo plane at the cost of $ 8 million while on the other hand cargo planes were available at a lower price. Fuel was more than 50% of PIA’s cost that is why it was being talked about. The monitory impact of the steps taken by the new management had a saving of Rs. 356 million. The new Management was not asking for grants or aid but support in the form of sovereign guarantees by GOP for Rs. 55 billion.

The improvements that were brought about got PIA Rs. 8 billion in revenues while costs had been reduced. 4800 contractual employees have been permanently absorbed and their benefits were only 0.4% of the pay role. 59 employees have been reinstated through a Committee of 13 members who scrutinized their cases. 131 have been reemployed but no back benefits were paid. They had cases in the court of law. Regarding hedging of oil he said that it was proposed that if price of oil was more than $120 per barrel then PIA would raise fare but if the price went down fares would be lowered. Hedging was done on prices between $ 117 to 124 and 80% of Hajj fuel was hedged. MD PIA continued and stated that the Business plan was ready and would be considered in the ECC meeting scheduled for 18th November. Agent’s commission was 9% which had been reduced to 5% and would further be moved to 0%. Economy plus class on all international flights was discontinued but continued on domestic routes because it was in high demand. Night landing lights had been installed at Quetta and it was hoped that the facility would soon be operational.

Concluding the meeting Senator Nisar Memon asked whether the airline was governed by PIAC Act 1955 or the Private Companies Act? Mr. Kamran Rasool, Secretary MOD responded that it was governed by PIAC Act but the Chairman had delegated powers to the MD. Senator Nisar Memon asked the following Questions:

(i) What time frame was required to turn around the airline’s financial position?

(ii) Does the Management consider privatization or out sourcing of management?
(iii) Does the management want to make it a national, regional or international airline?

(iv) The management should give details of the issues that are creating problems between PIA and CAA.

He also asked the Management to send detailed report on the night landing facility at Quetta Airport and to investigate the unscheduled over night stop of PIA flight from Quetta to Islamabad on 9th November 2008 and also to provide information regarding this issue. He said the next meeting of the Committee would be held on 1st December 2008.

IFTIKHAR ULLAH BABAR
Secretary Committee

SENATOR NISAR A. MEMON
Chairman Committee
A meeting of the Standing Committee on Defence and Defence Production was held at 10.00 a.m. on Thursday 24th February 2005 at PIA Headquarters, Karachi. **Senator Nisar Ahmed Memon was in the Chair.** The following attended the meeting:-

1. Senator Muhammad Akram Member
2. Senator Asif Jatoi Member
3. Senator Mouhim Khan Baloch Member
4. Senator Naeem Hussain Chattha Member
5. Senator Farhat Ullah Babar Member
6. Senator Sardar Mahtab Ahmad Member
7. Senator Kamran Murtaza Member
8. Senator Mrs. Rukhsana Zuberi Member
9. Senator Dr. Muhammad Ismail Buledi on Special Invitation
10. Mr. Zahid Hamid, Ex-Officio Member

The list of officials from Ministry of Defence and PIA Headquarters is annexed.

2. The agenda before the Committee was as follows:-

   i) PIA Aircraft sale policy with specific details of recent sale of Airbuses and Boeings.
   ii) PIA, lease policy with specific details of F-27’s and Airbuses (Passenger & Freighters).
   iii) Purchase Price Components of Boeing 777.
   iv) Aircraft spare parts management and disposal policy.
   v) Recruitment and promotion policy, with specific reference to Balochistan.
   vi) Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran.

4. In his introductory remarks the Chairman welcomed the Minister of State for Defence and the Members of the Committee to the meeting. At the outset Senator Farhat Ullah Babar pointed to the absence of Secretary Defence. Chairman Committee stated that the Secretary should be present but this may not be possible every time as he has to attend to other important matters. In future Secretary should communicate reasons to the Chairman Committee whenever he is unable to attend the meeting of the Standing Committee. However, in the meeting the Minister and an Additional Secretary of the Ministry are present therefore Committee work will not be impacted. Thereafter he asked
Chairman PIA to brief the Committee on the items of agenda. The Chairman stated that it was an honour for him that the Committee is visiting PIA HQ to listen to the point of view of the management. Thereafter he asked the Directors to give presentation to the Committee on their respective subjects pertaining to the agenda.

5. Syed Kamran Hassan Director Marketing stated that the current business plan was approved by the PIAC Board and subsequently presented at various forums to Government of Pakistan. Fleet modernization was an integral part of the business plan that aimed to bring PIA back into the fold of leading airlines of the world. This fleet modernization underlined induction of newer and better equipped aircraft and phasing out of older aircraft in order to reduce the average age of the fleet. Business plan 2003 – 2011 envisaged retiring of entire A300B4 and B747-200(PAX) fleet with induction of their replacement. However, keeping in view the airline’s operation requirements for Hajj 2005, it was decided that these aircraft be grounded after completion of Hajj operation. Briefing the Committee on the sale of B747-200 and A300B4 he stated that the average age of A300 fleet is 24 years while that of the B747-200(PAX) is 30 years. These older aircraft were costing the airline more on account of higher fuel consumption and maintenance cost. Airline’s operation also suffers due to frequent unscheduled groundings. All the factors result in higher operating cost and lower utilization of aircraft. PIA follows a transparent mechanism whereby the sale of aircraft is advertised both locally and internationally including PIA’s website. It was clearly stated in the advertisement that PIA will only deal with the potential buyer without involving any intermediary. Although, both the offered types i.e. B747-200 and A300B4 have limited remaining lives and a limited market for sale due to their operational limitations, the response from buyers was encouraging. After exchange of technical information/inspection of aircraft, 14 parties have submitted their offer for B747-200(Pax) and/or A300B4 fleet. All the offers received by the closing date are being evaluated and the report will be represented to PIAC Board for final approval. A decision regarding the sale of the aircrafts will be taken in the Board meeting scheduled for 3rd March 2005. Referring to the sale of F-27 aircraft Chairman PIA stated that the reason for choosing this time frame is that they are in flying condition. These aircraft will be required to be grounded on 28th February 2006 after which they will have scrap value.

6. Senator Farhat Ullah Babar asked the following questions:-

i) When and at what level the decision to sell the A300B4 and B747-200(Pax) aircraft was taken?

Chairman PIA responded that the Board gave its decision a year ago but PIA had to retain the aircraft for Hajj 2005. The Management placed the matter before the Board again for extension in date of sale of Aircraft as otherwise it had to lease aircraft for Hajj.

ii) When did the PIA Board give approval for the sale or was it ipso facto?

Chairman PIA responded that approval process was completed through all levels.
iii) Is it correct that the sale of these aircraft is taking place after installation of new navigational equipment worth $2 million?

Chairman PIA responded in the affirmative. The equipment worth $2 million will be later removed and installed on new aircraft.

iv) Is it true that similar aircraft are in use by Saudi Airlines and Iran Air?

The Minister of State for Defence responded that the aircraft are being sold because of higher operational cost. Other airlines may be using these types of aircraft due to different business plans.

7. Senator Sardar Mahtab Ahmad Khan supported the business plan of PIA and stated that we are concerned about clean and transparent method of disposal and purchase of equipment of aircraft. He asked the following question:-

i) Has PIA mentioned in the advertisement the state in which the aircraft will be transferred to the buyer?

Chairman PIA responded that the buyers will have the entire history of the aircraft available to them and they will also inspect the planes.

ii) Will the price not come down if the newly installed equipment is removed?

It will not have much impact on the price. The advertisement floated is a standard one.

iii) The business plan was approved in 2002. There is a feeling that after 9/11 airlines were getting bankrupt and since PIA was buying new generation aircraft was it not the right time to buy in 2002?

This is what PIA did. That was buying time and not selling time so it was a considered opinion to buy.

8. Senator Kamran Murtaza asked the following questions:-

i) Should PIA not convey the decision regarding removal of equipment from the aircraft to the interested parties in writing to avoid any litigation in future?

Chairman PIA responded that the format of the advertisement is a standard one operative in the airline industry.

ii) Why was the advertisement not splashed in the international press rather than just one magazine?
Besides the magazine the advertisement was also posted on a widely read website by the name of SPEED NEWS, that is why PIA got 41 enquiries.

iii) On which routes are the A300B4 and 747-200(Pax) aircraft being operated?

On all domestic and regional routes but these cannot be operated in Makran.

9. Senator Rukhsana Zuberi asked the following questions:-

i) Will PIA require these aircrafts for the next Hajj season? Can these be retained till that time?

Retaining these aircrafts will be expensive whereas leasing aircrafts will be less expensive. The Committee asked for feasibility study prepared by PIA comparing sale of A300B4 and 747-200(Pax) and leasing of A310 aircraft along with supporting documents. It also asked for the tender documents prepared by the management.

ii) Has PIA offered spare parts of these aircrafts for sale?

No. The sale of spare parts will be negotiated later on. This advertisement is for sale of aircraft while spares will be separately bid.

iii) Are you receiving closed bids or open bids through fax?

They are not closed bids.

Senator Zuberi stated that transparency is missing in the process. The Chairman Committee stated that there is no problem regarding transparency. If one party is aware of the bid price of another party it will give a higher bid that is why business practice demands that bid should be tendered on the last date. In the present scenario PIA may gain. Senator Muhammad Akram suggested that a Sub-Committee should be formed to look into the ethics of the sale procedures.

10. Senator Asif Jatoi asked the following questions:-

i) It is feared that selling of A300B4 and 747-200 will affect passenger usability? I have been informed by PIA pilots that passengers are shifting to other airlines for larger cargo facility since A310, which the PIA is going to lease, has smaller capacity.

PIA will have a better and fuel efficient fleet with less maintenance cost. A300B4 does not operate on full capacity. We have separate aircraft for cargo, which is delivered as soon as passengers arrive. In response to a query by Senator Akram, Chairman PIA stated that the Board is the only competent authority which takes decisions. Senator Sardar Mahtab Ahmad wanted to know the entire procedure of the sale of aircraft and suggested
that the offer of one bidder should not be in the knowledge of the other. Chairman PIA replied that he is confident that the present procedure will not accrue loss to the national exchequer. Chairman Committee suggested review of this process before the impending Board meeting for any possible improvement and a copy of the new procedure provided to the Committee. In response to a query by Senator Mouhim Khan Baluch, Chairman PIA stated that no reserve price has been fixed.

**ITEM – II**

11. Senator Muhammad Akram asked the following questions:-

   i) Was it necessary to lease F-27 or some other aircraft can be inducted? Why did GOP not approve the financing of new aircraft as a replacement of F-27?

Chairman PIA remarked that Bombardier was selected by the evaluation Committee of the Board. PIA submitted summary to the government, which placed it before the ECC. It was turned down on the ground that PIA wanted financing in Pakistani rupees. Currently PIA is in the process of arranging foreign financing for ATR, Bombardier Dash and SAAB. PIA had no choice but to lease a Fokker since spare parts are available and the Crew does not require any training. If PIA decides on another Make or Type it would be on wet lease, which is expensive. PIA will replace Fokker by January 2006 in any case that is why Fokker is being inducted for a short period of 9-11 months. The Committee desired that cost details about lease of Fokker may be sent to the Committee.

12. Senator Naeem Hussain Chattha expressed satisfaction about PIA operations. He suggested that speedy and cheaper cargo service for perishable items like fruits and vegetables may be launched, which will beside boosting exports and foreign exchange earnings also benefit the growers.

13. Senator Mahtab Ahmad Khan asked as to why GOP refused Pak. Rupee financing. Chairman PIA responded that PARCO was granted a Rs. 300 million local financing. PARCO converted that amount into dollars and prepaid their loan, which resulted in the depreciation of the rupee. GOP realized that it may not be able to keep the dollar – rupee parity so it stopped rupee financing for everybody.

14. Senator Kamran Murtaza asked why there is no international cargo flight from Quetta. Chairman responded that PIA brings cargo from Quetta to Karachi from where it is sent abroad. No exporter from Balochistan has faced any problems regarding air lifting of export cargo from Quetta.

15. Senator Rukhsana Zuberi asked about the difference between A300 and A310 and A300B4? And what maintenance facilities PIA have for the new aircraft? The Chairman responded that PIA had six A300B4 in its fleet. The A310 and A300B4 take the same spare and cockpit crew but PIA needed slightly lower number of seats that is why A310 are being acquired. Regarding maintenance facility the Chairman stated that PIA
engineers are trained for both the aircrafts. Moreover the maintenance cost of A300 and A310 is lower.

16. Senator Ismail Buledi inquired why F-27 aircraft are being used on Makran sector if their mechanical life is over. Chairman PIA responded that the life of this aircraft is 90,000 landings and up to this number the plane is within safety limits. Three such aircraft have been grounded while others are in service as they have yet to complete their life. PIA had sold all Fokker aircraft for $1.25 million although their book value was zero but that deal is over since PIA could not hand over the planes.

ITEM NO. III & IV

17. Chairman Committee stated that information on item III was very sketchy and asked for prices of different components of Boeing 777. The details of prices were provided which are at annexure A of these minutes. He stated that the press has written much about B 777 therefore it is for the Management to lay everything before the Committee and seek its assistance. Had the details been provided, the Committee would have discussed and closed the chapter on prices today. Senator Rukhsana Zuberi stated that the international press points towards a vendor, who has won a $10 million contract for supply of seats to PIA. She asked for prices of all components and payments made. She also stated that if warranty is not provided price should be less. The Member also asked for the conditions of warranties negotiated by PIA. Director Marketing responded that for replacement part no replacement price will be charged. The Committee asked the management to send schedule of warranties to the Committee Secretariat.

18. Senator Kamran Murtaza asked about the recruitment policy of contractual employees. Chairman PIA responded that PIA paid Rs.10 million to the contractor, who in turn paid Rs.2000 to each employee. PIA relieved the contractor and offered a five year contractual employment to people working for the contractor and is paying them Rs.5000 – 10,000 each. Contractual employees are mostly from Karachi but this imbalance will be corrected.

19. Senator Farhat Ullah Babar stated that PIA purchased Boeing 777 from Ms. Taxila and Ms. Taxila in turn purchased these planes from Boeing. He asked whether there is any difference between the amount paid by PIA to Ms. Taxila and the amount Ms. Taxila paid to Boeing Co. He asked PIA management to provide a copy each of the agreements between PIA and MS Taxila and between Ms. Taxila and Boeing. Chairman PIA responded that purchase contract has been signed with Boeing. MS Taxila was a financing arrangement and represented by Axim Bank, which created that company. The agreement was assigned to Ms. Taxila. Mr. Zahid Hamid Minister of State for Defence stated that there are no two sets of prices. Lease money will be paid to Ms. Taxila for 12 years, which will be equal to the price of the planes. All this arrangement was made to obtain favorable terms for PIA. He replied in the affirmative when asked whether Boeing Co. was paid for BFE. The Minister of State responded that copies of agreement are provided in the booklet provided to the Committee last year.
20. Chairman PIA while informing the Committee about spare parts policy stated that 98 percent parts have been used while some which were not required by PIA and lying in store for the past 15 years have been sold for $ 1 million following due process of sale and approval from the Board. The Committee asked PIA to send brief regarding Sale of aircraft spares document.

ITEM V

21. Senator Mouhim Khan Baluch raised question about Balochistan domiciled candidates who were not offered jobs by PIA despite their good performance in test and interview. He also raised the issue of Balochistan domiciles contractual employees, who have not been promoted and are paid meager salary. He asked why these contractual employees have not been regularized and since cost of living is high in Makran area employees should be paid reasonably well. He also suggested that the daily “Intikhab” a Balochi language newspaper should be made available on flights operating to Balochistan. The Committee supported Senator Mouhim Khan Baluch on all issues. PIA management retained all documents presented by the Senator and assured that they will look into all cases on merit. Chairman PIA responded that 3 candidates qualified as trainee offers. The candidate who was third on the merit list objected that candidates, who stood last and 2nd are not genuine Baloch therefore PIA should offer job to him. Chairman PIA further stated that PIAC has 7000 surplus employees. On iteration this surplus will level out in 2 – 3 years. He stated that in previous 4 governments merit was not followed nor jobs advertised. It will take 20 years to mend all the problems. We need to lay off 4000 – 5000 employees only then we can pay more to employees on the operation side. Previously there were time scale promotions in PIA, which have been stopped and now we hold promotion exams.

22. Senator Farhat Ullah Babar stated that 20 flight engineers, who were recruited by PIA, do not possess Bachelors degree and the Pakistan Engineering Council has written to PIA that they are not fit for the job. Chairman PIA responded that flight engineers are licensed by CAA and PIA has not received any letter but we will check and inform the Committee. Senator Rukhsana Zuberi asked whether all tiers of hierarchy were on board when the Chairman approved productivity allowance to employees. The Chairman replied that these employees work under him and he approved the allowance.

23. Senator Muhammad Akram asked Chairman PIA why 2 senior directors were removed from service and have these ex Directors been charge sheeted. Chairman PIA responded that Deputy MD Air Marshal (R) Niaz resigned. The second Deputy MD dealing with Finance had to go due to objections raised by the Finance Department. Senator Rukhsana Zuberi asked whether it is true that PIA lay off one auditor and appointed 2 on a higher salary. Chairman PIA responded that they bring new ideas and stay for a few years. In response to a query by Senator Mahtab Khan about the value of PIA share at KSE, Chairman PIA said it was too low. Senator Muhammad Akram also raised the issue of x-raying cargo which causes delays. The Committee was informed that all types of cargo are x rayed and no delay is taking place due to that necessity.
ANY OTHER ITEM

24. Senator Ismail Buledi agitated the termination of PIA flights between Turbat - Sharjah and Turbat-Dubai, which were operative for 1 ½ years only. PIA Management had told him that Middle East Countries do not give landing rights to aircraft without T-CAS equipment. They also said that Fokker are being replaced and the new aircraft will have this equipment thereafter this service can be resumed. Then PIA management argued that once Pasni Airport is repaired Boeing 737 service will be started to and from Pasni to Middle East. Later Chairman PIA said that B 737 cannot operate from Pasni. Then it was stated that B 737 will be operated on 50% load capacity. Finally they asked for January 2005 deadline. Senator Buledi asked for a confirmed date by which Turbat – Middle East flight will resume or NOC be awarded to a private airline to operate on the route. He also demanded that Quetta – Turbat – Gwadar service should be launched. All members supported Senator Dr. Buledi on the issue. Chairman PIA argued that there is slight misunderstanding about the matter. He stated that CAA had given in writing that B 737 can operate from Pasni. Then they said it cannot and I had apologized for it. On the insistence of the Committee Chairman PIA agreed to operate the two leased Fokker with T-CAS equipment by 15th June 2005. If by 15th June 2005 PIA is not able to resume these flights Senator Buledi may invite any private airline to operate on this route. Chairman Committee directed that PIA should send a biweekly report to the Committee to keep it abreast of the progress on this matter.

25. Senator Asif Jatoi suggested that A330 would have been a better choice compared to A300 and A310 moreover other airlines are also going for A330. Chairman PIA responded that A330 is an expensive aircraft and the other airlines are using these on long haul routes and not on short distances. Moreover the issue pertains to aviation policy about which PIA has reservations. Chairman Committee stated that we will take up Aviation policy in the next meeting.

26. Chairman Committee asked whether PIA is confirming the delay in F-27 replacement because of change in financial procedure. He also asked about PIA’s commitment to the people of Northern Areas. Chairman PIA stated that the Management has asked for subsidy on NA routes and the Committee should recommend to GOP for provision of subsidy to strengthen PIA’s case. Chairman Committee stated that MOD should take it up with GOP. The Committee was informed that PIA Board will decide the issue in its meeting on 3rd March 2005.

27. The Chairman concluded by saying that in his view it was a satisfactory session. From now on all of us will help in running PIA.

28. The meeting ended with a vote of thanks to the Chair.

(IFTIKHAR ULLAH BABAR)  (SENATOR NISAR A. MEMON)
Secretary Committee Chairman

43
## Annex “A”

**List of Participants**

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<th>Name</th>
<th>Position</th>
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<tr>
<td>1.</td>
<td>Ch. Ahmad Saeed</td>
<td>Chairman PIA</td>
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<td>2.</td>
<td>Mr. Qamar Zaman</td>
<td>JS. Aviation, Ministry of Defence</td>
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<td>3.</td>
<td>Syed Farooq H. Shah</td>
<td>Deputy MD</td>
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<td>4.</td>
<td>Mr. Muhammad Rasheed Hasan</td>
<td>Director</td>
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<td>5.</td>
<td>S. Kamran Hassan</td>
<td>Director Marketing</td>
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<td>6.</td>
<td>Mr. Arif Majeed</td>
<td>Director Finance</td>
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<tr>
<td>7.</td>
<td>Mr. Shahnawaz Rehman</td>
<td>Deputy FM&amp;A</td>
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<td>8.</td>
<td>Mr. Mukhtar A. Qazi</td>
<td>Director Engineering</td>
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A meeting of the Standing Committee on Defence was held on 14th April 2005 at 2.00 p.m. in Committee Room No.4, Parliament House, Islamabad. Senator Nisar Ahmed Memon was in the Chair. The following attended the meeting:-

1. Senator Kamil Ali Agha Member
2. Senator Asif Jatoi Member
3. Senator Mouhim Khan Baloch Member
4. Senator Naeem Hussain Chattha Member
5. Senator Farhat Ullah Babar Member
6. Senator Sardar Mahtab Ahmad Member
7. Senator Kamran Murtaza Member
8. Senator Mrs. Rukhsana Zuberi Member
9. Rao Sikandar Iqbal Minister for Defence Member
10. Mr. Zahid Hamid Minister of State for Defence Member

The list of officers who attended the meeting is annexed.

