GOVT REMOVES MAJOR OBSTACLE TO PIA SELL-OFF

News / Airlines



President Mamnoon Hussain on Saturday promulgated the Pakistan International Airlines (PIA) Corporation Conversion Ordinance, paving way for the privatisation of the national flag carrier under a condition of the International Monetary Fund (IMF) loan programme.

The government chose to issue the ordinance on a day when all eyes were on the final phase of local government elections in Punjab and Sindh, hushing up the controversial decision using the same tactic it used while introducing the 40 billion rupees new tax measures. The mini-budget was introduced when the second phase of those polls was being conducted.

Through the PIA Corporation Conversion Ordinance, the government has repealed the PIA Act of 1956 -- which remained a legal hindrance for the airline's privatisation -- and converted PIA Corporation into PIA Company Limited with immediate effect.

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The promulgation of the ordinance marks the second time in less than a week that the government has bypassed parliament in order to save the two-year-old US$6.2 billion IMF bailout. The decree was issued just 48 hours before the new National Assembly session was scheduled to begin.

Ordinances are traditionally issued in cases of emergency, but there was no such urgency in this situation as the government has known since February that it has to amend the PIA Act to privatise the airline.

The affairs of the company will now be out of the domain of the federal government, giving greater freedom to the buyer in taking decisions regarding the company including those pertaining to employees, a finance ministry official said.

Although the government has protected PIA employees' benefits for the time being, the wording of the ordinance suggests that the terms governing the employees could be changed in future, if needed.

There are about 18,000 employees of the PIA and many of them are on contract. The PIA has one of the highest aircraft-to-staff ratio, hovering over 500 per plane against the industry average of 150. The PIA is overstaffed by at least 5,000 employees.

"Salaries of those employees of the corporation who upon conversion become employees of the company shall not be changed to their disadvantage, unless such change is in accordance with applicable law," reads Clause 6(ii) of the ordinance.

"The employees will continue to enjoy all the benefits", said Privatisation Commission Chairman Mohammad Zubair. He said the financial adviser hired for PIA's privatisation will now finalise the privatisation structure, which will be taken to the Cabinet Committee on Privatisation for approval within two weeks.

Under a condition of the IMF loan, Pakistan is bound to invite investors to participate in PIA's privatisation through media advertisements before the end of this month and to sell off the carrier by June next year.

The government has given a written assurance to the IMF that it will sell at least 26% of shares but an official said some prospective buyers have shown interest in acquiring a majority stake. A consortium belonging to Punjab and a Gulf country is said to be interested in acquiring the airlines.

In the second phase, the government will divide PIA Limited into two entities, separating the airline's liabilities so that they are not transferred to the new buyer. As of March this year, PIA's liabilities have ballooned to 297 billion rupees, 248 million rupees of which is debt.

By the end of March, PIA owed 65 billion rupees in long-term financing and 54.5 billion rupees in short-term debt. In addition to this, PIA owed over 104 billion rupees in trade and other payables, 19.6 billion rupees in term of finance certificates and Sukuk, and 5 billion rupees in running finance facility.

According to Clause 4 of the ordinance, the federal government may issue orders providing for the transfer of specified assets to a relevant entity substantially on terms set forth in the relevant arrangement.

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