2. The agenda before the Committee was as under:-

   i) Sale and Lease of Airbuses.
   ii) Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran by Mr. Iftikhar Ullah Babar.

4. In his introductory remarks Senator Nisar A. Memon welcomed the Members especially Senator Kamil Ali Agha for attending the meeting of the Defence Committee for the first time after becoming member of the said Committee. He also thanked Rao Sikandar Iqbal Senior Minister and Mr. Zahid Hamid Minister of State for Defence for attending the Defence Committee meetings regularly, which shows their commitment to matters pertaining to Parliament. In turn it establishes the supremacy of Parliament. The Chairman also conveyed that Lt. Gen. Waseem Ghazi (R), who is the new Secretary Defence, has informed that since he will be in an important meeting with visitors from abroad he will not be able to attend the Committee meeting today. Thereafter in response to query by the Chairman regarding absence of Chairman PIA, the MOS responded that the Chairman is personally involved in the preparation of a presentation for the Prime Minister and will not be able to make it to the meeting today. The Chairman also excused
the PIA management for late submission of working paper. He warned that the delay is being condoned for the last time. Thereafter the Chairman invited Senator Rukhsana Zuberi to apprise the Committee about her questions regarding the agenda item.

5. Senator Rukhsana Zuberi stated that in a meeting of the Committee held on 24th February 2005 at Karachi we had asked for the comparative feasibility prepared by PIA regarding leasing and selling of Airbuses, which has not been provided till date. Subsequently on 5th April 2005 a Board meeting was held and we sent some documents through the Chairman Committee for consideration of the Board but we did not receive any feedback about our interjection. During the Kashmir Committee meeting at Islamabad I had informed the Senior Minister and the MOS that PIA is asking/forcing its cabin crew to join MNG at Turkey and they assured to look into the matter. The leasing of Airbuses was advertised again and this time too MNG and Fly Air were the successful bidders. Senator Zuberi asked about the details of the bid received and submitted to the Board of Directors. How did a company go beyond the advertisement by bidding for training of crew, provision of spare parts and maintenance of aircrafts? Why not give the Aircrafts on wet lease in which case PIA will generate $40 million. The MOS stated that we had discussed this issue threadbare in the last meeting and the PIA management took cognizance of the observations of the Senators and invited fresh tenders but again MNG is the highest bidder. Each and every point raised during the last meeting at Karachi has been answered in the working paper provided to the Members for this meeting. The question whether Aircrafts be retained or sold was discussed by the PIA Board and the decision of leasing was part of the PIA business plan approved by the government.

6. Syed Farooq Shah Deputy MD PIA stated that leasing of Aircrafts is a better decision as far as the future employment prospects of the crew and flight engineers is concerned. It was PIA who asked MNG to take these people on deputation otherwise they would have been redundant. He further clarified that the contract for sale of Aircrafts was different from the contract for maintenance and spare parts. The Chairman inquired as to why this approach was adopted or is it an industry practice. He also desired to confirm that the PIA team present here today is the one which was present in the Board meeting as well. Mr. Shah Nawaz Rehman, Director PIA stated that sale of aircrafts is different from the leasing contract. Spare parts and crew are not part of the sale deed. Senator Sardar Mahtab Ahmed asked whether any compromise was made on the aircrafts lease price in order to ensure service contract for the crew and flight engineers. The Director responded that the bid received for the planes is higher than what was received last time.

7. The Chairman thanked Senator Rukhsana Zuberi for bringing up the matter which helped PIA generate extra revenue. He suggested that in future sealed tenders should be invited and all parties should be invited at the time of opening of tenders. The Deputy MD apologized for not providing documents on time, which was accepted by the Chairman on behalf of the Committee.

8. Senator Rukhsana Zuberi further stated that she had requested that PIA accounts and business plan may be sent to the Auditor General of Pakistan or to a Chartered Accountant for scrutiny. The Deputy MD responded that Chartered Accountants were
involved in preparation of the business plan. Moreover we have internal and external auditors and the Auditor General too is competent to look into our accounts. The Chairman ruled that the sale and lease plan of aircrafts may be sent to the Auditor General, whose report in this regard may be provided to the Committee. Senator Rukhsana Zuberi stated that had the aircrafts been offered on wet lease, PIA would have retained the ownership of these aircrafts. The Deputy MD responded that wet lease would be expensive for PIA as in the present arrangement we have no maintenance liability. Chairman Committee inquired as to what would be the position if this Committee recommended to PIA that tenders should be invited on “as is where is basis” and a separate tender invitation for related services. In the interest of the country, PIA and transparency the management should review this and come back with an answer within ten days. The Committee constituted a Sub-Committee of the following members to look into the entire case and submit its report by 15th May 2005.

i) Senator Rukhsana Zuberi Convener
ii) Senator Muhammad Akram Member
iii) Senator Asif Jatoi Member

After the report of the Sub-Committee is received a meeting of the full Committee will be convened to which PIA management will also be invited.

ANY OTHER ITEM

9. It was pointed out by the Committee that documents pertaining to contract between PIA and Taxila on the one hand and Taxila and Boeing on the other have not been provided till date.

10. The Chairman provided a newspaper cutting about Air Hostesses retiring age to the Management, which says that Air Hostesses have approached the Supreme Court pleading that retiring them at the age of 35 was discriminatory compared to the retirement age of their male colleagues. The Chairman ruled that since the case is subjudice the Air Hostesses may not be harassed and forced to leave until the case is decided.

11. Senator Rukhsana Zuberi stated that while traveling to New York on PIA flight some Air hostesses informed Senator Nighat Agha and Senator Tahira Latif that they are being lodged in a hotel at Lakshmi Chowk Lahore where one of their colleagues was raped. Senator Zuberi asked for details of the case.

12. The meeting concluded with a vote of thanks to the Chair.

(IFTIKHAR ULLAH BABAR) (SENATOR NISAR A MEMON)
Secretary Committee Chairman

47
List of Participants

2. Syed Farooq H. Shah                  Deputy MD – PIA
3. Mr. Shah Nawaz Rehman                DFM & A
5. Mr. Mahmood Manzoor                  Chief Engineer
                                        (Planning & Projects)
A meeting of the Standing Committee on Defence and Defence Production was held on Tuesday 24th May, 2005 at 10.30 a.m. in Committee Room No.1 Parliament House Islamabad. Senator Nisar Ahmed Memon was in the Chair. The following attended the meeting:-

1. Senator Muhammad Akram, Member
2. Senator Waqar Ahmad Khan, Member
3. Senator Naeem Hussain Chattha, Member
4. Senator Farhat Ullah Babar, Member
5. Senator Mrs. Rukhsana Zuberi, Member
6. Rao Sikandar Iqbal, Ex-Officio Member
   Minister for Defence
7. Mr. Zahid Hamid, Ex-Officio Member
   Minister of State for Defence

The list of officers from the Ministry of Defence and the PIA is annexed.

2. The agenda of the meeting was the following:-
   (i) To discuss the report of the Sub-Committee.
   (ii) Surplus Contracted Employees.
   (iii) Irregularities reported Vis a Vis selection of Manpower Suppliers.
   (iv) Motor Transport Contract / Outsourced.
   (v) Clearing / Forwarding Contract Irregularities.
   (vi) Engagement of Consultants and Lawyers.
   (vii) Purchase of Reservation System Performance and Benefits / Costs.
   (viii) Procurement of Engineering Parts.
   (ix) International Posting of PIA Employees.
   (x) Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran by Senator Naeem Hussain Chattha.

4. In his introductory remarks the Chairman welcomed the participants to the meeting and congratulated Mr. Tariq Kirmani on his appointment as Chairman PIA. He also thanked Rao Sikandar Iqbal and Mr. Zahid Hamid for attending the meetings of the Committee regularly. He informed that Secretary Defence is in a meeting with the President of Pakistan therefore he will not be able to attend this meeting.
5. At the outset Senator Farhat Ullah Babar requested the Chairman to open the meeting to the media as is the practice in the Public Accounts Committee and Senate Standing Committee on Foreign Affairs. Senator Naeem Hussain Chattha opined that Rules do not permit opening the meeting to the media. The Chairman ruled that being an important matter a decision on the same will be taken in the full Committee meeting. After this ruling by Chairman the two opposition members announced and staged a token walkout. Senator Farhat Ullah Babar also pointed to the absence of Secretary Defence, who he said was not present in the last meeting as well. He stated that Generals do not submit to Parliamentary supremacy. The Chairman responded that Secretary Defence had communicated to him that he was looking forward to joining as soon as he is free from the engagement. Ch. Qamar Zaman, Joint Secretary Defence stated that yesterday only the Secretary was informed about the change of timing at the Presidency to 10.30 a.m. The Secretary therefore asked me to convey that he respects the parliamentary committee and will join if possible even for one hour. The Chairman stated that when defence policy was being discussed the Defence Secretary and Ministers were present.

6. The Chairman pointed out that Sub Committee report has been submitted signed by two out of three members and invited Senator Rukhsana Zuberi to present report after which PIA would be invited to respond to the report, in addition to their written reply. Senator Zuberi, Convener Sub-Committee, stated that the Sub-Committee has been seeking information from PIA management but got incomplete and incorrect information. The feasibility report regarding the sale of A-300B4 and the lease of A310 was not provided to the Committee as well as the Sub-Committee. Thereafter she explained the main findings of the Sub Committee and read the recommendations of the report which are as follows:-

(i) Lease of six A 310 be cancelled forthwith. Even after paying any penalty, PIA would be saving lot of foreign exchange being wasted, as these 310 were lying in storage for cannibalization. Exhibit XIII.

(ii) The proposed sale of six A300B4 for paltry amount of 10.1 US$ million be stopped & these aircrafts be brought back into service.

(iii) All the officials of PIA, who have been misleading the Standing Committee, should be immediately suspended & inquiry initiated against them.

(iv) Action under appropriate laws be taken against all the officials planning & trying to execute a deal, which is going to cause huge losses.

7. Chairman PIA assured the Committee that he will ensure any information provided to the Committee would not be fudged or incomplete or false. We will give the Committee the whole truth. He appreciated the report prepared by the Sub-Committee but stated that it does not cover the technical side and the safety aspects of the planes in question. Piece meal information without reference to the context can be misconstrued. PIA initially had 10 A300B4’s of which eight were owned by the Corporation while two
were leased. The two leased planes were returned one after the other while one of the owned planes had near crash in Dubai in 2003 and one such plane crashed in Jeddah. In 2004 another plane was grounded as it had completed 34,000 landing cycles beyond which it is not viable to fly the plane. The fuselage of another plane failed while flying over Multan but luckily 200 lives were saved. He informed that most of these planes are about to complete their life. If this report is leaked outside this room it will be dangerous to the country especially page 42, which is damaging for PIA. The planes in question are grounded and not safe for air travel. Chairman PIA further stated that during his tenure decisions would ensure safety first regardless of the cost. If a plane is not safe to fly it will not matter if it costs $10 million to ground. Preparing feasibility is a technical job and cannot be performed by everyone. The PIA Board directed that bidders should submit sealed bids, which direction was adhered to. PIA has gained out of the sale of these aircrafts and in future too PIA management will take transparent decision. PIA is selling these planes on “as is where is” basis.

8. Deputy MD PIA while referring to the report of the Sub-Committee stated that the information can be presented in different ways having different perceptions. Comparison of A300B4 and A310 was based on different yard stick but now we have based it on the same denominator. The report says that with the induction of A310 there will be loss of 48 seats while PIA maintains that we will loose 25 seats per plane.

9. Senator Farhat Ullah Babar stated that we feel reassured about safety. However, the issue is whether PIA should sell A300B4 and lease A310. Referring to annexure 7 of the report, he said is damaging for PIA. No aspersion is being cast on any one. In the Board meeting this issue was discussed and effort is still going on to sell these six planes and lease new ones. We had asked for the feasibility report in this regard which was not provided. The Sub-Committee report highlights that PIA will loose if these planes are sold and new ones are leased. According to the running cost comparison submitted by PIA in its reply on page 3, the cost accrued on A300B4 is $ 81.4 million while that on A310 is $ 80.1 million. Chairman PIA intervened and stated that depreciation cannot be considered for the leased aircrafts.

10. Senator Waqar Ahmed Khan stated that if the PIA management does not prepare proper cash flows and does not present its facts and figures professionally then questions that are being asked today will definitely come up. There are many things which have to be looked at when going for partial or total business plan modifications. PIA operates on certain routes which are viable. The management should look at the cash flow and see where a new aircraft can be plugged in. He advised not to front load the cash flow. We are proud of PIA but they should get their planning act together. We as a committee are there to strengthen PIA’s image and not to tarnish it.

11. Senator Naeem Hussain Chattha stated that he agreed with Chairman PIA on his assurance about safety and appreciates his declaration regarding moving towards transparency. He was of the view that the performance of PIA management is satisfactory and we should not give it a bias in any manner.
12. Senator Muhammad Akram hoped that PIA is now in capable hands and will progress. In the Sub-Committee meeting at Karachi we had told PIA management that we are not there to suggest how things should be done. We looked into the selling of assets to ensure that proper procedure was adopted. The decision to sell or not to sell is yours since you focus on safety and other technical matters. It was informed that selling of A300B4 and leasing of A310 is part of the fleet modernization plan but Fokker and other planes are old too and the entire plan has to be appreciated in the light of financial constraints. The information provided by the management was not depicting the correct situation, which should have been explicit in saying that we are selling 22 years old planes and leasing 9 years old once to modernize the fleet. If correct and complete information is not provided, people will reach the wrong conclusion. Chairman PIA responded that PIA Board took exceptions the first time. In fact the matter should not have gone to the Board. It rightly pointed out that sealed bids should be invited. In future tenders will be opened in the presence of parties concerned. Moreover, if there is any wrong doing in the future the person responsible will be shown a red herring. Our tender notice stated that the planes were available on “as is where is” basis. No spares or engines etc. were offered. The process started one and a half year back and no bidding party will wait for the Senate or National Assembly Committee to decide the issue. In case of delay they will take their earnest money and walk out. Although PIA is a government company it should be run on commercial lines. Senator Rukhsana Zuberi stated that there was an earlier situation which raised doubt. Chairman Committee asked Senator Zuberi to explain why she alluded to the figures of $10.8 million and $10.1 million. Senator Zuberi replied that the bid documents provided to us show that the amount in question is hand written and there is crossing out and over writing as well. Chairman PIA stated that the bid documents were opened at one time in the presence of bidders. The correct figure is $10.1 million and not $10.8 million. Chairman Committee directed PIA to show the original documents with $10.1 million to Senator Zuberi to remove her doubts.

13. Senator Rukhsana Zuberi also referred to the internal audit report which says that under utilization of A300 aircrafts caused substantial financial loss of Rs.5.329 billions during the period 1999-2002. PIA management responded that 1999 was a bad year for PIA as there were problems regarding supply of spares. Financial constraints restrained PIA from buying spares during that period. Senator Muhammad Akram stated that if timely and proper maintenance was carried out we would not have to sell there aircrafts as other companies are still flying them. Deputy MD PIA stated that the life of A300B4 is 34000 landing cycles as stipulated by the manufacturers. The planes have either reached or about to complete their life. Maintenance schedule in PIA is world class and we follow the procedures suggested by the manufacturers as well as the procedures laid down by CAA. The planes can be used further but the manufacturers introduce additional inspections in such cases, which involve extra costs.

14. Senator Rukhsana Zuberi said that safety is our concern too. A report by Stanley Paul said that the planes can fly an additional 5000 hours. Chairman Committee asked if there is a cannibalization procedure in PIA and inquired if the CAA had carried out a technical evaluation of these planes. He asked PIA to provide the procedure of cannibalization to the Committee. Chairman PIA responded that it depends on the
manufacturers report whether the planes in A, B or C category. In category D complete ripping of the plane is required and it takes 45 days to put the plane together. CAA is the local monitoring authority. They do not inspect each frame of the plane. If PIA wants to fly the plane beyond 34000 landing cycles I will not allow it to do so for safety reasons. Cannibalization is airlines decision. If a plane is grounded and the engine is good the engine is stored and used in another plane when required.

15. Concluding the meeting Chairman Committee praised Senator Zuberi and the two members of the Sub Committee for doing a thorough job. The concerns of Senator Rukhsana Zuberi are guidance for PIA. He reiterated that the Committee will provide guidance but will not interfere in PIA’s operation. The Committee is satisfied and congratulates the new Chairman, whose past successful experience will benefit PIA. All the information that Chairman PIA has given specially his concern about safety is supported by the Committee. The transparency commitment by the new Chairman will be monitored. He hoped that Chairman PIA will come up to the expectations of the government, the Committee and the public. Senator Zuberi will provide the list of documents / information required which, should be provided by PIA in seven days time. The Sub-Committee has recommended that the sale of planes should be stopped. In view of the clear commitment of Chairman PIA that these six aircraft are not airworthy and that the procedure of inviting bids has been made transparent and highest price has been received therefore we leave it to PIA to decide whether to sell these planes or otherwise and we will not hold them back any more. As soon as the new Chairman establishes his plans and objectives a copy of the same may be sent to the Committee so that it can appreciate it. Moreover, there is no need to cancel the lease agreement since Chairman PIA has just now committed that they are needed for its operations. Chairman Committee further stated that he left the issue of taking action against any official, who may have concealed information or gave wrong information to the good judgment of the new Chairman. Senator Farhat Ullah Babar stated that your statement that the information was correct is a tall order and requested that PIA management should not be give a clean chit. Senator Zuberi and Senator Babar disagreed with the Chairman Committee and subsequently submitted a note of dissent.

16. NOTE OF DISSENT

We, the following members of the Senate Committee on Defence and Defence Production express our dissent with the conclusion of the Committee expressing satisfaction with the sale of A300 B4 and leasing of Aircrafts for Hajj by PIA.

The PIA failed to make a cogent and satisfactory case to sell the Aircrafts. Question about feasibility and transparency persist.

The report of the Sub-Committee on the issue which was placed before the Committee today had competently raised serious questions which have not been fully and satisfactorily answered.
The rejection of the Sub-Committee’s report was not based on well thought out arguments but was based on the numerical strength of the Honourable Members belonging to the treasury.

We feel that the proposal of sale of the A300 B4 Aircraft be dropped as recommended by the Sub-Committee in National interests and in the interests of taxpayers.

The sale of six airworthy Aircrafts for a paltry sum of 10.1 million dollars and leasing of Aircrafts at 2.5 times higher cost is not sound judgment and seems to be based on other considerations.

-SD-       -SD-
(SENIOR FARHATULLAH BABAR)    (SENATOR RUKHSANA ZUBERI)

17. Senator Muhammad Akram stated that there may be many questions but I do not agree with the Sub-Committee where it has recommended withholding sale of the aircrafts. The news will not go out well in the corporate world. He thanked PIA for their cooperation with the Sub-Committee and suggested that agenda item ii to ix be left for the next meeting. Chairman Committee suggested that Senator Akram should get in touch with PIA management regarding these agenda items. Senator Zuberi thanked Chairman Committee for reposing confidence in the Sub-Committee and stated that leasing is better than selling the planes.

18. The Chairman directed Secretary Committee to sit with Senator Zuberi and an official of PIA to draft press release of the meeting to reflect discussion and decision of the meeting.

19. The meeting concluded with a vote of thanks to the Chair.

(SENIOR FARHATULLAH BABAR)    (SENATOR NISAR A. MEMON)
Secretary Committee               Chairman Committee
# Annex “A”

## List of Participants

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<th>No.</th>
<th>Name</th>
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<tr>
<td>1</td>
<td>Mr. Tariq Kirmani</td>
<td>Chairman PIA</td>
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<td>2</td>
<td>Ch. Qamar Zaman</td>
<td>JS. Aviation MOD</td>
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<td>3</td>
<td>Syed Farooq H. Shah</td>
<td>Deputy MD PIA</td>
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<td>4</td>
<td>Mr. Mohammad Rasheed Hasan</td>
<td>D.C.P. PIA</td>
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<td>5</td>
<td>Mr. Shah Nawaz Rehman</td>
<td>DFM&amp;A, PIA</td>
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<tr>
<td>6</td>
<td>Mr. Arif Majeed</td>
<td>D.F. PIA</td>
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<td>7</td>
<td>Capt. Syed Adnan Haris</td>
<td>C.P.P.S.</td>
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<tr>
<td>8</td>
<td>Mr. Mahmood Manzoor</td>
<td>CE(P&amp;P)</td>
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A meeting of the Standing Committee on Defence and Defence Production was held on Wednesday 20th July 2005 at 10.00 a.m. in Committee Room No.1 Parliament House Islamabad. Senator Nisar A. Memon was in the Chair. The following attended the meeting.

1. Senator Kamil Ali Agha    Member
2. Senator Asif Jatoi    Member
3. Senator Mushahid Hussain Sayed    Member
4. Senator Mouhim Khan Baloch    Member
5. Senator Naeem Hussain Chattha    Member
6. Senator Farhat Ullah Babar    Member
7. Senator Sardar Mahtab Ahmad    Member
8. Senator Kamran Murtaza    Member
9. Senator Mrs. Rukhsana Zuberi    Member

The list of officers, who attended the meeting, is annexed.

2. The agenda before the Committee was as follows:-

i) Overdue pending information from PIA;
ii) Contradictory information from PIA and CAA on the sale of six Air Buses;
iii) Transparency issues
iv) Specific questions raised by Senator Rukhsana Zuberi regarding Sale/lease of A300 B4 sent to PIA on 8th July, 2005.
v) Reports on recent possible mid air collision between PIA and Air Blue.
vi) Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran.

4. In his introductory remarks the Chairman welcomed the Members and the participants to the meeting. He informed that the Minister for Defence was busy in his constituency due to local body’s elections and would not be able to attend the meeting. He thanked the Ministry and the PIA Management for accommodating the change of date of the meeting at a short notice. He pointed out that at times the Members go into detailed scrutiny of certain issues, which is part of Parliamentary oversight function of the committee. The Committee has no audit functions but when public funds are involved the Committee does come into the picture. Members of the Committee can seek
information about an organization and bring it up before the Committee. The Chairman thanked PIA for sending the working paper on time but it has to be seen whether the queries raised by the Members have been replied. The Chairman informed that requisitioned meeting which was delayed will now be held tentatively on the 6th of August 2005 and the visit to Siachin will be scheduled after the impending Senate Session. Thereafter he opened the floor for discussion and invited Senator Mrs. Rukhsana Zuberi, to raise questions that she may have.

5. Senator Mrs. Rukhsana Zuberi stated that in the last meeting held on 24th May 2005, Chairman PIA had declared that the main reason for disposing off A300 B4 Air Craft was safety. Since that statement was made before the Committee it is for the Chairman to say that the statement was incorrect. The Chairman did not agree to this.

6. Senator Farhat Ullah Babar stated that he had a question pertaining to GPS. PIA Management says that GPS equipment was not removed from A300 B4 so as to keep Air craft airworthiness certificate valid. His objection was that in the meeting of 24th February 2005 held at PIA headquarter Karachi the then Chairman PIA had made a categorical statement that GPS equipment will be removed from the said planes. Now the Management is taking a position that if we remove the GPS we will have to install INS equipments which is far more expensive. He stated that he agreed with the latest statement but there seems to be lack of transparency.

7. Senator Mouhim Khan Baloch commended Chairman PIA for reducing fairs. He asked the management to look into the reservation problem of Parliamentarians since at the time of reservations they are generally kept on waiting list and a short while before the flight they are informed to take the flight. He stated that as Parliamentarians they should be treated on priority basis and not left to languish in the departure lounge. He also raised the issue of PIA Service between Gwadar and Sharjah which was promised at the meeting in Karachi but has still not materialized. He further informed that people of Balochistan get visas for performing Umra but do not get seats on PIA to travel to Jeddah. He demanded that flights between Balochistan cities and DG Khan / Multan may also be started for the convenience of businessmen from Balochistan. Regarding flights between Islamabad and Quetta he stated that since there is no flight on Tuesday therefore a bigger aircraft may be operated on Wednesday so as to clear the back log of Tuesday.

8. Senator Sardar Mehtab Ahmad showed concern about the financial benefits ignored by PIA while selling A300 B4 and leasing in of A310. The cost benefit of selling and leasing of the planes was not carried out on rational financial grounds. He was of the view that the amount to be paid for leasing in air crafts for Hajj season is much higher than what PIA received by selling the 6 air craft. As an example, he stated that PIA leased one engine to Tri Star for $ 1.2 million per year so what could be the revenue generated by PIA if it leased 12 engines and if the aircraft were sold in pieces? PIA received $ 10.1 million for the 6 air crafts which comes to $ 1.683 million per plane. The difference between the lease price of one engine and the total price of the Air craft is minimal.
9. Senator Rukhsana Zuberi stated that the information provided by PIA management is incomplete and do not provide focused answers. In the meeting of 24th February 2005 we asked for the grounds on which decision was taken to sell 6 A300 B4 air craft and it was stated that the decision was based on feasibility report and the marketing plan prepared by the management. She stated that the feasibility report despite numerous reminders has not been provided to the committee, which should be provided. Senator Zuberi informed that the said report was not even placed before the PIA Board. She asked as to which components will go with the air crafts sold. Moreover, previously the management had stated that per seat cost of A300 B4 is more than per seat cost of A310 but now they have reversed that statement. She informed that PIA is losing passenger business as the A310 has inadequate cargo space and most of the time an A310 is followed by a freighter which carries the passenger luggage. She also raised objection regarding annexure A, which compares the economic implications of retaining A300 B4 and leased A310. She said that several known expenses on A310 leasing have not been included. Moreover, leasing cost of 5 rather than 6 air craft is detailed. Senator Zuberi also objected to the incorrect calculation of the fuel cost and no cost reported in “other cost”. Leasing of A310 PIA will entail buying spare engine which again is not reported and so is the training cost of crew and maintaining personnel, who are new to A310. Moreover PIA will have to buy a simulator for training of A310 crew or send them abroad for training, in both cases additional cost will be incurred. Also PIA will have to buy inventory of part for the leased planes, which will further add up the cost. She also questioned the difference in maintenance cost of Pratt Whitney and GE engines.

10. Senator Rukhsana Zuberi added that the last meeting was closed on the statement given by Chairman PIA that passenger safety was vital in making decisions about sale of aircraft, she asked that if the sale of the air crafts was not based on the feasibility report, which was the earlier argument, what factors compelled PIA to sell A300 B4 and lease A310 air craft. Last time the Committee was told that PIA lost 4 A300 B4 air crafts during the last couple of years and that these were not safe. She informed that cracks in A300 B4 were detected by Airbus personnel and they had offered to fix them but apparently the opportunity was not availed. About crash at Jeddah she said that one of the tires of that air craft was not sufficiently inflated and it burst on landing. On the other hand Boeing 777 is a new aircraft but there were five incidents of fire on those planes. Moreover, one of the Air craft AP BEL was on dry lease which the PIA later bought. She asked as to what price was paid for that Air Craft and whether any pre-delivery inspection was carried out on that aircraft. Was any assessment carried out to determine the reasons of buying this aircraft and ultimately selling it? Apparently that aircraft was bought to be sold. Senator Zuberi further stated that the tender document of A300 B4 do not mention GPS equipment being offered as the aircraft is already installed with LTN 92, which is a requirement for air worthiness. Then why the management argues that INS equipment has to be installed on these aircraft. At this point she presented the tender document to the Committee. The Chairman Committee stated that in the last meeting Chairman PIA had informed the Committee that the planes were being sold since they were not safe but now there are different statements. He asked DG CAA to give his position on the air worthiness issue. The Chairman committee asked the Management to
explain the difference in the maintenance cost of the two engines and the other costs involved.

11. Senator Rukhsana Zuberi Continued and stated that the reply from the Management regarding leasing of one engine to Tri Star the possibility of selling these planes in parts is not satisfactory. She also asked why it is necessary to have test flights of A300 B4. Is it because maintenance work has been carried out on these planes? She preferred a response from CAA. Chairman Committee while summing up the questions of Senator Zuberi asked whether any comparison was carried out between a dry lease and wet lease and what is the concept of test flights of the planes being sold. He further asked whether PIA can retain the aircraft till the next Hajj and Umra season and then lease them out subsequently. He asked whether an in-house feasibility was carried out to look at this issue.

12. Senator Kamran Murtaza asked the following questions:-

(a) At the time when cracks were detected on A300 B4 planes what action was initiated by PIA Management to ensure that the aircraft are safe?

(b) Since the aircraft are air worthy why these cannot be used by PIA.

(c) Since GPS is not being removed whether PIA is asking for extra amount from the buyer for this gadget.

(d) The amount spent on the 6 planes sold on “as is where is” basis.

(e) According to the sale agreement the law of England will apply in case of a dispute between PIA and MNG. He asked why this clause was agreed to.

(f) Why the contract document is confidential? Why not open it to people in related business.

13. Senator Kamil Ali Agha was of the view that sufficient questions have been raised in the meeting today however his concern was issues pertaining to safety and asked why PIA supported the selling of these aircrafts. Senator Mushahid Hussain Sayed complimented Senator Zuberi for the thorough investigation and stated that she can become a good investigative reporter in the future. He informed that recently he traveled by PIA to the UK and found that things have changed for the better.

14. Mr. Tariq Kirmani, Chairman PIA thanked the Committee for providing PIA management an opportunity to appear before the committee. He assured the Members that whatever information is asked by the Committee will be provided but the only constraint is time factor, which has now been taken care of and the system for Senate and National Assembly has been streamlined. Responding to the concerns of the Members regarding provision of incorrect information he said that there could be an oversight and the information was not withheld intentionally. He informed that the previous business
plan was inward looking and the management is preparing a new one presently. Deputy MD PIA stated that commitment about GPS was made by the previous Chairman as at that time the then Director Engineering supported by the Chairman had said that GPS will be removed. The Director was not well prepared on the subject. Chief Engineer PIA stated that previously LTN 92 was installed on this plane but after 20 years LTN 72 was introduced in the market and was installed. In 2001 when spares for this gadget were not available PIA opted for GPS. The tender documents did mention that the planes are offered without GPS but this was wrong information. Chairman Committee stated that Chairman PIA should look into this matter and the Committee will not go beyond this.

15 Senator Sardar Mehtab Ahmad said that he was not satisfied with the answer and why should only Chairman PIA look into the matter and restrain the committee from probing further. How can a Director now say that the statement made by the previous Chairman was incorrect? The previous management was brought in to focus on restructuring but the new Chairman is also talking of restructuring. He asked whether the previous management was carrying out restructuring on its own keeping in view the market conditions or through consultants. He demanded transparency in PIA affairs.

16 Chairman PIA stated that there are commercial organizations owned by the government and they have to work on commercial lines. When we operate commercially changes have to be made keeping in view the market conditions. A few years ago PIA hired a consultant and he advised to close down routes. That was an inward looking approach. As an example he stated that 4 flights of a foreign Air line came into Karachi while 2 PIA flights to their destination when empty. Will any new management worth its salt not look into what happened in the past and the results obtained from those policies. Senator Kamran Murtaza asked whether the new Chairman can take action against the previous Chairman. He suggested that the Committee should take action. Chairman Committee stated that the statement was made by the previous Chairman in the light of input from his technical team. I asked Chairman PIA to take action against the people who made wrong assessment and statement because he has the authority to do so. Senator Kamran Murtaza demanded that in that case the Committee should be informed about the action taken. Senator Farhat Ullah Babar stated that the management has accepted that GPS issue happened inadvertently. We should express our concern and the PIA management should share the enquiry report with the committee. Senator Rukhsana Zuberi asked whether PIA had informed the bidders that the air Crafts were being sold on “as is where basis is” and whether they knew that the aircraft will be installed with GPS and new seats etc. She of the view that if PIA gave these planes on wet lease it can get $2600 per hour for these. Chairman PIA responded that the Air craft were undoubtedly offered on “as is where is” basis but they have to be air worthy, which is mentioned in the tender document.

17 DG CAA stated that the Air craft were air worthy and their certificates were valid. If the air craft are in storage for 60 days then test flights are necessary. Secondly INS is necessary for air worthiness. Thirdly cracks in the body of the air craft have certain limitations and it can still fly. The cracks on these air crafts were within these limitations. Senator Kamran Murtaza asked Chairman PIA whether he was satisfied with
the deal. The Chairman responded that there is no problem with the sale of these aircraft and these should be dispensed with. The maintenance cost of old planes is very high and there are stringent inspection requirements. These planes are uncomfortable and 4 out of 10 have crashed. PIA has signed a contract with Transparency International. We have merged all purchases into one department and will get discount on bulk purchases. We have installed new software whereby in case we require a certain part any company around the world can approach PIA to provide the same at the nearest point. Regarding the incidents of fires on Boeing 777 Chairman PIA stated that he called the Boeing people to enquire why this problem has recurred. We were informed that there is a problem with some part which is being supplied by a company not approved by PIA. Now this issue has been taken care of. Responding to question regarding application of British law in case of a dispute between PIA and MNG he stated that the former argued for applicability of Pakistani law while the latter insisted on Turkish law but ultimately both sides agreed on a third country hence the applicability of British law.

18. Senator Mouhim Khan Baloch stated that since PIA is a commercial organization it should have good planes, efficient staff, serve good food and charge reasonable fares. Moreover many air hostesses who should be at home are still serving PIA. Senator Zuberi added that the senior flying staff inclusive of the stewards be given other back office assignments. Chairman PIA responded that there is no consideration of age for air hostesses in PIA and if they can work satisfactorily they continue. Previously the Supreme Court reinstated some air hostesses that PIA had retired at the age of 45. Menu is being improved. Reservations appearing on the system are genuine and I have ordered that there should be no manual intervention in the system. We will look into your demand for special reservation for parliamentarians but we do not want empty seats as these are perishable items. There are no reserved seats on PIA for any office in Pakistan. Deputy MD is looking into the possibility of initiating flights from Gwadar to Sharjah. The Civil Aviation laws of Sharjah require specific equipment on the Fokker operating to and from their airport. Chief Engineer PIA informed that RMP-1 is required for arrival at Sharjah because Fokker cannot fly that accurately and since Sharjah and Dubai Airports are in close vicinity hence the requirement of this equipment. Deputy MD assured that this equipment will be on board soon and we will inform the Committee about the date for Sharjah flights. Chairman PIA stated that we are trying to improve aircraft utilization time and given the existing fleet PIA has started flights to Singapore, Kuala Lumpur and Kenya. We are buying and leasing additional planes and will start flights to DG Khan and Multan as well. Presently we are flying back to back.

19. Chairman Committee asked about the replacement of F-27’s. Chairman PIA responded that we have arranged finances and will get the new planes by June 2006. In response to Senator Mouhim Baloch question, Deputy MD PIA stated that Umra is handled by agents designated by Saudi Consulate and PIA is not involved. Chairman Committee asked whether feasibility comparing A300 B4 and A310 planes presented to the Board. Mr. Rashid Hassan, Director Corporate Planning stated that the plan in question was not presented but the changed plan was presented to the Board. Senator Rukhsana Zuberi stated that Board had given conditional acceptance to the sale of planes by asking the management to carryout a detailed study. Chairman Committee asked
Chairman PIA to look into this and ensure that the demands of the Board are met. Senator Sardar Mehtab Ahmad stated that we have shown concern because public money is involved. Chairman PIA responded that we borrowed from abroad and are repaying the amount while the Government is paying interest only.

20. Senator Kamil Ali Agha stated that even if the Government is paying interest only it involves public money. Addressing the Chairman Committee he stated that you are withdrawing so many rights as Chairman. This is my first Committee where I have not spoken being on the treasury benches. You are giving latitude to PIA whereas it is not giving any benefits to the public. PIA management should tell us why fares on Lahore Islamabad section have not been reduced. We can take it up in the senate and request the Government to withdraw the monopoly of PIA on this route. There were many breach of privilege today which we did not raise. We are taking up things with stride because of the new Chairman. Senator Rukhsana Zuberi stated that from the discussion it is clear that the decision of selling of planes was not based on safety or financial feasibility. PIA should come up with all audited accounts and work out the expenditure being incurred on A300 B4 and A310 leased aircrafts. The management was asked to look into the feasibility of retaining A300 B4 for this year Hajj and Umra operations but they responded that PIA has limited slots at Jeddah Airport so they are leasing 747 which is a bigger aircraft. Senator Zuberi was of the view that the Management is not clear about the economics of Umra/Hajj operations therefore they cannot decide about using old planes. Senator Zuberi also referred to the confusion regarding the sale of 6 planes whereas the information provided by PIA talks of 5 planes. There was also some misunderstanding about the cost per seat of A300 B4 and A310 which was explained by Chief Engineer PIA and Capt. Adnan Haris.

21. Senator Kamil Ali Agha further stated that we should close this issue unless we find something new. PIA has a new Chairman and we expect that he will improve the performance of the Airline. Senator Rukhsana Zuberi suggested that PIA management should give answers to the questions of the Members on oath. Responding to Senator Kamil Ali Agha’s queries about not reducing fares on Lahore Islamabad section Chairman PIA stated that PIA does not monopolize this route. Private airlines do not operate on this route because it is not feasible at low fares compared to the cost of operation. Senator Sardar Mehtab Ahmad raised the issue of difference in quality of service provided to passenger traveling to the north of the country from the Gulf compare to those traveling to the South. Chairman PIA responded that all the customers are treated at par by PIA. Senator Ali Agha tabled some news paper cuttings and asked Chairman PIA to respond to allegations raised therein and the action taken by the management on those issues. Chairman PIA responded that we recalled station manager Manchester as he did not provide the service required of him and was absent at the time of the reported incident while Station Manager Sri Lanka was transferred due to complaints of his rude behaviour with passengers.

22. Lt.Gen (R) Tariq Waseem Ghazi expressed his deep sense of honour to be present in the meeting. He stated that it was not a deliberate effort to be away from the previous meeting. This has been a valuable experience to me and I appreciate the interest shown
by the Members. If we have more people like this we can improve things. Unfortunately there has been an intimidating environment from both sides. Committee feels that PIA is not responding adequately while PIA thinks that there are too many unnecessary questions. We are also interested in protecting the finances of the Government of Pakistan therefore, this kind of intimidating position. He was of the view that respondents must respond responsibly. I think in the past PIA management has not been responsible. Chairman PIA should look into these issues and all office bearers must be equipped with right and proper answers. Many a times we get request for an early reply and in such situations we cannot give you proper response. He asked the Committee to be concerned with procedures and ensure that these are followed and there is no under hand deal. The Members concern is that a wrong decision was taken. He asked whether it was malafide or lack of credibility or a wrong route was adopted. If the figures are incorrect please point them out rather than going into details. As long as we can tell PIA management that your procedures need improvement we will have done our job. If there is under hand deal this should be pointed out and we will enquire into it. We will support Chairman PIA till such time that he delivers. PIA will have to wake up or die its death.

23. Secretary defence informed that he has allowed private air lines to operate on routes they wanted and cautioned PIA to be competitive. There is no protection or monopoly. Secondly PIA is a public organization and is open to questions. Some people in PIA at the senior level are not satisfied, rightly or wrongly, and provided this information. If there are corruption issues we will come down on it very strongly. We are negotiating with 40 countries for opening new destinations but we have not taken a decision on the same because we cannot compete. We have asked the foreign airlines to bring Pakistan registered air craft so that they can hire our crew and maintenance facility. He asked the Committee members to let the Board of Directors Question Chairman PIA on many of these questions.

24. Concluding the meeting Senator Nisar A. Memon thanked every one for participating very actively in the meeting. He also thanked PIA Management particularly for the patience that they showed in responding to all the questions that were put to them. He also appreciated the improvement in quality of the working paper provided to the Members. He was of the view that our responsibility is parliamentary oversight. We are not here to micro manage any institution that falls under the jurisdiction of the Ministry of Defence and towards that end we ourselves have to check whether we are going in the area which can be termed as micro management. We felt it important that instead of bothering the organization we will decide as to where parliamentary over sight begins and where it ends. We are cognizant and we are going to hold an internal discussion on deciding these limitations. My observation is that information from PIA has been coming in drops therefore this situation is persisting for the last more than one and half years. If the answers were given with full understanding questions would have been resolved and the committee would have moved further.

25. Chairman Committee said that PIA is a public organization and is open to questions. PIA Management has to sort out its internal issues and solve problems of people who are dissatisfied especially at the higher level so that they stop providing this
kind of information to the public. It comes as public involvement but more than that it emerges from your own internal dissatisfaction therefore, I am sure that on the one hand you have a vision which I think is a right one and on the other we would like to see that it is implemented. Wherever the committee feels that there are issues of corruption we will come very hard on it. Transparency is very essential and it must have been witnessed that lack of transparency in the tender process was brought up vigorously. PIA should provide the authentic comparison of expenses on A300 B4 and A310 leased planes along with original agreements to the Committee Members. The meeting for collecting this information will be arranged by Secretary Committee in consultation with PIA. Finally he stated that we will be protective of PIA because it is a public organization and with this sprit the Committee will move forward. Our interaction with PIA was crisp in terms of facts, comments and questions. The Chairman closed the meeting by saying that nobody should take any personal offence if there were intrusive questions about PIA.

26. The meeting concluded with a vote of thanks to the Chair.

(Drafted by Iftikhar Ullah Babar, Joint Secretary)

SHAHIQ A. KHAN  
Secretary Committee

SENATOR NISAR A. MEMON  
Chairman Committee
# List of Participants

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<tr>
<th></th>
<th>Name</th>
<th>Position</th>
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<tr>
<td>1</td>
<td>Lt. Gen (R) Tariq Waseem Ghazi,</td>
<td>Secretary Defence</td>
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<td>2</td>
<td>Tariq Kirmani</td>
<td>Chairman PIA</td>
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<td>3</td>
<td>Air Marshal (R) Pervez Nawaz</td>
<td>DG CAA</td>
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<td>4</td>
<td>Air Cdre Shadab Hussain</td>
<td>PSIB (CAA)</td>
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<td>5</td>
<td>Zafar Ullah Khan</td>
<td>DAW (CAA)</td>
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<td>6</td>
<td>Muhammad Jahangir Khan</td>
<td>DOPS (CAA)</td>
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<td>7</td>
<td>Syed Farooq H. Shah</td>
<td>Deputy MD PIA</td>
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<td>8</td>
<td>Mohammad Rasheed</td>
<td>DCP PIA</td>
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<td>9</td>
<td>Arif Majeed</td>
<td>DF PIA</td>
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<td>10</td>
<td>Mohammad Tariq Farooq</td>
<td>CE (Dev Engg)</td>
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<td>11</td>
<td>Capt. S. Adnan Haris</td>
<td>CPPS (PIA)</td>
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<td>12</td>
<td>Shahnawaz Rehman</td>
<td>DFM &amp; A</td>
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<td>13</td>
<td>Qasim Rizvi</td>
<td>Chief Engr (Plg)</td>
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<td>14</td>
<td>Muhammad Younis</td>
<td>DS MOD</td>
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<td>15</td>
<td>Maj. (R) Abdul Karim Gill</td>
<td>SO Council MOD</td>
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<td>16</td>
<td>Iftikhar Ahmed Janjua</td>
<td>SO MOD</td>
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<td>17</td>
<td>Rashid Ahmed</td>
<td>C/R</td>
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SENATE SECRETARIAT

Subject: - MINUTES OF THE MEETING OF THE STANDING COMMITTEE ON DEFENSE AND DEFENSE PRODUCTION.

A meeting of the Standing Committee on Defense and Defense Production was held on September 02, 2006 at 10.00 a.m. in Committee Room No. 1, Parliament House, Islamabad. Senator Nisar A. Memon was in the chair.

2 The following Members of the Committee attended the meeting.

(1) Senator Mushahid Hussain Sayed
(2) Senator Jan Muhammad Jamali
(3) Senator Syed Dilawar Abbas
(4) Senator Naeem Hussain Chattha
(5) Senator Asif Jatoi
(6) Sardar Mehtab Ahmed Abbasi
(7) Senator Engr. Rukhsana Zuberi

The list of participants from Ministry of Defense is placed at Annex “A”.

3 The Agenda before the Committee was as under:-

Requisitioned item

(i) Investigation details of Multan Fokker accident.
(ii) Present Working of all PIA departments.
(iii) Details of Finances and Government shares.
(iv) Management of gratuity and pension funds.
(v) Any other item with the permission of the Chair.

Referred Business

Starred question No. 10 answered in the House on 15th March, 2005 regarding details of Agricultural Land acquired by the Government from the farmers of Villages Khadar Khel, Mehmendi, Sheikh Buland Bande and Dervezi, District Kohat.
4. The meeting started with recitation from the Holy Quran by Senator Nisar A. Memon.

5. In his introductory remarks Senator Nisar A. Memon welcomed the members of the committee, Minister and officers of the Ministry of Defence, senior management of PIA and CAA. He invited the PIA Management to brief the Committee on the Multan Air Crash. Air Commodore Junaid Amin, Head Investigation Team stated that Fokker Flight 688 left Multan at 1205 hours on 10th July, 2006 from runway 36. The Air Traffic Control observed that the plane was at low attitude than normal and tilting to its right. The plane crashed at 1206 hours two kilometers north of the runway after being airborne for 55 seconds. The Airport authorities at Multan were informed by a local of the area on telephone. Captain Hamid Qureshi who was piloting the plane had clocked 9220 flying hours while co pilot Abrar Chughtai had completed 520 hours. 45 people were on board the ill fated aircraft of which 41 were passengers and 4 were members of the crew. Of the 41 passengers, 20 were destined for Lahore and 21 for Islamabad. At 1207 hours the Air Traffic Control informed the crash tenderers, who reached the site at 1215 hours. At 1220 hours an aircraft of the Multan Flying Club was air borne. There has been no delay in the rescue operation.

6. Air Commodore Junaid Amin further stated that till date, all eye witness have been interviewed and parts of the plane taken into custody. All record pertaining to the flight has been preserved and aerial photographs of the crash site taken. Personal belongings of passengers have been handed over to the Manager, Multan Airport. Samples of fuel were taken and no abnormality was detected. The left engine is in order while the right engine shows internal damage to the turbine. There is a possibility that the right engine did not generate power. According to an eye witness smoke was trailing behind the right engine. It will also be examined whether the water system was functioning properly. Propellers and other parts have been sent abroad for examination. CVR has been sent to France while FDR has still not been downloaded. Turbine has been sent to UK for examination. We at this stage know partially as to WHAT happened but the answer to WHY it happened has still to be determined. In approximately two months time i.e. till mid October, 2006 the inquiry will be completed. The composition of the inquiry team is as follows:-

i. Air, Commodore
   M. Junaid Ameen
   President SIB, CAA
   Investigation In charge

ii. Capt. Shahnawaz Dara
    SVP, Flight Safety & HSE, PIAC
    Representative from PIAC

iii. Group Captain
     Mujahid Islam Khan
     Ops Investigator from PAF

iv. Wing Commander (Retd)
    Syed Naseem Ahmad,
    Technical Investigator, SIB
    Tech. Investigator, CAA
Accredited Representatives from state of manufacturer:-

i. Mr. Holger Litzenberg  
   Aircraft Accident Investigator  
   Rolls-Royce, Germany

ii. Mr. M. J. Schuurman  
    Investigator  
    Netherlands

iii. Mr. Ben Williams  
     Product Support Engineer,  
     Tay Fuel System  
     GOODRICH, UK

iv. Mr. Diane Cuttell  
    Project Engineer  
    DOWTY UK

v. Mr. Arthur Reekers  
   Airworthiness/Certification  
   Engineer  
   STORK, Netherlands

vi. Mr. Mike L. Webber  
    Principal Investigation Engineer,  
    Air Safety Investigation  
    Rolls-Royce, UK

Accredited Member Miss Anne Evans, Sr. Inspector of Air Accident (Engineering) from Air Accident Investigation Branch, UK is monitoring all activities on behalf of CAA, Pakistan.

7. In response to a question by Senator Naeem Hussain Chattha Air Commodore Junaid Amin stated that at B1 speed the pilot can abort take off. At speed higher than B1 the book says that the Aircraft should take off and after attaining a height of 400 feet the pilot should make an emergency landing. The inquiry has taken a little longer because experts are not available due to holiday season in the west. Moreover, stripping of the engine is a long drawn processes therefore, this delay.

8. Senator Rukhsana Zuberi stated that investigation time is determined by the speed at which information is provided to the local and foreign investigation teams. She suggested that investigation should have been out sourced to a foreign company because it is a specialized job otherwise it will take a long time. Countries like Australia and Japan etc. are outsourcing such investigations. She asked weather reports of previous plane accidents have been published? She further stated that according to her information the Captain was over fatigued.

9. The PIA Management responded that CAA is responsible for conducting such inquiries and are not out sourced. AVM M. Safdar Deputy DG CA stated that all investigations pertaining to civil aircrafts are given to International Civil Aviation Authority (ICAA) and they published it. The team that is holding the inquiry of the
Multan Fokker crash comprise of people who are not less than international experts. Generally in such cases all agencies and countries join hands in holding inquiry and under IATA rules they do not charge for their services. In reply to a question by Senator Nisar A. Memon Deputy DG CAA stated that no inquiry conducted by Pakistani experts in the past was rejected by the International Civil Aviation Authority. He further stated that if any investigation is beyond the competence of Pakistani specialists it will be outsourced. We checked and found that the crew was not tired and was given proper rest. The captain who has to rest for ten hours according to the book was rested for ten hours five minutes in this case.

10. Senator Mushahid Hussain Sayed stated that CAA should have come with a complete answer about the Fokker crash before this Committee. He asked whether the statement that Fokker planes are ‘flying coffins’ made by Major® Tanvir Hussain Syed, Parliamentary Secretary for Defence before the National Assembly, is correct. The PIA Management responded that the statement is not correct. An aircraft is either air worthy or otherwise. In this case the aircraft disintegrated it could be concluded that it was old. Senator Sardar Mahtab Ahmed agreed with Senator Mushahid Hussain that PIA must enforce strict protocol pertaining to duty hours and age of the crew. Mr. Shahnawaz Dara SVP Flight Safety said that PIA crew flies fewer hours than crew of other air lines. During the last 36 years the minimum rest time for pilots between two flights was 8 hours but since last year it has been increased to 10 hours and this is in conformity with international standards. The Committee asked that a copy of standards applicable in PIA and other international air lines be sent to the Secretary of the Committee. This information should contain details about both the cockpit and cabin crew.

11. Senator Nisar A. Memon stated that an aircraft can take off given a certain load that it carries and temperature on the ground. The higher the temperature on ground, less load the aircraft must carry to take off. Is it true that the ill fated Fokker was carrying passengers plus freight load beyond limits for that temperature? Chairman PIA responded that on that particular date and time the temperature on the runway was 36 degree centigrade and the aircraft was carrying 1000 kg less weight than required. The Chairman while concluding this item stated that all questions were duly answered and asked the concerned authorities to send the inquiry report to the Committee whenever it is received. Rao Sikandar Iqbal Minister for Defence stated that he had made a commitment on the floor of the National Assembly that the inquiry report will be received in 3-4 months time and it will be placed before Parliament.

**Agenda item ii to v.**

12. Mr. Tariq Kirmani, Chairman PIA stated that PIA Management has coined three C’s which mean convenience for customers, comfort of customers and competitiveness of airline for customers. The Management has a vision and a mission statement which he explained in detail. He stated that customers can book seats on mobile phones, go to the airport and buy a ticket paying by credit card or cash. Tickets can also be delivered to a passenger at no extra cost. PIA had 3500 agents’ world wide including 37 in the UK and now more outlets are being opened. PIA also offers standby fares. If a passenger buys 3
business class tickets he will get one free. As far as comfort is concerned PIA is refurbishing B&C class in A310 aircraft. Flight entertainment is important and is being monitored by a six member team. Kitchen facilities are being expanded to Lahore and Peshawar. As far as competitiveness is concerned PIA is doing well since its market share has gone up from 47% in 2005 to 65% in 2006.

13. Senator Rukhsana Zuberi stated that Mr. Javed Sheikh who worked as G.M. Fuel at PIA took leave and worked with IATA and then Aero Exchange. He rejoined PIA and is pleading for purchase of parts from his former employer, Aero Exchange, which is unethical. Chairman PIA responded that Mr. Javed Sheikh is Senior Vice President responsible for Procurement and Logistics. He went on leave without pay to work in another organization. Aero Exchange is a club like arrangement from where airlines can get parts when needed and then return them or pay for them. This is a cheaper source of purchasing parts. It is IT based and the response time in quicker. Moreover it is not necessary to buy from Aero Exchange. AVM Gul stated that PIA is a member of Boeing and Airbus, who inform us about the nearest available part and the name of the airline which posses it. Senator Zuberi stated that according to Boeing, waiting time for parts is longer at PIA.

14. Senator Asif Jatoi raised the following points.

i. That PIA Website is not working properly.
ii. Economy Class and Economy Plus on 777 are the same.
iii. 50% of the entertainment sets on the 777 plane that he traveled on did not function properly or were out of order.

AVM Gul replied that the website is now functioning properly. The entertainment system is from Panasonic and is giving problems. The matter has been taken up with the concerned Company. A row of seats in the Economy Plus is being removed to increase the space between rows of seats. In A310 sleepers have been installed in the Business Class so as to give a different look than the Economy Class. Senator Syed Dilawar Abbas stated that normally customers face problem in getting a seat on PIA while seats on the plane are found vacant. Generally the window seat on the first row is booked. Chairman PIA responded that PIA recovered Rs. 6 million from agents for fake over booking. We have transferred some employees from the reservation side. Now things should be better. Mr. Asif (PIA) stated that previously agents fed fictitious names but we cleared 80000 seats in previous months and now PIA has stopped doing business with those agents.

15. In response to another question regarding Management of Pension Funds Mr. Arif Majeed, SVP Finance PIA stated that the fund will continue to be maintained in Defence Certificates till its maturity in 2008. It is giving a return of 18-19%. There after it will be diversified as the rate of return in Defence Certificates for future investment has gone down. Chairman Committee stated that after revamping of the fund, details should be provided to the Committee.
16.  Major General (R) Muhammad Ashraf Chaudhary Acting Secretary Defence stated that land near Kohat was acquired for Pakistan Air Force and 63% payment to the owners has been made. However, some land owners have gone to the court praying that the compensation paid by the Government be increased as the present rate was low. The first court hearing is on 5th September, 2006. The Ministry of Defence would accept the decision of the Court. The Committee ruled that since the matter was subjudice it therefore can not discuss the same.

17.  The meeting adjourned with the vote of thanks to the Chair.

IFTIKHAR ULLAH BABAR
Secretary Committee

SENATOR NISAR AHMED MEMON
Chairman Committee
## Annex “A”

### List of Officers

#### Ministry of Defence

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<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>1.</td>
<td>Maj.Gen. Muhammad Ashraf Chaudhry (Retd)</td>
<td>Acting Secretary</td>
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<td>2.</td>
<td>Syed Turab Haider Zaidi</td>
<td>Joint Secretary</td>
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<td>3.</td>
<td>Mr. Shahid Anwar</td>
<td>Deputy Secretary</td>
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<td>4.</td>
<td>Mr. Mohammad Younis</td>
<td>Deputy Secretary</td>
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<td>5.</td>
<td>Mr. Iftikhar Ahmed Janjua</td>
<td>Section Officer</td>
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<tr>
<td>6.</td>
<td>Maj. (R) Abdul Karim Gill</td>
<td>SO (Council)</td>
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<tr>
<td>7.</td>
<td>Capt. Rizwan Akhtar</td>
<td>Staff Officer to Minister</td>
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#### Military Lands & Cantonments

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<td>1.</td>
<td>Maj.Gen. Wajahat Ali Muftee</td>
<td>Director General</td>
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<td>2.</td>
<td>Mr. Abdul Majeed Janjua</td>
<td>Deputy Director General</td>
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<td>3.</td>
<td>Group Capt. Hasan Kamran</td>
<td>Director Revenue Record</td>
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#### Civil Aviation Authority

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<th>No.</th>
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<tr>
<td>1.</td>
<td>Mr. Farooq Rehmatullah</td>
<td>Director General</td>
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<td>2.</td>
<td>AVM M. Safdar</td>
<td>Deputy Director General</td>
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<td>3.</td>
<td>Air Commodore Junaid Ameen</td>
<td>President, Safety &amp; Investigation Board</td>
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<td>4.</td>
<td>Wing Commander Syed Naseem Ahmed (R)</td>
<td>Technical Investigator</td>
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<td>5.</td>
<td>Group Capt. Mujahid Islam Khan</td>
<td>Operational Investigator</td>
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<td>6.</td>
<td>SQN LDR, Javaid</td>
<td>Staff Officer to DG</td>
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#### Pakistan International Airlines

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<th>No.</th>
<th>Name</th>
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<tr>
<td>1.</td>
<td>Mr. Tariq Kirmani</td>
<td>Chairman</td>
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<td>2.</td>
<td>Syed Kamran Hasan</td>
<td>SVP SMES</td>
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<td>3.</td>
<td>Mr. Arif Majeed</td>
<td>SVP Finance</td>
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<td>4.</td>
<td>Capt. Shahnawaz Dara</td>
<td>SVP Flt Safety + HSE</td>
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<td>5.</td>
<td>Mr. Asif Bashir</td>
<td>Deputy Manager</td>
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<td>6.</td>
<td>Mr. Rasheed Ahmed J. Shaikh</td>
<td>C/A</td>
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SENATE SECRETARIAT

MINUTES OF THE MEETING OF THE STANDING COMMITTEE ON DEFENCE AND DEFENCE PRODUCTION HELD ON 7th DECEMBER, 2006 AT THE PARLIAMENT HOUSE, ISLAMABAD

A meeting of the Standing Committee on Defence and Defence Production was held on 7th December, 2006 at 10.30 a.m. in Committee Room No. 4, Parliament House, Islamabad. **Senator Nisar A. Memon was in the Chair.** The following attended the meeting:-

1. Senator Syed Dilawar Abbas  Member
2. Senator Naeem Hussain Chattha  Member
3. Senator Asif Jatoi  Member
4. Senator Prof. Khurshid Ahmed  Member
5. Senator Mrs. Rukhsana Zuberi  Member
6. Senator Kamran Murtaza  Member
7. Senator Muhammad Enver Baig  Mover
8. Senator Rehmatullah Kakar (Advocate)  Mover
9. Senator Dr. Muhammad Ismail Buledi  Mover

The list of officers, who attended the meeting, is annexed.

2. The agenda before the Committee was as follows:-

**Pakistan International Airlines (PIA)**

i) Whether Civil Aviation Authority has issued air worthiness certificate in respect of C-130 Aircrafts being used for passengers in lieu of Fokker Aircrafts. Furthermore, whether C-130 are insured and fitted with seatbelts and Oxygen Masks.

ii) The condition and air worthiness of Boeing -737 Aircrafts in the light of statement made by the Parliamentary Secretary of Defence on the floor of the National Assembly.

iii) Plans for reconnecting destinations cut off due to grounding of Fokker Aircrafts.


**Civil Aviation Authority (CAA)**

i) Presentation by Civil Aviation Authority on its Organizational Structure, Operations and the new Aviation policy.

ii) Action taken in response to advertisement appearing in a section of a press pertaining to chartered Umra flights.

iii) Any other item with permission of the Chair.
3. The meeting started with recitation from the Holy Quran by Senator Dr. Muhammad Ismail Buledi.

4. In his introductory remarks the Chairman welcomed the members and the officers of the Ministry of Defence, PIA and CAA to the meeting. He did not accept the reason forwarded by the Senior Minister for Defence for his absence from the meeting but acknowledged that the Senior Minister has been attending the meetings of the Committee regularly. The Committee also took note of the continuous absence of the Minister of State for Defence from the meetings of the Committee. The Chairman informed that Secretary Defence was attending the Public Accounts Committee meeting and was being represented by Additional Secretary, Ministry of Defence. In response to the complaint of the members regarding late delivery of working paper, the Chairman asked PIA Management to ensure that working paper is delivered at least one week before the meeting. He also asked Chairman, PIA to call an explanation of the person, responsible for late dispatch of the working paper. Thereafter, he invited Chairman, PIA to give his statement on the agenda items.

5. Mr. Tariq Kirmani, Chairman, PIA stated that his organization has been in the news for some time due to certain reasons. PIA is a commercial company competing nationally and internationally with other airlines. It is a service industry and its job is to transport passengers in comfort. He informed that revenue has gone up by 12.8% while fuel cost has gone up by 16%. We cannot raise fares as we have to compete in the market. In the last two years the fuel cost has gone up from 24% to 49% of our total revenue. PIA needs fuel efficient planes of which we have only one Boeing 777 and two ATR’s at present. Another five ATR’s will join the PIA fleet by April, 2007 at the rate of one plane per month starting January, 2007. He said that there are three reasons for inefficiencies namely; fuel inefficient aircrafts, non existence of fuel hedging, which is recently being introduced with the help of an expert hired from abroad and finally excess human resource. PIA has 18000 employees for 42 planes, which means there are 400 employees per plane while in Turkish Airlines they have 102 planes and 12000 employees. The policy in this regard should be to have less staff, which should be paid higher salaries. Now PIA has inducted people on higher salaries to improve the working of the company. We have also improved fleet utilization, which factor was not given any importance in the past. Seat factor has also increased.

6. Chairman PIA continued and stated that market share of PIA in 2003 was 73%, in 2004 63% while in January, 2006 it went down 47 %. The latest figure for January to September, 06 show that market share has gone up to 69.7% while on the international sector it is 49.2% despite competition. He said that he is in favour of competition but not with hands tied. On the financial front PIA has met all targets but due to fuel charges it is not in a good position. After this statement the Chairman asked the Members to discuss the agenda item-i.

7. Senator Muhammad Enver Baig asked the CAA whether they have authorized C130 aircraft to transport paid commercial passengers to Northern Areas. Why is it that the cabin crew of C130 purchased tickets while on duty on those planes? C130 aircrafts
can be used as a stop gap arrangement for 10-20 days for commercial purposes but not indefinitely. For a longer term, aircrafts could have been leased from abroad. AVM, Safdar Khan, Deputy DG, CAA responded that the Authority has not issued any document allowing C130 to operate commercially. However, we have referred the case to Govt. of Pakistan. Neither has the CAA been notified to operate civil passengers on C130. Senator Baig further inquired as to why CAA has not issued show cause to PIA. Deputy DG responded that CAA regulates air space of commercial flights and does not regulate military planes. During the earthquake CAA gave clearance to civil aircrafts while military aircrafts were cleared by the military.

8. Senator Prof. Khurshid Ahmed asked whether under the law civil operations are the exclusive responsibility of CAA or has the PAF extra jurisdiction to operate commercial flights for civil purposes. Mr. Shahid Ullah Baig, Joint Secretary, MOD stated that the use of C130 was necessitated due to grounding of Fokker Air Crafts and it was done to facilitate the people of Northern Areas. Responding to another query whether the aircraft is covered under the international civil aviation authority rules he said that it was a special occasion and special permission was granted for the operation of C130. Moreover, in the past as well C130 has operated. We ensured that air worthiness was checked by PAF while PIA with hectic efforts ensured that people are insured. Despite busy schedule C130 aircraft were pulled out to operate for civil purposes.

9. Chairman, PIA informed that fare charged from passengers is given to PIA, which in turn passes it on to PAF. Oxygen masks are required above 25000 feet and not below that height. Seats on the C130 are not comfortable but there are seat belts on that plane. Senator Prof. Khurshid Ahmed asked whether there is an agreement between PAF and PIA and if that is correct then how does the CAA figure in. Major Gen. Mir Haider Ali Khan, Additional Secretary responded that he will find out the exact position and inform the Committee accordingly. He stated that C130 flights do not operate without rules and regulations.

10. Senator Muhammad Enver Baig inquired whether it is true that a passenger on C130 died because of lack of oxygen. PIA, CAA and MOD were unaware of this and requested for time to revert to the Committee on this issue. Senator Asif Jatoi stated that at 25000 feet if the aircraft cabin losses pressure a person would lose consciousness in 3 minutes. Capt. Shahnawaz Dara replied that C130 does not fly above 25000 feet, however, if cabin pressure drops, oxygen available in the aircraft is adequate for 16 minutes. The aircraft in such a situation has to be brought down to a lower altitude. Moreover, C130 carry portable oxygen bottles for such emergencies. Senator Rehmat Ullah Kakar inquired as to how will be responsible for any misshape on the C130: PIA or PAF. Chairman, PIA responded that passengers traveling in C130 are the responsibility of PIA. Senator Dilawar Abbas inquired if there was an arrangement between PIA and PAF for a definite period. Mr. Tariq Kirmani replied that PIA has two ATR planes while the third aircraft will join before January, 2007, which will be operated on the Turbat-Sharjah sector.
11. Senator Muhammad Ismail Buledi, who attended the meeting in his capacity as mover stated that PIA authorities had assured in one of the last meetings that they will start a flight on the Turbat-Sharjah Sector very soon but this has not materialized to date. My letters to Chairman PIA in this regard are not responded. Subsequently PIA informed that they are not in a position to open this sector. After receiving ATR planes PIA said they would open this route in November, 2006 but that also did not happen perhaps due to commissioning of second ATR on the Rawalpindi-Gilgit Sector. He also raised the issue of 75 bearded employees of PIA, who were sent on forced leave. Thirdly he stated that Balochistan is not represented in the top echelons of PIA. Senator Kamran Murtaza alleged that recently candidates from Balochistan were called for interview but they were sent back without the interview. He wanted to know the reasons for the same. Senator Rukhsana Zuberi reiterated that problems pertaining to air hostesses raised in the last meeting are still not addressed.

12. Chairman, PIA invited Senator Ismail Buledi to his office in Karachi but before coming, the Senator should ensure the former’s availability in the office. He further stated that in PIA we encourage recruitment from all areas of Pakistan while promotions are granted on merit. Regarding the Turbat-Sharjah flight he said that when he promised that flight, PIA was still operating Fokker Aircraft, which are no more in service. In the next few months 7 ATR planes will join the fleet and PIA will operate on Turbat-Sharjah Sector; starting January, 2007. Regarding the bearded employees Chairman, PIA stated that we respect our employees but if they do not meet our standard or there is a discipline problem or an attitude problem then they are not required. These 78 people have been sent on training and will be placed on other appropriate jobs. In response to Senator Kakar’s allegation that Maulana Wasay was not issued receipt for excess payment of economy plus ticket on 6\textsuperscript{th} December, 2006 on PK-300, Chairman, PIA responded the matter will be investigated and reply sent to the Committee Secretariat in a week time. Regarding the air hostess accommodation issue he said the air hostesses are lodged in good hotels unless for some reasons rooms are not available. Presently such problems are being monitored by a Committee on a weekly basis. There is paucity of rooms at Lahore. Mostly crew is lodged in PC and Crown Plaza but PC does not allocate more than 20 rooms per night to PIA therefore the spill over goes elsewhere. In Islamabad crew is lodged in Holiday Inn and Shalimar Hotel while in Karachi and Peshawar at Regent Plaza and PC Hotel respectively.

13. Senator Muhammad Enver Baig stated that Secretary Defence made a statement about massive losses in PIA in the PAC meeting. He said that every passenger is paying fuel surcharge then why is it that other carriers are making profits while PIA is running losses. He said that despite massive losses a foreign consultant by the name of Philip Morris is being paid $10,000 per month. He also named a few other employees, who were paid in lakhs of rupees per month and asked about the rationale of such appointments. He also inquired about the new destinations, which were closed in a short time. Senator Kakar also named a few employees who were paid five figure salaries. Senator Enver Baig suggested that Parliamentarians should stop using the VIP lounge to get a true picture of PIA and CAA. He alleged that CAA is good at collecting taxes but does not provide requisite service and is not a good regulator. There have been 330 lay
offs due to non-serviceability of aircraft. The auditors have pinpointed certain areas for improvement to make the airline profitable.

14. Senator Prof. Khurshid Ahmed stated that he was not satisfied with the answers. Things are being covered up. He pointed out that service on PIA aircraft use to be good but now it has deteriorated. Toilets are not clean and their latches do not work. In club class he noticed an out of order over head light. He said that PIA is not being run as a service industry and there are repeated engineering failures every month. Senator Rukhsana Zuberi stated that PIA’s vision 2001 was very poor. There were wrong decisions regarding leasing/selling of aircraft. She also questioned the purchase of Boeing-777 especially if there is just one non-stop route to Canada. Chairman, PIA responded that high salaries are the only answer to run a commercial company. The persons hired are professionals from abroad. Even now PIA is looking for a chief financial officer because Chairman PIA does get requisite information from the Finance Department. For jobs in the Finance Department airline experience is not necessary. Senator Enver Baig stated that he is not satisfied with the answers. It was decided that officials from each department will sit with members to discuss problems and answer queries pertaining to their department.

**CAA**

15. In reply to the agenda item regarding action taken in response to advertisement appearing in a section of a press pertaining to chartered Umra flights, Deputy DG, CAA stated that a company by the name of AST was given license to operate Umra flights. The operator without fulfilling other conditions issued an advertisement in the press. CAA noticed the ad in the newspaper on 20th September, 2006 and taking swift action closed their office at the airport on 21st September, 2006. Subsequently on 23rd and 25th CAA issued warnings in newspapers so that people are not cheated and do not lose their money. The license issued to the company was to permit it to carry on certain steps to obtain a certificate. AST had to obtain an air operating certificate from CAA. The initial license allowed them to set up physical infrastructure and bring in aircrafts. Thereafter, the company had to acquire a certificate to operate on domestic route for six months before it could operate on international route for which another application had to be submitted. Senator Enver Baig inquired whether their license was cancelled to which the CAA official replied in the negative. The Committee recommended that the license of the company should be cancelled immediately, after review of the license conditions.

16. In response to queries regarding recruitment from Balochistan Brig. (Retd) Zafar Mahmud, Director CAA stated that we are conscious of Balochistan. He informed that some vacancies pertaining to Balochistan have been filled while the others will be filled soon. In PG-9 there are 11 officers from Balochistan which is according to quota requirement. The Committee asked CAA to send a list of employees in each scale also showing the number of employees from Balochistan separately in each scale. Senator Rehmat Ullah Kakar asked whether Air Blue will be allowed to operate on Quetta-Islamabad sector if they apply for permission. Deputy DG, CAA responded that there is no restriction from our side. Senator Kamran Murtaza asked why Quetta Airport was
closed twice during last week. Mr. Shahid Ullah Baig, JS MOD stated that Airports are closed for certain reasons. During last week two VIPs traveled to Quetta and the Airport was not closed as it is only Ministry of Defence, which gives orders for closure of Airports. On such occasions VIPs are facilitated therefore this impression of closure.

17. Senator Kamran Murtaza asked about air hostesses, who have been hired from abroad. Chairman, PIA responded that most airlines hire crew internationally. This time PIA has hired air hostesses from Russia to facilitate our passengers on that route. Senator Kamran Murtaza stated that PIA air hostesses could have been imparted Russian language course. In response to Senator Enver Baig’s query regarding European objections to 747 aircraft the CAA official responded that they would give reply in writing. Senator Asif Jatoi inquired about the reasons of flight PK-308 having missed a disaster a few days ago. PIA, Management responded that the matter is under inquiry and the Committee will be informed after the report is received. Members also asked about the Multan Fokker crash report. Chairman, Committee responded that Minister for Defence had assured that when the inquiry report is received he will lay it in the Parliament. The Chairman also announced the completion of 58 years of CAA’s operations. It was decided to hold the next meeting with CAA on the open sky policy.

18. The meeting concluded with a vote of thanks to the Chair.

IFTIKHAR ULLAH BABAR  
Secretary Committee

SENATOR NISAR AHMED MEMON  
Chairman Committee
### List of Participants

   Additional Secretary-I, MOD
2. Mr. Tariq Kirmani  
   Chairman, PIA
3. AVM, Iftikhar A. Gul  
   SVP Engg. PIA.
4. AVM, Muhammad Safdar Khan  
   Dy. DG, CAA.
5. Brig. (Retd) Zafar Mahmud  
   D. Admin, CAA
6. Brig. (Retd) Pervez Bashir Nawaz Khan  
   Regional Director (N), CAA
7. Mr. Qaiser Yar Khan  
   Sr. Admin Officer (N), CAA
8. Mr. Afsar Malik  
   C.M.AT (Intl), CAA
9. Mr. Kamran Hasan  
   SVP Sales, PIA.
10. Mr. Umar Ghafoor  
    SVP, Flight Services, PIA.
11. Capt. Shahnawaz Dara  
    Flight Safety & HSE, PIA.
12. Mr. Shahnawaz Rehman  
    SVP-SM&A, PIA
13. Mr. Wasim Bari  
    SVP-IIR&A, PIA.
14. Maj. (R) Abdul Karim Gill  
    Section Officer (Council), MOD
15. Mr. Iftikhar Ahmed Janjua  
    Section Officer, MOD
SENATE SECRETARIAT

Subject: - MINUTES OF THE MEETING OF THE STANDING COMMITTEE ON DEFENCE AND DEFENCE PRODUCTION

A meeting of the Standing Committee on Defence and Defence Production was held on Tuesday 28th August, 2007 at 10.30 a.m. in Committee Room No. 1, Parliament House, Islamabad. Senator Nisar A. Memon was in the chair. The following attended the meeting.

(1) Senator Jan Muhammad Khan Jamali Member
(2) Senator Syed Dilawar Abbas Member
(3) Senator Naeem Hussain Chattha Member
(4) Senator Asif Jatoi Member
(5) Senator Prof. Khurshid Ahmed Member
(6) Senator Mrs. Rukhsana Zuberi Member
(7) Senator Kamran Murtaza Member
(8) Rao Sikandar Iqbal Ex-officio Minister for Defence Member
(9) Mr. Ali Asjad Malhi Minister of State for Defence
(10) Senator Muhammad Enver Baig Mover
(11) Senator Dr. Muhammad Ismail Buldehi Mover
(12) Senator Mrs. Kalsoom Perveen Mover
(13) Senator Muhammad Abbas Komaili On Special Invitation

The list of participants from Ministry of Defence is at Annex “A”.

2. The Agenda before the Committee was as under:-

   i. Briefing on Current Financial Position of PIA.
   ii. Discussion on Questions raised by Senators in the session of the Senate held on 15th August, 2007.
   iii. Decision by PIA Management to retire 6000 employees to reduce losses.
   iv. Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran by Senator Prof. Khurshid Ahmed.

4. In his introductory remarks Senator Nisar A. Memon welcomed the members of the Committee, the officers of Ministry of Defence and senior management of PIA to the meeting. He said that in the Senate Session held on 15th August, 2007 a number of supplementary questions were asked by members in response to the Starred Questions answered on that day and the Deputy Chairman of the Senate, who was presiding over the sitting on that day referred all the questions to the Standing Committee on Defence with
the direction to invite all the movers to the meeting. Thus this meeting was convened to
discuss those questions mainly. He welcomed Mr. Zaffar A. Khan the new Chairman of
PIA to the meeting.

5. Senator Prof. Khurshid Ahmed stated that he was glad that Rao Sikandar
Iqbal, Minister for Defence as always was present in the meeting but he wanted to place
on record the late delivery of the working paper. In fact it was delivered in the morning of
the day of the meeting. Senator Nisar A. Memon responded that since Chairman PIA had
joined recently the delay can be condoned but in future working paper should be sent in
time, at least 2 days prior to the meeting. Thereafter, he invited Mr. Zaffar A. Khan,
Chairman PIA to make presentation on the agenda items.

6. Mr. Zaffar A. Khan, Chairman PIA stated that he was honoured to appear
before the Committee and that he would try to answer all questions. He gave a broad over
view of the financial position of PIA. He informed that as on 31st March, 2007 the total
accumulated losses of PIA stood at Rs. 28.6 billion. The loss trend and financial situation
was serious and grave. The Board had discussed the financial position of the Corporation
and wanted the financial hemorrhaging to stop. He gave the following 3 reasons for the
current bad financial position of PIA:-

   i) Costs have gone up because of higher fuel charges, higher wages and
      higher maintenance cost but revenues have not increased proportionately.
      Therefore, PIA had not been able to manage its costs.

   ii) PIA was over staffed; the number of people per aircraft was high: PIA had
       more than 400 employees per aircraft whereas the international standard
       was 200 employees.

   iii) The biggest problem in PIA was the governance structure. There have
       been compromises on merit, on commercial considerations and on
       complying with law.

7. Chairman PIA continued and stated that in the surrounding region due to oil
price hike money had gone into airlines like Emirates and Etihad. PIA was confronted
with new competition from these cash rich young airlines. There are other serious issues
like brand damage due to restrictions imposed by EU on PIA flights to the European
Union. Competition is another factor which was posing serious challenges to PIA while
infrastructure limitations and work culture are other factors hampering the growth of the
Airline. Moreover press coverage depicting PIA aircrafts as unsafe also add negatively to
the above list. He stated that the previous leaderships established good infrastructure but
in the last few years meager investment had been made in that area. PIA required good
workshops, trained mechanics and simulators for the newly acquired Boeing 777 and
ATR’s. Regarding work culture he said that decision making in PIA was exceedingly
slow. There was file culture wherein each file went through 15 different people.
Disciplinary actions can not be taken very easily while Sifarish culture was prevalent and
the lowest cadres had connections with influential people.
8. Mr. Zaffar Ali Khan further stated that due to the new team’s work plan EU restrictions had been removed, route rationalization was being carried out, costs were being controlled, employee engagements rationalized and financial restructuring was being carried out. PIA Management had discussions with the European Air Safety Commission, who informed that they would make a second check, however 11 out of 20 planes had been allowed to fly to European destinations. The CAA should also check whether or not PIA planes are fit to fly to Europe. Aircrafts not allowed to Europe was not the end of the world rather it was the bad name which was to worry about. The Airline was working on the revenue and cost and had closed down loss making routes. Loans were due for repayment but the financial situation did not permit that. The Management was creating a new debt profile through the market to bring the level of loans to a reasonable level. PIA would not lease aircrafts however A 310’s may be taken back for Hajj which was a critical operation.

9. Taking about the medium and long terms measures Chairman PIA stated that the management was asking itself a question as to what kind of airline PIA had to be. The present vision was to do everything but now 18000 employees had to define what they should be doing. 99 percent passengers on PIA were Pakistani origin so it was basically an ethnic airline. PIA was over staffed but critical skills like pilots and mechanics were short. Some jobs had become redundant over time, but retrenchment would be done humanely. PIA had to replace its aging aircraft. The new aircraft were fuel efficient while the old ones were gas guzzlers and high on maintenance cost. Boeing 737’s would be replaced with A 320 aircraft. Boeing 737 and Air Buses would have to be replaced. The financial pit was too deep and PIA may need financial help from the Government.

10. Mr. Kamran Rasool, Secretary Defence stated that the statement of Chairman PIA had input of the Ministry of Defence as MOD was represented on the Board of PIA. MOD was suggesting upgrading services and aircraft. MOD is also the Ministry for CAA, which managed air space and airports. MOD had to strike a balance between the interest of public and the interest of PIA and convenience of the entire country could not be held hostage to PIA. Mr. Ali Asjad Malhi, Minister of State for Defence stated that the Ministry seeks directions from the Senior Minister for Defence and full support was being extended to the new Chairman. MOD had been monitoring the EU restrictions and informed that he had spoken to DG Civil Aviation Authority to be cautious over time.

11. Senator Syed Dilawar Abbas stated that PIA had been going through a hard patch and it was time that remedial action was taken. The Committee needed to know the vision of Chairman PIA. Every time there was a new Chairman the Airline went down in all respects. In the past PIA had been used as the political arm of the Government. Unionism also had taken its toll. He asked as to who could and who would motivate PIA employees in the future. He asked what the management wanted to do, so that the Committee could extend support to it. Shedding employees would put a lot of pressure on the Government and the remaining ones would not deliver in future. Old habits die hard. Cost of personnel and fuel was very high. Last time the previous Chairman PIA made a presentation before the Committee and everything looked well but things did not happen
as intended. The management should be sincere and honest about the vision it wanted to follow.

12. Senator Prof. Khurshid Ahmed asked a number of questions which were as follows.

i. PIA had not been like this any time before. The level of services and brand reputation had gone down which depended on the management, the leadership and accountability in the organization.

ii. Leadership competence was important. Chairman was pivotal while Board of Governors and Directors were also important. Moreover, oversight by the Ministry of Defence was crucial.

iii. Leakages, corruption, mismanagement had led to high costs. He asked whether the management was plugging those holes.

iv. Who was responsible for policy blunders? How much revenue was lost when policy of 50 percent discount on tickets was implemented?

v. There was lack of accountability at all levels and failure on the part of the Ministry not to act in time. He said he had time series data on PIA’s losses from 1996 to date. This year the losses were to the tune of Rs. 16 billion and asked why was the management sitting on this. If the losses were not curtailed the airline would be heading for disaster. The management talked about high fuel charges but those were faced by every airline while PIA fares were the highest compared to other airlines.

vi. Competition was premium engine of growth. It was not a negative factor. The management had to go deeper as some accountability was needed.

vii. Employee / employer relationship was crucial. If the worker was demotivated profits could not be made.

viii. He did not agree to the negative portrayal of unionism. There could be sharing of responsibility and there should be policy of reward and punishment. Quoting one example of pensions he said that a Captain gets 80 percent salary as pension while the engineer gets 50 percent and all others get 32 percent. There was a petition in the High Court about this discrimination.

ix. Philosophy of over employment had emerged because of flawed working and employing inefficient people. Golden hand shake had not worked. Skill development should be carried out.

x. A building at Islamabad Airport housing six facilities was demolished and a new building was being hired at Rs. 2 crores. Who took this decision and had any one been held accountable for that.

xi. PIA was making losses for the last 8 years while the EU factor came in last year only. Was it out of the blue or did PIA receive a warning. It was being said that EU wanted to sell their aircraft to Pakistan; is that correct; who was responsible.
13. Senator Kamran Murtaza stated that the management shifted the burden of losses on *Sifarish* culture. He asked Chairman PIA whether he had relevant experience of running an airline. Every Chairman gave good presentations but nothing happened. People with no experience of airline had been appointed. In their previous organizations they carried allegations and then they joined PIA. The Chairman had confessed that merit was not adhered to. Mr. A. M. Wardag, DM Balochistan was neglected for promotion despite the many commendation letters given to him. Many others had also been neglected. Applications for jobs were received in February 2007 but not disposed of till date. Out of 5273 appointments made during the last 4 years, 119 were from Balochistan. He asked about the level of those employees. He stated that non profitable routes were being closed specially in Balochistan where PIA had monopoly. Why was PIA making loses while all other airlines were making profits? Had the management taken any action against people who brought PIA to this stage? If 99 percent passengers on PIA were Pakistanis then what was the justification for hiring air hostesses from abroad. What action had been taken against that wrong decision?

14. Senator Naeem Hussain Chattha stated that the situation depicted by the new Chairman was quite gloomy. It seemed that things in PIA were not curable but there was weight in the remedial measures taken by Chairman. Route rationalization was important and there was no need for foreign air hostesses. He suggested that the entire team had to work in national interest to bring PIA out of the present crises.

15. Senator Asif Ali Jatoi stated that the last point mentioned by Chairman PIA regarding financial help from Government of Pakistan was very important. He asked if the Roosevelt Hotel in Manhattan, New York was up for sale and whether it was true that $4 million had been paid to the consultants for the sale of the hotel. He asked as to what actually was the problem with EU. The planes banned by EU were used to fly Senators and the general public between Karachi and Islamabad. He further stated that in January 2006 PK-308 flight plunged 14000 feet near Rawalpindi. It was A 310 plane registered by the name of BDZ. Despite that occurrence the plane was used and later it faced serious problems over Faisalabad. He inquired about the state of that aircraft. He further stated that the previous Chairman had mentioned that 747’s are gas guzzlers but PIA operated those on short routes like Karachi - Lahore and Lahore – Islamabad, which was a 20 minutes flight.

16. Senator Jan Muhammad Khan Jamali stated that the bottom line was that he did not envy Chairman PIA’s position. The intentions seemed good and the Committee should wait for the results. He stated that breakup of personnel of all cadres is required including the work charged employees. He asked if the Management had thought about having two separate airlines one for the local routes and the other for international routes. The politicians may not allow the Management to lay off employees at least during the coming 4 months. MOS for Defence stated that this was not being done.

17. Senator Prof. Khurshid Ahmed asked the following questions:
i. Whether it was true that 6 to 7 thousand out of 18000 employees were contract employees at the lowest level?

ii. The management should provide to the Committee Secretariat the last four salary increases in PIA.

iii. Whether it was true that market value of Roosevelt Hotel was $1 billion and it was being considered for sale for $400 million? And that the consultancy for sale had been awarded to Citibank.

iv. Whether it was true that lunch was not being served on the flight operating to Milan which was a 10 hour flight and only breakfast was served.

v. Whether it was true that booking on PIA flights was not available for the next 3 to 4 months.

vi. Were 4000 employees being laid off?

18. Senator Rukhsana Zuberi welcomed the new Chairman, a mechanical engineer by education and was her senior at the engineering college. She stated that word was going around that the new Chairman had experience of privatization and had been brought in for privatizing PIA. If the diagnosis was proper half the problems would be solved but the Chairman’s diagnoses was not correct. She asked as to why Boeing 777’s were purchased when US routes were not allowed. She suggested that the Auditor General of Pakistan should conduct audit of leasing of aircraft by PIA. She asked about the names of the people who sat on the Board of PIA and their credentials and qualifications. She was of the view that ban on EU flights was a failure of CAA. CAA was not allowed to function as retired PAF officers were employed their. She asked about the credentials of those retired officers. She further stated that some cargo agents got space on PIA while others are deprived. She asked about the role of MNG and Sunrise Point in PIA. Generally, the bookings on the computer showed that the aircrafts were full but it had been observed that planes are empty. She also inquired about the role of kitchen consultants in PIA and the amount paid to them for their services.

19. Senator Enver Baig disagreed with Chairman PIA about fuel costs as a factor and argued that fuel prices in India were higher than in Pakistan. In Dubai fuel prices were 3 cents higher. Despite this other airlines were making profits but PIA was running losses. Equally dubious was the persistent protection given to PIA management by MOD on the false pretext of fuel prices being the only reason for its highest losses in its history and falsely projecting the airline industry situation which had shown the best results in 2005/2007 since 9/11 disaster, with large number of airlines showing outstanding financial results. Despite higher aviation fuel prices in India than in Pakistan, Jet Airways made operating profit of US$93 million, Air India US$22 million and Indian Airlines US$13 million. Even Sri Lankan, Royal Jordanian, Turkish, Kenya, Kingfisher and a large number of other airlines around the world made profit. Locally, even the minnow Air Blue made operating profit facing the same fuel price. This was not to compare with airlines like British Airways which made a profit of US$1.226 billion, Air France-KLM US$1.130 billion, Qantas US$854 million, Emirate US$800 million, Singapore Airline US$749 million, Lufthansa US$683 million, Cathay Pacific US$531 million, Air China US$455 million, Thai International US$264 million. In contrast, during 2006, PIA
incurred an operating loss of Rs. 12.7 billion while in January-June 2007 it was estimated to be Rs. 7.50 billion. Accordingly its accumulated losses would increase to over Rs. 31 billion and its current liabilities would exceed its current assets by Rs. 32 billion which has been described by the external auditors that “these conditions indicate the existence of a material uncertainty which may cast significant doubts about the corporation’s ability to continue as a going concern”. There was no excuse for higher fuel costs because fares had been increased and every passenger was charged fuel surcharge. CAA was claiming an amount of Rs. 4.95 billion from PIA as outstanding amount whereas; PIA made no provision in its balance sheet for that claim. This dispute was now nearly 20 years old and both organizations were getting benefit in their balance sheets; PIA by showing lower liabilities and CAA by showing this amount as recoverable. The matter was pending with MOD without any solution.

20. Making his observations Senator Enver Baig further stated that European Union Ambassadors had been writing to PIA and CAA about EU concerns and the ban did not come out of the blue. The ban was related to maintenance, which was done by retired PAF officers. He asked whether the ban had been lifted or still continued. The ticketing branch of PIA holds seats and the system always shows no seat on the plane. In case of most airlines one could log into their website and find out whether there was a seat available or not and could accordingly book a seat. It was time PIA management seriously checked travel agents. The current management, perhaps in a panic, was closing down routes to USA on which millions of dollars had been spent on their development. The Boeing 777’s were purchased to service the routes to Chicago, Houston, Los Angeles and New York. There was no rationale to drop the routes without even trying to improve their economics by improving service and competing in the market. On the other hand Emirates, Qatar airways and Ittehad Air have captured bulk of our market on long haul routes and PIA would not be able to compete in such markets. PIA in its marketing strategy and CAA in its aviation policy were pursuing non-professional tactics which was taking aviation in Pakistan to a bottomless pit with no chances of recovery.

21. Senator Enver Baig further stated that during the past two years because of continuously deteriorating financial situation, there had been a constant cover-up of the airline’s state of financial health by planting factually incorrect stories in the media to mislead the readers and the Government. Even the Senate members had to wait for over four months to get simple information on the exorbitant salary package of newly recruited men of its previous Chairman. The method used was that PIA while issuing its Press releases for Quarterly Operating Financial Results, did not mention the bottom-line of profit or loss but only praised the efforts for revenue growth, which was due mainly because of fare increase and fuel surcharges. While airlines all over the world contained their non-fuel cost, PIA spent lavishly on non-productive projects, opening new routes without feasibility and closing the same after incurring huge losses. On the Atlantic routes alone, the operating losses on fully allocated cost during 2006 would be around Rs. 4 billion. With Emirates, Qatar and Ittehad airlines now targeting on Atlantic and U.K markets, PIA did not have a solution to that complex marketing dilemma. Thanks to the Government’ kitty and huge profit due to high fares on the flights to Saudi Arabia precious funds in foreign exchange were lost on non-profitable routes around the world.
22. Senator Kalsoom Perveen stated that Prime Minister Zafar Ullah Khan Jamali had announced the provision of night landing facility at Quetta but that has not been honoured to date. She complained that Zhob-Quetta-DI Khan and Turbat-Karachi flights had been closed. There was also no flight on Islamabad Quetta sectors on Mondays. She recommended that Turbat-Karachi flights should be restored. She said that while retrenching staff nobody from Balochistan should be laid off. She also raised the issue of not promoting Mr. Wardag, District Manager Quetta to the next higher scale.

23. Senator Abbas Komaili asked the following two questions:--

- In what proportion compared to fuel charges have fares gone up especially when fuel surcharge was charged on every ticket.
- Why had PIA terminated flights to Tehran when Iran Air and Mahan Air were operating profitably on the same route?

He stated that in the budget speech the Prime Minister had announced lower fares for senior citizens but PIA was not giving concessions to passengers between 60-65 years of age. Talking about Hajj Operation he said that fare charged by PIA was higher than from India although Pakistan received low cost fuel from Saudi Arabia. He suggested that PIA should recruit professionals, who could assist in make the Airline a profitable organization.

24. Senator Muhammad Ismail Buledi asked the following questions:--

- In which year over recruitment was done in PIA?
- When did PIA start making losses? Who was the Chairman at that time?
- PIA should inform the Committee of the difference between salaries of the local staff and the foreign staff?
- Are the 119 Balochistan domiciled employees of PIA genuine residents of Balochistan? He asked for their Matric and domicile certificates.
- The rural urban ratio of Balochistan employees?
- The number of senior level employees of Balochistan?
- 6 out of 193 PIA employees posted abroad belong to Balochistan. He asked for their Matric certificates and domicile certificates and the number of employees who have stayed more than three years on posting abroad.
- Whether officers and staff were maintained on stations which had been closed down.
25. Senator Ismail Buledi raised the issue of promotion of Mr. A. M. Wardag, District Manager Quetta to the next higher scale. He said Mr. Wasim had promised to promote him but that promise has not been kept. Officers Junior to Mr. Wardag had been promoted although he showed good performance by recovering Rs. 7 crore when he was posted in Birmingham. He suggested that the frequency of flights on Makran-Sharjah and Turbat-Sharjah should be increased to 2 flights a week while Turbat - Karachi should have a daily ATR Aircraft flight. He also suggested that DI Khan-Islamabad-Zhob flight should be extended to Multan and Faisalabad on trial basis. The in charge of Balochistan Coastal area should be a local from Balochistan.

26. Senator Dr. Kauser Firdaus stated that foreign air hostesses have been hired on higher salaries despite the losses made by PIA, while local air hostesses are paid much less. She suggested that these issues should be discussed in the Board meeting. There were frequent changes in PIA flight schedule resulting in loss of passenger traffic. She suggested that female passengers traveling alone should be allocated seats side by side. She suggested that the challenge for the management was to stall privatization and make PIA a profitable organization.

27. Senator Nisar A. Memon announced the following decisions:-

   i. The promotion case of Mr. Wardag should be reviewed by PIA Chairman and then Minister of Defence within one week. Chairman PIA should review other promotion cases as well.

   ii. A 2 member Sub-Committee comprising of Senators Rukhsana Zuberi and Asif Jatoi was formed with the following terms of reference:-

     To study the replies submitted by PIA to questions raised by members and new questions raised by the members of the Committee and submit a report to the Committee along with its recommendations to improve overall position of PIA.

Minister of State should assist in logistics / administrative matters. The Committee should submit its report within two months.

28. Mr. Ali Asjad Malhi, Minister of State for Defence thanked the Committee for its constructive criticism. He said Defence Minister is of the view that border line cases pending promotions especially employees from Balochistan should be granted promotion. He reminded the Committee to appreciate the present government for increasing job quota of Balochistan domicile persons to 6 percent.

29. Mr. Zaffar A. Khan, Chairman PIA stated that the management will respond to all questions raised in the meeting. He dispelled the impression that he was an expert on privatization or that he had received instructions to privatize PIA. Hotels owned by PIA in New York and Paris are making profits and giving dividends to the Airline. PIA has nothing to do with the privatization of Roosevelt Hotel which would be done through
Privatization Commission. PIA badly needed capital injection and share holders may surrender Roosevelt Hotel for privatization. He asked whether PIA was to be run like a commercial organization or a social organization. The Committee should guide the management in this regard as he was perplexed with the signals received that day. Should the management follow seniority or should it follow merit? He said his predecessor followed merit and so was he. Provincial Quotas had not been followed but he would abide by it. The quota system got affected when 3500 people were employed by PIA on contract. Barring contract employees provincial quotas had been followed. He said that he was not from the airline industry but if he did not measure up to the job he would walk away from it. An organization which did not produce its own leaders was a failed organization. The airline had excess employees and if it had to be run like a commercial organization it had to offer golden handshake scheme down the road. However, the decision of the Board will be followed.

30. Senator Enver Baig stated that during the last 27 years PIA Chief Executives had served for not more than 20 months but during the last three years the average was 19 months. He said that 12 months are sufficient to monitor an executive’s performance after that he should be retained or removed. He asked whether Minister of Defence intended to take any action against people who took wrong decisions. Rao Sikandar Iqbal, Minister for Defence stated that the Ministry will soon take action. Mr. Kamran Rasool, Secretary MOD stated that actions taken in good faith are not accountable. Wherever malafide are detected action would be taken.

31. Senator Nisar A. Memon stated that the brand image of PIA should not be destroyed or belittled. He asked the management to give their recommendations about merit and seniority to the Committee at the earliest for support. The previous Chairman too had no experience of airline industry; what is needed is management experience.

32. The meeting concluded with a vote of thanks to the Chairman.
List of Participants

1. Mr. Kamran Rasool Secretary Ministry of Defence
2. Mr. Zaffar A. Khan Chairman PIAC
3. Mr. Kamran Hasan SVP Commercial PIAC
4. Mr. Aasim Khan System Administrator
5. Mr. Wasim Bari SVP HR & Admin
6. Mr. Muhammad Younis Deputy Secretary Ministry of Defence
7. Mr. Iftikhar Ahmed Janjua Section Officer
8. Maj. (R) Abdul Karim Gill Section Officer (Council), Ministry of Defence
A requisitioned meeting of the Standing Committee on Defence and Defence Production was held on Friday, 14th September, 2007 at 10.00 a.m. in Committee Room No. 4, Parliament House, Islamabad. Senator Nisar A. Memon was in the chair. The following attended the meeting.

(1) Senator Mushahid Hussain Sayed Member
(2) Senator Jan Muhammad Khan Jamali Member
(3) Senator Syed Dilawar Abbas Member
(4) Senator Naem Hussain Chattha Member
(5) Senator Asif Jatoi Member
(6) Senator Prof. Khurshid Ahmed Member
(7) Senator Sardar Mahtab Ahmed Member
(8) Senator Mrs. Rukhsana Zuberi Member
(9) Senator Kamran Murtaza Member
(10) Rao Sikandar Iqbal Ex-officio
     Minister for Defence Member

The list of participants from Ministry of Defence is at Annex “A”.

2 The Agenda before the Committee was as under:-

“Sale of Roosevelt Hotel in New York’s upscale Manhattan district despite sustained opposition forms the property’s owner, Pakistan International Airlines Investments Limited”.

3. The meeting started with recitation from the Holy Quran by Senator Prof. Khurshid Ahmed.

4. Senator Nisar A. Memon, Chairman Committee welcomed Rao Sikandar Iqbal, Federal Minister for Defence, Members of the Committee and officers of the Ministry of Defence and the Privatization Commission to the meeting. He informed the Committee that Mr. Wasi Zafar, Minister for Privatization had called him personally to inform that he would not be able to attend the meeting as he was preoccupied with some other important engagement. The leave was thus granted to the Minister. Senator Prof. Khurshid Ahmed placed his deep appreciation on record for convening the meeting within the time limit and to acknowledge Chairman’s respect for the Rules. The Chairman then invited MD PIAIL to make his presentation.

5. Dr. Najeeb Samie, MD PIAIL stated that PIA Investments Limited is a subsidiary of PIAC which owned 99 percent stakes in the former. PIAIL was set up in 1979 by PIA
and Prince Faisal Son of King Khalid of Saudi Arabia both owning 50 percent share each in the Company. PIAIL owned Roosevelt Hotel in New York, Hotel Scribe in Paris, Riyadh Minhal Hotel in Saudi Arabia and Central Hotel in Abu Dhabi. Later PIAC sold its 24 percent share in Minhal Hotel. Initially Roosevelt was taken on lease for 30 years from two Jew brothers, who later filed 2 law suits against PIAIL for rescinding the lease and the Company was on the verge of loosing the lease. It was for this reason that the lessee kept on maintaining these 2 properties despite the losses. In 1988 title of Roosevelt Hotel was acquired by PIAIL. Roosevelt Hotel incurred losses from 1979 to 1997. It was renovated from July 1995 to April 1997 after which it started making profits. Again losses were incurred after 9/11 and 2003 when the Hotel was placed on the auction block. However for the first time dividend was paid in 2007. Dr. Samie further stated that there were 2 scenarios regarding selling of Roosevelt Hotel. In the case of outright sale PIA will receive an estimated net $ 132.36 million. If shares sale method is adopted it would be a better option and would fetch estimate $ 229.09. Scribe Hotel had 217 rooms and was a 4 star deluxe facility. It had been making profit throughout. In 2005-06 profits were down because the Hotel was under renovation but was paid by utilizing retained earnings.

6. Mr. Ahmed Jawad, Secretary Privatization Commission stated that privatization was the norm of the day and was the engine of growth. In June 2006 GOP declared to privatize Roosevelt Hotel. Financial Advisors were appointed from amongst 10 financial advisors/banks. Deutche Bank and Citigroup both submitted tenders but only Citigroup was competitive. After analysis of the bid documents by a committee the process was repeated. In the second round Citigroup and Cushman & Wakefield were found to be most competitive. After negotiating contract with them in April 2007 they were preparing documents for sale. The Committee comprising of PIAC, Ministry of Finance and the Privatization Commission would assess the sale bids. They were also trying for an open transaction method. The Financial Advisors would give their recommendations to the Privatization Board which would in turn give its recommendations to the Cabinet Committee on Privatization (CCOP), and then to the Cabinet. PIA needed investments in aircrafts and that was how they could generate the required funds. He further stated that the timing of the sale coincided with the depressed mortgage market in the United States except for the Manhattan area where property prices were high as there was no property to sell. The Financial Advisors had yet to give the net amount that would go into PIA coffers.

7. Senator Prof. Ahmed appreciated the openness with which the presentation was made. He said that the Committee could read between the lines. There was no convergence between the position of PIAC, PIAIL, MOD and Privatization Commission. The Hotel had been incurring losses since 1979 but nothing was done to remedy the situation. He questioned the role of the MOD in that scenario. The property had been profitable for the first time therefore GOP must not sell the family silver. He said he concurred with PIAC as they were rethinking about not selling the Hotel. Theoretically speaking Privatization was done for two reasons, firstly economic and secondly doctrinarian. The economic arguments had two foundations. 1. Public sector was making losses and was a drain on the national budget and 2. Privatization of units set up by the public sector as the private sector was shy to invest in those sectors. The doctrinarian
argument is that the Government had no business to go in business. He argued that 38 percent of the US economy and 42 percent of the UK economy was in public sector. There should be a balance between the public and private sectors. In the US even the Defence Industry was in private hands. We should vouch to safeguard national interest. The Privatization Commission it seems had tried to approach the Roosevelt sale as doctrinaire issue.

8. Senator Prof. Khurshid Ahmed asked the following questions:-

i. What were the terms and conditions of the 4 short listed companies which competed for the position of financial advisors? Which company was the most competitive?

ii. Prime Minister of Pakistan has linkage with Citigroup. There is a political angle to it, was that aspect considered. The Chair intervened and said that Prime Minister used to work for Citibank but there was no linkage now.

iii. The market value of property had been quoted between $ 3 million and $ 1 billion. The Committee should be informed of the exact value of the property.

iv. If the value of 1 percent share of Prince Faisal was more than $ 8 million then value of 99 percent share would be much higher.

Senator Prof. Khurshid Ahmed concluded by saying that Roosevelt Hotel located in Manhattan New York had become profitable therefore he was against its sale.

9. Referring to the statement of Secretary Privatization Commission that business was going from Government to private hands, Senator Eng. Rukhsana Zuberi inquired about the GOP guidelines to the Privatization Ministry and argued that on the contrary GOP was going into business and giving guarantees in the Gas Pipeline business. Family silver was being sold to purchase planes which had raised serious questions. The few millions that PIA would get out of the Roosevelt Hotel sale may not suffice for the purchase of even one plane. It was very strange that every transaction in Pakistan had Citigroup attached to it. The B 777 planes for example were also purchased through Citigroup. She alleged that the information available to Citigroup was not available to all other bidders. For example PIA sold A310 planes but all bidders did not have the same information. Planes which were advertised for sale on “as is where is” basis were refurbished before delivery. When the B 777 planes were bought good presentations were made about their long range flying capacity. Their engine cycle was based on take off-touch down basis therefore small hops between Karachi-Islamabad and Lahore-Islamabad was not feasible. Chairman PIA responded that aircrafts had to be positioned at Islamabad for foreign flights therefore they had to be flown from Karachi or Lahore. Scheduling is a major problem therefore short leg had to be resorted to.
10. Senator Kamran Murtaza stated that the echo of HBL, Still Mills, KESC and PTCL privatization were fresh in our memory and now we are faced with the sale of Roosevelt Hotel to enable PIA to purchase new planes with the sale proceeds of the Hotel. It was like selling one's house to buy a car. If the Hotel was profitable why sell it, what was the rationale behind it. He asked whether PIA or PIAIL was taken into confidence before the decision to privatize it was taken. The procedure of selection of Financial Advisors was also not very transparent. Whether any other financial consultants other than the top ten short listed were also considered. Would the fee of $4.1 million be paid to the financial advisors irrespective of the deal going through? He inquired whether it was possible to sell shares of the Hotel to interested Pakistanis.

11. Senator Sardar Mahtab Ahmed Khan questioned the selection of Citigroup as financial advisor. He stated that in the last meeting of the PIA Board it was said that since the Hotel was making profits it should not be sold. The Hotel was closed for 2 long years for renovation which was very pathetic on the part of PIAC. In 2002 PIAC added a property by buying Hotel Scribe in Paris but now it wants to sell a property. If one goes by the arguments that GOP should not run businesses then PIA should also be privatized. He appreciated the role of the press for being vigilant and highlighting the issue. The Privatization Commission should not proceed with selling of Roosevelt Hotel as there was no transparency in the entire process. It should be done with the consent of the Board of PIAC and the shareholders of PIAC. He inquired whether PIA had called Annual General Meeting of the shareholders for seeking their view on the sale of Roosevelt Hotel.

12. Senator Mushahid Hussain Sayed complimented the Chairman for taking the initiative of fixing a meeting on an important agenda item as soon as the requisition was received. He said that Chairman Committee had set new traditions of transparency in the Defence Committee. He endorsed the views of the opposition members and stated that it would be a tragedy if Roosevelt, a prime property in Manhattan was sold. He also asked why there was so much ambiguity about the price of property in that area. It could easily be verified and checked from search engine Google.

13. Senator Syed Dilawar Abbas stated that if prudent decisions are made at the right time there is always a gain. The 2 prudent investments were not managed properly and were not making profits. Investment was above $1 billion but profit figures would suggest that these were not feasible investments. Roosevelt management had fought a long legal battle with its owners to continue the lease and for acquiring the property. He asked as to why the PIA Board ventured into investments like these when PIA was making losses in its core business. He opined that he did not agree with the family silver argument. PIA was the family silver and not these Hotels. The process of privatization should be transparent and the Privatization Commission and all concerned must have a rough idea of the price that this property would fetch. There must be a reserve price.

14. Senator Naeem Hussain Chattha stated that the Committee was told that the Hotel was being sold to generate funds for purchase of aircrafts. The Committee should look into reasons as to why PIA was making losses and impress upon PIA to get its house in
order and not proceed with the sale of the Hotel. Since the Hotel had become profitable it was not a good idea to sell it as some concerned citizen would knock the door of the Supreme Court to stop the sale. PIA should improve its performance and lay off inefficient political appointees. It should run viable and profitable routes and should not unnecessarily compete with world class airlines.

15. Senator Jan Muhammad Jamali thanked the Opposition Members for requisitioning the meeting of the Committee on such an important agenda. He endorsed the views of Oppositions Members on the Hotel sale. The Committee should ensure that no one was compelled to go to the Supreme Court to stop the sale of the hotel otherwise the Steel Mills experience could be re-enacted. Senator Nisar Memon intervened and said that the Committee believed in the supremacy of Parliament that is why it was reviewing the GOP decision on privatization of Roosevelt Hotel.

16. Senator Asif Jatoi stated that he was amused to learn that an asset was being sold without knowing its price. He asked why the Hotel was being sold when property prices in the US were depressed. It was said that out of the total price of $ 400 million PIA would receive $ 129 million only, which boils down to selling one Hotel to buy one B 777 plane or to cover one and half month’s losses. He asked would all this turn around PIA? No it would not he asserted. He asked Chairman PIA’s position on sale of the Hotel. In the last three to four years the Privatization Commission had done nothing right starting from the sale of HBL to Still Mills to PTCL and KESC. The result of KESC privatization was before us in the form of 12 hours of load shedding in Karachi. He said that if you rob me once shame on you but if you rob me twice shame on me. He firmly believed that the Committee should pass a resolution against the privatization of Roosevelt Hotel.

17. Mr. Ahmed Jawad, Secretary Privatization Commission stated that nothing was hidden from the Committee. PIA and PIAC had gone through every detail to suggest sale of the Hotel and the Privatization Commission, PIA and GOP were committed to sell the Hotel. The standing of 10 financial firms was taken from Global Lodging and Leisure’s Ratings. 80 percent of the valuation is for technical bids while 20 percent for financial bids. 10 firms were offered to send their bids for appointment as financial advisors. Only 4 namely Citigroup, Deutche Bank, JP Morgan and Merrill Lynch applied. Final bids were received from Citigroup and Deutche Bank. Deutche was the lowest and in conformity with PC Rules Citigroup was asked to match the lowest bid. In technical plus financial valuation Citigroup was the lowest. He informed that top 500 bidders would be asked to bid for the Hotel and there would be public bidding. Presently the value of property had not been determined. The off and on quoted $ 1.2 billion figure was based on the claim by a company that it could raise that amount from the property and GOP was asked to repay in 99 years. In 1999 the Council of Common Interests (CCI) had approved a list of assets to be privatized and that list was being followed which includes Roosevelt Hotel.

18. Mr. Zaffar A. Khan, Chairman PIA stated that PIA was the proud owner of these 2 hotel which were well placed and managed. He asked where PIA could get the much
needed money. The PIA Board had decided to sell this property and PC was assigned to sell the same. In the past few months PIA asked PIAIL to brief the Board about these properties. During the meeting some Members of the Board had suggested that more thinking should be done on the sale of Roosevelt. Giving his views he said that PIA needed money. The core business was airline business and that should be set up on sound footing. If GOP could inject money PIA would not resort to selling the Hotel. The value of the property was not known therefore financial advisors were appointed. PIA can get many planes with whatever money it gets from the deal. It was true that real estate prices in the US had gone down but Manhattan prices were high.

19. Senator Nisar Ahmed Memon inquired as to how much money had been lost by GOP/PIA in these hotels from 1979 to 1998. MD PIAIL responded that no money had been lost. PIA advanced 72 million to PIAIL which had all been repaid plus 5 percent interest on the said amount. Later PIA gave 60 million for renovation which had also been repaid plus 10 percent interest on the said amount. Chairman PIA stated that a decision on the sale of Hotel should be taken at the earliest as uncertainty was impacting both revenues and retaining of good employees with the Hotel. Prof. Khurshid Ahmed stated that since the Hotel was making profits the Committee should not agree to the sale of Roosevelt Hotel. All Members present except Senator Syed Dilawar Abbas agreed to recommend that the Hotel should not be sold. Simultaneously all Members stood up after giving their views against the sale and some started to walk out of the committee room for the Friday prayers. The Chair suggested that the meeting could continue after prayers to conclude but it was suggested to reconvene this meeting at a later date. Thus, the Chairman adjourned the meeting to a date to be decided later.

20. Senator Nisar Ahmed Memon concluded the meeting and stated that:-

i. Documents concerning bids received from Financial Advisors should be sent to the Committee including details of bidding procedure adopted as stated earlier.

ii. Minutes of the CCI meeting of 1991 should also be provided to the Committee.

iii. The privatization of Roosevelt Hotel should be stopped till the meeting of the Standing Committee on Defence is reconvened to consider the issue further.

21. The meeting adjourned with a vote of thanks to the Chair.
**Annex “A”**

**List of Participants**

1. Mr. Ahmed Jawad  
   Secretary  Privatization & Investment Division

2. Mr. Zaffar A. Khan  
   Chairman PIAC

3. Dr. Najeeb Samie  
   MD, PIAIL

   Additional Secretary, MOD

5. Mr. Inamullah Khan  
   DG, Privatization Commission

6. Mr. Muhammad Younis  
   Deputy Secretary, MOD

7. Mr. Iftikhar Ahmed Janjua  
   Section Officer, MOD

8. Maj. (R) Abdul Karim Gill  
   Section Officer (Council ), MOD

9. Mr. Mohammad Asghar  
   SFC, Privatization Commission

10. Maj. Rizwan Akhtar  
    SO to Minister for Defence

11. Sardar Rezvi
SENATE SECRETARIAT

Subject: - MINUTES OF THE MEETING OF THE STANDING COMMITTEE ON DEFENCE AND DEFENCE PRODUCTION

A meeting of the Standing Committee on Defence and Defence Production was held on Wednesday 28th May, 2008 at 10.00 a.m. in Committee Room No. 1, Parliament House, Islamabad. Senator Nisar A. Memon was in the chair. The following attended the meeting.

(1) Senator Naeem Hussain Chattha  
    Member
(2) Senator Asif Jatoi      
    Member
(3) Senator Kamran Murtaza   
    Member
(4) Senator Ms. Saadia Abbasi 
    Member

The list of participants from Ministry of Defence and PIA is at Annex “A”.

2. The Agenda before the Committee was as under:

   i. Briefing on top management changes in PIA.
   ii. PIA future plans for profitability.
   iii. Removal of 80 flight Engineers.
   iv. Rationale of recent Hajj/Umra fare increase.
   v. Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran by Senator Kamran Murtaza.

4. In his introductory remarks Senator Nisar A. Memon welcomed the members of the Committee, the officers of Ministry of Defence and senior management of PIA to the meeting. He stated that this would be a quiet meeting as some members are traveling abroad. Minister for Defence is not present today and there is no communication to the Committee in this regard. The meeting was scheduled for last month but was postponed for today on the request of the Ministry. He referred to the statement of the Prime Minister where he said that Parliament would be made supreme but despite that the Minister is away from the meeting. In the last Government the Minister for Defence attended all the meetings of the Committee. The Minister should inform in writing why he could not attend. Senator Nisar A. Memon congratulated the new Managing Director of PIA and assured him full support of the Committee. After the introductions the Chairman invited the PIA management to brief the Committee on agenda item i.

Agenda item i

Recent top management changes in PIA

5. The oversized top Management and particularly executives hired on contracts on high salary and heavy emoluments were inducted in the airline despite the deteriorating
financial position and accumulated losses, apart from high dis motivation / disparity among all levels of employees. PIA had to face embarrassing situations, both at Public and Private, forums and hardly had any solid justification of hiring these individuals with no tangible and visible results and they did not have any airline industry exposure and expertise.

6. On 8th May, 2008, the positions of Directors have been reduced from 12 to 8 at present. The positions of General Managers PG-X Americas, Saudi Arabia and Yemen, UK + Ireland and UAE have been downgraded to Manager PIA in PG-IX and below. The positions of General Managers and equivalents have been reduced from 65 (as on 12 May, 2008) to 47 at present as a result of mergers / downgrading of Divisions to Sections. The departments of Customer Services, Quality Assurance and Special Projects have been abolished and Flight Safety and HSE department has been downgraded to the level of Division. The divisions of Passenger Services and Ramp Services of ex-Customer Services Department have been merged and directly reporting to Managing Director. The division of Flight Services has been placed under Flight Operations Department due to similarity in nature of duties / functions of Cockpit and Cabin Crew. The E-Solutions Division has been downgraded to a Section. The above steps have brought considerable savings to the airline and has resulted in streamlining the functions, de-layering of organizational hierarchy and enhanced the motivational level of employees. Currently, manpower rationalization / reduction at foreign stations are in the pipeline, which would also produce good results.

7. Senator Kamran Murtaza asked about the benefits attached to the position of Chairman PIA. Secretary Defence responded that part time chairman does not draw salary but has certain privileges like free travel during his incumbency. Senior members of PIA management avail 4 international tickets and 8 local business class tickets in a year but revenue passengers have priority. Senator Saadia Abbasi clarified that there is a difference between the Chairman of the Board and the Executive Chairman. Senator Kamran Murtaza inquired whether any pilot had risen to the post of Managing Director in PIA? Mr. Aijaz Haroon, MD PIA responded that pilots in PIA have risen to the level of Deputy Managing Directors but it is the first time that a pilot has been appointed as Managing Director. He said that there was nothing unusual about this as Chief Executive of British Airways and some other Charter Airlines are pilots. Senator Asif Jatoi inquired if Captain Aijaz Haroon was still flying. The MD responded that he would keep his license valid and do six takeoffs and landings in six months. Senator Kamran Murtaza stated that people senior to the MD were removed to appoint him as MD. The MD responded that there were seniors and juniors but till grade 9 seniority is a consideration and not after that. Moreover, some of the people that were removed were on contract.

8. The Committee desired that the following information may be provided in a week’s time.

   i. What are the benefits provided to Chairman PIA? Both full time and Chairman, who is also a Minister.

   ii. Names of employees hired on big salaries in the past.
iii. How much saving will accrue to PIA because of downgrading and purging of employees?

9. Senator Saadia Abbasi welcomed Captain Aijaz Haroon as MD PIA. She stated that the new MD is facing an uphill task and wished him good luck. She inquired about the criteria for selection of board members and the authority, which makes the appointment. She stated that in the past people from the Air Force were appointed to senior positions in PIA but today there are none. She asked whether some of the board members also hold shares of PIA. She suggested that Chairmen of the Senate and National Assembly Defence Committees should be made ex-officio Members of the PIA Board. She also inquired whether members of the board draw salary and allowances.

10. Mr. Kamran Rasool, Secretary Defence responded that PIA ownership is streamlined in a way that 90% shares are held by the Government while 10% are held by public listed companies while GOP monitors the operation of the Airline. The Prime Minister of Pakistan approves all appointments to the Board of PIA. Two members namely Kamal Afsar, Chairman State Life Insurance Corporation (SLIC) and Ali Raza, President National Bank of Pakistan (NBP) were elected to the Board in the last annual general meeting as SLIC and NBP hold shares of PIA. Secretary Defence informed that Members of the Board are not paid any salary. However, they are paid Rs. 3500/- for a meeting and hotel accommodation if the meeting is held outside Karachi. The term of the Board Member is three years but open ended. As far as the present board is concerned the criteria for selection is to possess corporate experience. DG Civil Aviation Authority is ex-officio member while Maj. Gen. Mir Haider Khan Additional Secretary represents Ministry of Defence.

11. Senator Kamran Murtaza inquired whether the restructuring of the top management had been approved by the Board. The MD responded that approval was not taken in advance but the restructuring carried out will be placed before the Board on 31st May 2008. Senator Kamran Murtaza further inquired whether approval of the HR Committee had been taken to which the MD responded in the negative.

12. The Committee recommended that the policy of appointment to the Board should be reviewed to include public representatives and flying professionals.

13. Senator Kamran Murtaza asked the new MD about his views regarding privatization of PIA. The MD stated that the word privatization was used by the corporate world when they fail to run an organization and then they privatize. Secretary Defence stated that the MD can not take a decision on this issue. This task has not been assigned to him but all options are open. PIA is in deep trouble and is provided Rs. 1.5 billion per month, whenever we talk of privatization people cast aspersions. Senator Nisar A. Memon stated that the issue of privatization of Roosevelt Hotel is still alive and after its clearance from the Board of Directors it should be placed before the Standing Committee. Senator Saadia Abbasi stated that it is a policy matter and is not included in the agenda today. Once the Government makes a statement then the Committee can discuss it. She was optimistic that PIA will turn around and added that presently all airlines are suffering
financially. Senator Nisar A. Memon stated that Minister for Defence should give a policy statement on the privatization of PIA in the next meeting. MD PIA stated that his main objective is to reach a break even point which he will mention in the report to be presented by 30th June 2008. Moreover, there was no plan for privatization.

**Agenda item ii.**

**PIA future plans for profitability**

14. The recent extraordinary surge in fuel prices has forced the entire aviation industry to review its operational structure. IATA had initially projected an industry profit of US$ 7.8 billion for the year 2008. Following an upsurge in fuel prices IATA has twice revised downwards its forecast and in March 2008 it projected a profit of US$ 4.5 billion with an average crude price of US $ 86 per barrel. With the recent increase in crude oil prices, touching the level of US $ 127 per barrel, it is expected that the forecast will be further revised downwards. Many major airlines including Delta and United Airlines have posted losses in their 1st Quarter 2008 results. Indian Airline Industry is also expected to report losses of US $ 1 billion. PIA has also been hit very hard by the soaring fuel prices along with Rupee devaluation against the US dollar and unhealthy competition. In order to contain the impact of rising fuel prices, PIA has reduced utilization of older fuel inefficient fleet. The entire Boeing 747 fleet has been taken out from the schedule operation and will only be utilized for Hajj and Umra extra sections. PIA has also withdrawn two Boeing 747-200 Combi and one 747-300 which are surplus to PIA requirement and are placed for sale.

15. The current volatility in exchange rates has also adversely impacted PIA’s payment schedule of fleet related foreign exchange loans. To increase Yield, strategies have been devised. PIA has already increased fuel surcharge on domestic and international routes. It further plans to increase the fuel surcharge / fares and it is expected that these measures will bring in additional Rs. 3.0 billion in revenue. As part of the route re-structuring plan, several non-viable flights have been dropped altogether or frequencies curtailed. The dynamics of route economics are such that they require constant review of all variables impacting each route. Based on such review PIA has re-launched its flights to Glasgow and Moscow. In addition extra flights to Abu Dhabi, Katmandu, Sharjah and Dubai from various domestic gateways have also been started. At the same time, PIA has decided to capitalize on the opportunity arising from opening-up of Sialkot airport. Moreover, landing loops are being avoided for which CAA is being taken into confidence. In addition to the above, emphasis is also given to increase Engineering sales and generating additional revenue from Catering and other non-transport sectors. The new PIA management has already initiated the organizational re-structuring process in order to increase productivity and employee morale with significant reduction in senior management positions. Staff at foreign stations is being rationalized to further cut down the expenses. Cumulatively, all these measures are expected to yield results in near future. Business Plan is being revised/reviewed keeping in view the volatility in exchange rates and its impact on PIA operations.
16. Senator Asif Jatoi asked the following questions:

i. How many sets of 777 pilots are maintained by PIA?
ii. Are the pilots of grounded 747 aircraft performing any duty?
iii. Were the 747 pilots paid during the period that the said aircrafts were grounded?
iv. Is it true that last year $60 million were spent on refurbishing 747 aircrafts?
v. Why are the 747 not being used as Cargo Planes?
vi. What is the fuel consumption comparison on any given route between the 747 and 777?
vii. Why are 777 used on shorter routes?

17. MD PIA responded that international practice is to maintain 9 sets of pilots per aircraft. No pilot is being denied rest or overtime payments and there is no plan for denying rest. The pilots of 747 were paid for the period that the said aircrafts were grounded but presently five 747 aircrafts are in operation. He agreed that $50 million were spent on the overhaul of the engines and refurbishing of the 747s. If the 747s is converted to a Cargo Plane the minimum cost would be $18 million per plane while for A310 it is $13 million. The 747s will however, be used for Hajj and Umra operation till 2011 and no planes will be leased for this purpose. The 777 consumes nearly half the fuel as 747 on a given route but the 747 carries more passengers. Fuel cost is based on cycle. For a shorter route the cost will be high but for a longer route cost will be less for each cycle. PIA is trying to undo the short routes for 777 but they have to touch Lahore and Islamabad although the maintenance base is in Karachi. In Islamabad between 5 and 11:00 a.m. PIA has no parking rights. Everything is reserved for Emirates and other airlines and at times PIA aircraft are asked to divert to other destinations. He requested the Committee to help the management in this regard. MD PIA informed that there is fixed salary for the pilots but every pilot is paid extra allowance for the number of hours that he flies an aircraft.

18. Senator Nisar A. Memon stated that PIA has positive plans. He wished the MD good luck and asked him to send his plan to the Committee for review. He also asked MD PIA to work out a solution with CAA regarding landing rights for PIA aircrafts at Islamabad airport between 5 and 11 am, which will be discussed in July in a meeting with CAA to which MD PIA would also be invited. The MD responded that the management will prepare a business plan by 30th June 2008.

Agenda item iii

Removal of 80 flight engineers

19. MD PIA informed that flight engineers were removed by the previous management but since 747s are in operation the flight engineer are backed on job and their termination letters have been withdrawn. Presently all of them are on duty except
nine, who accepted retirement benefits. Senator Kamran Murtaza asked about the cost incurred by PIA on court cases instituted by some flight engineers. Secretary Defence responded that lay off flight engineers was a business decision. As 747s were not in operation therefore the flight engineers were grounded. Mr. Makhdoom Ali Khan was paid Rs. 30 lakh for the legal cases.

**Agenda item iv.**

**Rationale of recent Hajj/Umra fare increase**

20. Senator Kamran Murtaza inquired about the increase in the next Hajj ticket price. He informed that India’s Hajj fare is less than PIA fare. MD PIA responded that PIA management had a meeting with the Ministry of Religious Affairs, who asked to compare the air fares of India, Bangladesh and Sri Lanka. The exercise was carried out and it was observed that the difference was only Rs. 300. PIA is losing on Umra flights because the fare was calculated on the basis of $70 per barrel of oil while today it is $127. Every $ increase has an impact of Rs. 440 million. Senator Kamran Murtaza further asked as to why Umra fare is enhanced during the month of Ramzan. The MD responded that PIA has a multi fare system wherein the ticket price goes up as the seats get filled. Senator Saadia Abbasi stated that fuel price is a reality therefore PIA can not promise people lower ticket. We will be lucky if fuel price goes down to $100 per barrel.

21. Senator Saadia Abbasi asked if PIA could offer reduced fare for Pakistanis working in Saudi Arabia on Hajj flights coming back from Jeddah. MD PIA responded that the Saudi Government does not allow PIA to pick up passengers on return. Senator Kamran Murtaza stated that Multan Fokker crash report has not been discussed in the Committee. MD PIA responded that the inquiry is complete. The major factor was engine failure. There was fire in the engine and the crew got engaged in fighting the fire and could not pull the landing gear. He further inquired whether dependents of passengers who died in the crash have been compensated. The MD responded that nearly all have been paid except for those, who have gone to the court. He informed that Rs. 2 million were paid to the dependent of each passenger.

22. Senator Nisar A. Memon asked the management to send all the information required by the Committee at the earliest. He thanked the Members and the other participants for their participation.

23. The meeting concluded with a vote of thanks to the Chair.
### List of Participants

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<th>Name</th>
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<tr>
<td>1.</td>
<td>Mr. Kamran Rasool</td>
<td>Secretary Defence Division</td>
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<td>2.</td>
<td>Captain Mohammad Aijaz Haroon</td>
<td>Managing Director, PIA</td>
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<td>3.</td>
<td>Mr. Shahnawaz Rehman</td>
<td>Director Corporate Planning, PIA</td>
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<td>4.</td>
<td>Mr. M. Haneef Pathan</td>
<td>Director HR &amp; Coordination, PIA</td>
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<td>5.</td>
<td>Mr. Iftikhar A. Janjua</td>
<td>Deputy Secretary, MOD</td>
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<td>6.</td>
<td>Maj. (R) Abdul Karim Gill</td>
<td>Section Officer (Council), Ministry of Defence</td>
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SENATE SECRETARIAT

Subject: - MINUTES OF THE MEETING OF THE STANDING COMMITTEE ON DEFENCE AND DEFENCE PRODUCTION

A meeting of the Standing Committee on Defence and Defence Production was held on Monday 10th November, 2008 at 10.30 a.m. in Committee Room No. 1, Parliament House, Islamabad. Senator Nisar A. Memon was in the chair. The following attended the meeting.

(1) Senator Jan Muhammad Khan Jamali   Member
(2) Senator Kamil Ali Agha     Member
(3) Senator Syed Dilawar Abbas    Member
(4) Senator Asif Jatoi         Member
(5) Senator Prof. Khurshid Ahmed  Member
(6) Senator Ms. Saadia Abbasi    Member
(7) Senator Mrs. Rukhsana Zuberi   Member
(8) Senator Kamran Murtaza    Member
(9) Senator Talha Mahmood On special invitation
(10) Senator Dr. Ismail Buledi On special invitation
(11) Senator Mumtaz Hussain Mehfooz On special invitation

The list of participants from Ministry of Defence and PIA is at Annex “A”.

2 The Agenda before the Committee was as under:-

i. Briefing by Managing Director (PIA) on the financial position of PIA.

ii. Any other item with permission of the Chair.

3. The meeting started with recitation from the Holy Quran by Senator Prof. Khurshid Ahmed.

4. Senator Nisar A. Memon welcomed the members of the Committee, the officers of Ministry of Defence and senior management of PIA to the meeting. He stated that PIA is always reported in the press therefore a lot of issues have to be discussed. Thereafter he invited MD PIA to brief the Committee on agenda item (i).

5. Mr. Aijaz Haroon, MD PIA stated that PIA suffered a loss of Rs. 38 billion in the last 9 months and it is seeking Government help in this regard. This year has been unfavorable for the aviation industry. In July 2007 IATA was expecting a profit of $ 9.6 billion for the aviation industry but now they have revised this figure which shows an industry profit of $ 5.2 billion. Many airlines including Cathy Pacific, SAS and JAL Group have reported losses during the first half of 2008 whereas net profits of several major airlines have plunged in 2008 due to soaring fuel costs. AIR ARABIA reported net profit of AED 82 million in the second quarter of 2008 because it is a low cost carrier and operates on profitable routes. According to DG & CEO (IATA) aviation industry in India
will post the largest loss outside US this year estimated at $1.5 billion. PIA had been struggling throughout this period to react to the changes in market dynamics. Besides there are other factors like the aging A310 and 737 aircrafts in PIA fleet which have an average age of 23 years and are less reliable and expensive to maintain. The geopolitical situation is also not helping the tourism industry nor business executives coming to Pakistan. The MD outlined the following main reasons for PIA losses:

(i) PIA resorted to short term borrowing with high interest rates.
(ii) Devaluation of the rupee has added Rs. 22.7 billion to the liabilities of the airline in the last 7 months.
(iii) Rise in the oil price has added another $39 billion to the expenditure of PIA.

The fuel cost as percent of revenue stands at 55%. PIA should have reacted to all this while on the other hand fares were reduced and loss making routes were given incentives. Revenue per kilometer also reduced. Seat reduction was 9% while revenue reduction was 6%. When the present management took charge it closed down loss making routes. PIA was operating cargo plane which was also incurring losses as there is only out going cargo traffic from Pakistan so it was decided to continue with belly cargo only. However operating expenses were reduced compared to 2007. He further stated that as of September 2008 the debt burden of PIA stood at Rs. 143 billion of which Rs. 83.1 billion was for the aircrafts purchased recently while Rs. 59.9 billion was working capital borrowing. Total loss for the year is about 38.4 billion.

6. Giving reasons of the losses incurred by PIA he said that due to excess capacity all the Gulf carriers are carrying a sizeable number of 6th freedom traffic from Pakistan resulting in siphon off of around Rs. 25 billion of revenue from Pakistan. These airlines sell in Pakistan at lower prices than the fares being charged by them from their hubs, which do not allow PIA to sell its superior product at premium. In order to continue operating on the current loss making routes, PIA would need revision of deregulated aviation policy. The issues which are badly hurting the local carriers and need urgent review are deregulation and selective implementation of national aviation policy, generous grant of excessive capacity and northern gateways to foreign airlines with no reciprocal benefits to the airlines of Pakistan. In June 2001, Government of Pakistan assured PIA of corrective measures to remove imbalances in the aviation. Instead of curtailing the excessive traffic rights and rationalizing their capacity, Govt. opened the northern gateways to more gulf carriers. The growth for PIA represents mainly increase in its 3rd/4th freedom whereas for other carriers it is mostly 6th freedom.

7. Immediate short term measures have already been taken by the management which includes giving challenging revenue targets to stations with strict monitoring. Fares have been increased and so has fuel surcharge. There is an affective control in the reservation system. The management is shifting to Sabre GDS in UK to reduce expenses. Commission allowed to the agents has also been reduced. Seat reconfiguration in Boeing 747-300 has been carried out resulting in additional 150 seats in 5 aircrafts. Some PIA offices abroad have been down sized while in some cases operation officers have been
withdrawn. The management plans to develop a medium-long term strategy for the airline. It envisages improvement in employee/aircraft ratio and increase frequency of better performing routes and last but not the least to modernize the fleet wherein 12 A310 and 7 Boeing 737 will be replaced. At PIA there are 450 employees per aircraft while on the other hand Etihad has the lowest number of 131 employees per aircraft. The reasons behind the high employees/aircraft ratio are provision of in house facilities for non core functions like the technical ground support and flight kitchen etc. PIA would like to focus on the core activities by out sourcing its non core functions. In order to fully exploit market potential, PIA plans to increase its services on better performing routes in UK, Far East and Gulf. It is also proposed to appoint ethnic travel agents from target communities and developed market potential for cargo business through code share/SPA. Aggressive fleet modernization has been proposed which would result in improved product offering, savings in fuel costs, reduced maintenance cost, better dispatch reliability and maximizing operational efficiency. The management is also making efforts for the replacement of 737-300 aircraft but given the present balance sheet no institution would be willing to provide finances to PIA. We are also thinking about replacing A310 aircraft and to induct A320/737 NG family aircraft in addition to adding a few more ATR aircrafts.

8. MD PIA continued further and stated that GOP should consider the following measures which will indirectly benefit local carriers in retaining their rightful traffic and at the same time generate additional revenues for the national exchequer.

(i) FBR should consider imposing tax on all international tickets with more than one sector.
(ii) CAA Pakistan should regulate fares to maintain them at minimum economic level.
(iii) CAA Pakistan should give preferential treatment to PIA on slot timings and requests from Gulf Carriers should be entertained in odd hours.

GOP support is vital as the current financial situation may lead to triggering of cross default on loan and lease agreements, repossession of aircraft by lenders/lessors and Shut down of operations.

9. Senator Rukhsana Zuberi stated that the airline needs major surgery and not just cosmetic changes. PIA inducted odd planes on lease. This Committee went into details of the issue and formed a Sub-Committee to look into the matter in greater details. The report of the Sub-Committee was not approved by the Committee. She asked what price PIA had paid to get maintenance contract from foreign airlines. The planes that were sold are still in operation in Europe. She objected to using the B777 between Islamabad and Karachi as every cycle counts. The management feels the pinch of over employment in the airline because the employees are not fully utilized. She informed that a Board member had suggested modification of one of the planes, which were later sold, into a cargo aircraft but that was not done. She said that business plan submitted by the management to the ECC should be presented to the Committee too. It is a good idea to look into areas and routes which are losing business. The joint ventures started by the
management have not helped either. They utilize our employees and only advise us on what to include in the menu. The management should commit that they would resist any political intervention in PIA affairs. She suggested that special audit of B777 aircraft purchase and leasing of aircraft should be conducted. She asked the names of engineers who recommended purchase of B777 aircrafts. She also inquired as to who transferred billions worth of spares to the UK.

10. Senator Prof. Khurshid Ahmed stated that the problems that were highlighted today were not new. Fuel prices definitely have an impact but things got derailed when they were not checked on time. Why the Board, MOD and the management not look into what went wrong at an appropriate time. There were political interventions in the airlines in the past. Appointment of incompetent people and failure of the management to respond to the situations further worsened the situation. The management claims that downward trend in losses have been stopped but as can be noted operational losses have increased and oil prices and exchange rate can not be blamed for operational losses. The management should inform the Committee as to how much saving has been affected with each remedial step to determine what step is delivering. Fourthly is there any objective resolution of performance for absorbing 6600 people by PIA. Were these people appointed between 1996-99 on political basis or because of violation of criteria? And what would be the implications on the high employees/aircraft ratio? The employees fund amounting to Rs. 1 billion has also been spent. How does the management plan to repay that fund? Finally the MD talked about out sourcing some services. PIA had a first class kitchen but now things have deteriorated. How out sourcing will economize expenditures. One day you may have to out source PIA or ultimately the Government. He asked about the price at which fuel was hedged.

11. Senator Syed Dilawar Abbas stated that losses before tax have grown 4 times but now fuel prices are going down so losses should be arrested. He suggested that business plan of the new management should be placed before the Committee. He was of the view that no PIA Board Member had contributed to the fate of airline. This is the fourth management that has taken over PIA in recent times but the problems listed before the Committee continues as before. The management has to play tough with the Government. He said that joint venture in flight kitchen has not produced good results. He asked the following questions:

(i) Whether PIA had checked which routes could be offered on low price and why was it necessary to compete with airlines of the Gulf region.
(ii) Rationale of offering VSS to employees on the one hand and absorbing 6000 contract employees on the other.
(iii) We are talking about inducting new aircraft but what will be the return on that investment.
(iv) Since oil has come down to $ 55 per barrel will there be any reduction in the fares as fuel prices were the main factor in hiking up the fares.
(v) What kind of reduction in agents’ commission is being brought about?
12. Senator Talha Mahmood stated that the growth of PIA losses have increased over time in the last couple of years. A time will come when PIA’s loans will be so high that the Airline will have to be given away to settle those loans. He was of the view that there was no transparency in the purchase of aircrafts. He suggested that instead of Qadirpur gas field PIA should be sold off. We should not go into technical details but look at broader policy issues. He also talked of the PIA flight which did not take off on time from Quetta on 9th November 2008 and the passengers had to go a lot of inconvenience.

13. Senator Asif Jatoi stated that the management should not blame fuel prices and exchange rate for the losses. He asked the following questions:

(i) What was the price of oil on 7th May and what is the price today?
(ii) Whether any fuel hedging was done?
(iii) Why economy plus seats on UK flights have been discontinued?
(iv) Reasons for discontinuing PNR number on computer booking?
(v) What is the average cost of meal provided by PIA? He said that food quality was getting worse.

The MD had stated that there was no cargo traffic from Pakistan but on the other hand Antanov 225 aircrafts were seen coming to Karachi regularly. Senator Jatoi suggested that PIA should maintain a fleet with same make of engine. He once again raised the issue of nose dive by PIA aircraft BDZ over Islamabad and asked for its inquiry report.

14. Senator Kamil Ali Agha asked the following questions:

(i) How many people had been reinstated in PIA from February till date and the cost paid or to be paid in terms of their salaries and benefits?
(ii) Was the reinstatement done on the orders of a court of law or a person?
(iii) Whether the people who were being absorbed fulfilled the same criteria as prescribed by the management?

He suggested that with decrease in oil prices the Hajj fare should be revised downward, which was increased by Rs. 40,000 in each case.

15. Senator Jan Muhammad Jamali asked about the number of Balochistan domiciled employees reinstated by PIA. He asked PIA management to reconsider the high $ 600 round trip Islamabad – Kabul fare especially for officials, parliamentarians and embassy staff. He asked MD PIA to investigate the 9th November 2008 incident when Quetta Islamabad flight did not take off on time and was later cancelled because of non-availability of night landing facility at Quetta Airport. How much revenue did PIA lose because of this flight cancellation? He said that the Committee wants to see the log book of the aircraft concerned. He suggested that a meeting on this issue be fixed for 1st December 2008. Passengers are paying for the service but night landing facility is not being provided perhaps due to some problem between PIA and CAA.
16. Senator Kamran Murtaza stated that the management blames loans, high oil prices and deteriorating exchange rate for their losses and asked the following questions:

(i) How much fuel PIA consumes per month?
(ii) Details of other losses.
(iii) Since oil prices are going down what would happen to the fares?
(iv) Whether the management will resist pressure on taking back the laid off employees and how many of these employees had gone to the court and lost their case?
(v) Whether provision of meals on flights can be optional which may lower the cost of the ticket?
(vi) Since the last 6 years the Committee has been told that facility of night landing facility is installed at Quetta but when will it be operational?

17. Senator Saadia Abbasi stated that Members have raised genuine concerns. PIA has massive loans therefore the management should have a comprehensive business plan including repayment schedule. She was of the view that PIA’s problems can be overcome with privatization (divestment of shares) but there should be a plan. Despite what the airlines of the Gulf region are doing to PIA it can still compete. PIA can increase revenue by given incentives on routes where traffic is low. Boeing 777 purchase was a process which put the airline in problems. She asked whether B777 was the best choice and what were the reasons to compel PIA to buy that plane. She questioned paying backdated benefits to contract employees. She said that in the last meeting the Committee had suggested that PIA Board should be reconstituted and public representatives especially Chairmen of the Defence Committees of the Senate and National Assembly be made members of the Board, which would ensure accountability of PIA. Moreover, people with experience of aviation industry should be made members of the PIA Board.

18. Senator Muhammad Ismail Buledi suggested that since oil prices have gone down PIA should reduce Hajj fares. The Hajj fares from India, Iran and Bangladesh are lower than what was charged by PIA. Members from Balochistan have been hearing about night landing facility at Quetta but the same has not been operational. He asked about the problem in this regard. He asked how many people from Balochistan out of the 4000 had been confirmed by PIA recently and how many Balochistan domiciled employees have been posted abroad.

19. Mr. Aijaz Haroon, MD PIA stated that he was delighted to see the concern of parliamentarians regarding PIA. There is consensus regarding holding of inquiry about past aircrafts purchases. He was of the view that it will take most of his time as the immediate task was to stop the current losses. He said that it was beyond his authority to conduct inquiry as it was the job of Government to do so. However PIA can provide details. The first decision that the new Management took was to stop leasing aircrafts. The Boeing 777 operation on Islamabad-Karachi sector was for positioning purposes. Cargo was available for outward journey but not for inward journey into Pakistan. One way cargo facility was not profitable but PIA has Combi’s to take care of cargo. A300 could be converted into a cargo plane at the cost of $ 8 million while on the other hand
cargo planes are available at a lower price. In the previous Hajj, Air Orient was involved and we will provide the details of that operation. The Management did not over emphasize oil prices and exchange rate it was just to give cumulated losses. In fact the two figures are colossal. Fuel was more than 50% of PIA’s cost that is why it was being talked about. The high exchange rate was pinching PIA for the loans worth $1.4 billion taken for the purchase of the new aircraft. Operational losses had increased because oil prices had gone up. We will provide you the details of the finances. The monitory impact of the steps taken by the new management has a saving of Rs. 356 million. The Committee asked for information about this in detail.

20. PIA increased both seat factor and revenue. In the past, fares were not allowed to increase and instead loans were taken to meet the losses. In fact gradual increase in fares should have taken place. The improvements that were brought about got PIA Rs. 8 billion in revenues while costs have been cut down. PIA has not given any back dated benefits to any employee and some of their benefits are subject to availability. 4800 contractual employees have been permanently absorbed and their benefits are only 0.4% of the pay role. The total salary of PIA employees is Rs. 75 crores. 59 employees have been reinstated through a Committee of 13 members who scrutinized their cases. 131 have been reemployed but no back benefits were paid. They had cases in the court of law. The Committee asked the management to provide details of 190 employees who were reinstated and reemployed. Regarding hedging of oil, he said that it was proposed that if price of oil was more than $120 per barrel then PIA would raise fare but if the price goes down fares would be lowered. PIA was not allowed to do so therefore we locked the fares. Hedging was done on prices between $117 to 124 and 80% of Hajj fuel was hedged. He said that the previous management did not hedge oil.

21. MD PIA continued and stated that the Business Plan is ready and would be considered in the ECC meeting scheduled for 18th November. Agent’s commission was 9% which has been reduced to 5% and we plan to move to 0% commission for agents. We discontinued economy plus class on all international flights but continued on domestic routes because it was in high demand. The engine type of PIA planes is the management’s concern too. It can not be done over night but we will finally settle with engines for which we have overhauling facility i.e. GE. Registration number BDZ investigation is complete which we will send in 24 hours. Night landing lights have been installed at Quetta and it is hoped that the facility would soon be operational. The new management is not asking for grants or aid but support in the form of sovereign guarantees by GOP for Rs. 55 billion. Regarding cancellation of PIA flight from Quetta to Islamabad on 9th November 2008 he said the flight got delayed due to technical fault and when the fault was removed visibility was low and it was feared that if the aircraft had to return after take of it would not be able to land due to non-availability of night landing facility at Quetta.

22. Concluding the meeting Senator Nisar A Memon stated that details of hedging of oil should be provided to the Committee. The outsourcing of facilities should be examined as there was a gap between the thinking of the management and the members. In the previous meeting it was said that ram handling services would be out sourced so
details of that should also be provided. He suggested that the new management should not be involved in inquiring into the purchases of B777 and leasing of A310 B4. However Ministry of Defence should do the auditing. He asked whether the airline was governed by PIAC Act 1955 or the Private Companies Act. Secretary MOD responded that it was governed by PIAC Act but the Chairman had delegated powers to the MD. Prof. Khurshid Ahmed was of the view that it does not absolve the Chairman of his responsibilities. Senator Nisar Memon stated that if PIA seeks financial assistance from the Government that would not be possible because the Government was in financial difficulty. Senator Nisar Memon asked the following Questions:

(i) What time frame was required to turn around the airline’s financial position?
(ii) Does the Management consider privatization or out sourcing of management?
(iii) Does the management want to make it a national, regional or international airline?
(iv) He also asked the management to give details of the issues that are creating problems between PIA and CAA.

Senator Nisar Memon asked the Management to send detailed report on the night landing facility at Quetta Airport and to investigate the unscheduled over night stop of PIA flight from Quetta to Islamabad on 9th November 2008. Also provide information regarding night landing facility to be provided at Skardu Airport. It was decided that next meeting on PIA matters would be held on 1st December 2008.

23. The meeting concluded with a vote of thanks to the Chair.
### List of Participants

1. Mr. Kamran Rasool  
   Secretary Ministry of Defence

2. Mr. Aijaz Haroon  
   MD, PIA

3. Mr. Arif Majeed  
   Chief Finance Officer, PIA

4. Mr. Shahnawaz Rehman  
   Director, Corporate Planning

5. Maj. (R) Abdul Karim Gill  
   Section Officer (Council), Ministry of Defence

6. Mr. Iftikhar A. Janjua  
   Section Officer, MOD