

COMMITTEE
ON
GOVERNMENT ASSURANCES
(2005-2006)

FOURTEENTH LOK SABHA

EIGHTH REPORT

**(NEW CIVIL AVIATION POLICY AND PURCHASE OF AIRCRAFT BY INDIAN
AIRLINES AND AIR INDIA)**

(Presented to Lok Sabha on)



LOK SABHA SECRETARIAT
NEW DELHI

December, 2005/ Agrahayana, 1927 (Saka)

CONTENTS

Page

Composition of Committee (2005-2006)

Introduction

Report

Chapter I New Civil Aviation Policy

Chapter II Purchase of Aircraft by Indian Airlines and Air India

APPENDICES

I Minutes of the Sitting of the Committee held on 10 June 2005

II Minutes of the Sitting of the Committee held on 14 December 2005

COMPOSITION OF THE COMMITTEE ON GOVERNMENT ASSURANCES

(2005-2006)

Shri Harin Pathak - CHAIRMAN

MEMBERS

2. Shri Rashid J.M.Aaron
3. Shri Yogi Aditya Nath
4. Shri Anandrao Vithoba Adsul
5. Shri Ajit Singh
6. Shri Jigajinagi Ramesh Chandappa
7. Shri Biren Singh Engti
8. Shri Mohan Jena
9. Shri Sunil Khan
10. Shri Rasheed Masood
11. Shri Kailash Meghwal
12. Shri A. Venkatesh Naik
13. Shri M. Shivanna
14. Shri Aruna Kumar Vundavalli
15. Shri Kailash Nath Singh Yadav

SECRETARIAT

- | | | | |
|----|---------------------|---|-----------------|
| 1. | Shri John Joseph | - | Secretary |
| 2. | Shri P. Sreedharan | - | Joint Secretary |
| 3. | Shri T.K. Mukherjee | - | Director |
| 4. | Shri K. Jena | - | Under Secretary |

* The Committee was constituted on 7 August 2005 vide Para No.1484 of Lok Sabha Bulletin Part-II dated 5 August 2005.

INTRODUCTION

I, the Chairman of the Committee on Government Assurances, having been authorized by the Committee to submit the Report on their behalf, present this Eighth Report of the Committee on Government Assurances.

2. The Committee (2005-2006) was constituted on 7 August 2005.

3. The Committee (2004-2005) at their sitting held on 10 June 2005 took the oral evidence of the representatives of the Ministry of Civil Aviation, Indian Airlines, Air India and Airports Authority of India in connection with assurance given in reply to various SQ/USQ regarding 'New Civil Aviation Policy and Purchase of Aircraft by Indian Airlines and Air India'.

4. At their sitting held on 14 December 2005, the Committee (2005-2006) considered and adopted the Eighth Report. The Minutes of the aforesaid sitting of the Committee form part of this report. (Appendix)

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the Report.

6. The Committee wish to express their thanks to the officials of the Ministry of Civil Aviation, Indian Airlines, Air India and Airports Authority of India for their co-operation. The Committee also accord appreciation to the Secretariat staff/officers for the services rendered by them to the Committee in the finalisation of this report.

NEW DELHI;
14 December 2005

23 Agrahayana 1927 (Saka)

HARIN PATHAK
CHAIRMAN
COMMITTEE ON GOVERNMENT ASSURANCES

REPORT

CHAPTER I

NEW CIVIL AVIATION POLICY

1.1 On 2 December 1999 (Shri Rampal Singh and Shri Indrajit Gupta, M.Ps.) , addressed the following Unstarred Question No.681 for answer by the Minister of Civil Aviation:-

- “(a) whether the Government are seriously considering to evolve a comprehensive Civil Aviation Policy;**
- (b) if so, the details thereof;**
- (c) whether the Government propose to allow private foreign companies in domestic field; and**
- (d) if so, the time by which a decision is likely to be taken in this regard?”**

1.2 The then Minister of Civil Aviation Shri Sharad Yadav gave the following reply:-

“a new draft of the National Policy on Civil Aviation is under consideration.”

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 1 March 2000 but was not fulfilled.

1.3 On 24 February 2000 (Shri Subodh Mohite and Shri Satyavrat Chaturvedi, M.Ps.) addressed the following Unstarred Question No.195 for answer by the Minister of Civil Aviation:-

- “(a) whether the Government propose to bring out New Civil Aviation Policy;**
- (b) If so, the salient features thereof;**
- (c) The time by which the new Policy will be made operational;**

(d) Whether the Government propose to allow private domestic carriers to operate on International Routes; and

(e) If so, the details thereof?"

1.4 The then Minister of Civil Aviation Shri Sharad Yadav gave the following reply:-
"the policy is under consideration of the Government, and will be made operational once it is finalised."

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 23 May 2000 but was not fulfilled.

1.5 On 22 April 2002 (Shri A.F. Golam Osmani and Shri Chandra Bhushan Singh, M.Ps.) addressed the following Starred Question No.402 for answer by the Minister of Civil Aviation:-

"(a) whether the Government have decided to redraft the Civil Aviation Policy in view of 11 September 2001 incident in United States;

(b) if so, the salient features thereof; and

(c) when the new civil aviation policy is likely to be implemented?"

1.6 The then Minister of Civil Aviation Shri Syed Shahnawaz Hussain gave the following reply:-

"(a) Yes, Sir.

(b) and (c):- The draft Civil Aviation Policy is being finalised in consultation with various Ministries and Departments etc. and will be put up for the consideration of the Cabinet in the near future."

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 21 July 2002 but was not fulfilled.

1.7 On 18 November 2002 Shri Iqbal Ahmed Saradgi, M.P. addressed the following Unstarred Question No.215 for answer by the Minister of Civil Aviation:-

- “(a) whether the Union Government has finalised a new aviation policy;**
- (b) if so, the main features of the policy; and**
- (c) the time by which it is likely to be announced?”**

1.8 The then Minister of State in the Ministry of Civil Aviation Shri Shripad Yasso Naik gave the following reply:-

“the draft Civil Aviation Policy is being finalised in consultation with various Ministries and Departments.”

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 17 February 2003 but was not fulfilled.

1.9 The Ministry of Civil Aviation sought extension of time on several occasion for fulfillment of the aforesaid assurances as the Civil Aviation Policy could not be finalised due to various reasons. There was inordinate delay in the fulfillment of the assurance. In order to know the reasons for such delay in the fulfillment of the assurance, the Committee took evidence of the representatives of the Ministry of Civil Aviation and Indian Airlines/Air India on 10 June 2005.

1.10 The Committee desired to know the main reasons for delay in finalisation of the National Civil Aviation Policy. In reply the Ministry stated in a written note:-

- “(i) Though a draft policy was circulated for inter ministerial consultation in July, 2000, because of starting of disinvestments process in Air India and Indian Airlines, the finalization of the Policy was delayed and it was felt that the approval to the new Civil Aviation Policy which also contained the policy for foreign investment and participation by foreign airlines in the domestic airlines, may affect the disinvestments process.**

- (ii) The finalization of the Civil Aviation Policy was further delayed as the Civil Aviation Policy, particularly those provisions related to civil aviation security had to be reviewed after the terrorist incident in USA on 11 th September, 2001.
- (iii) Subsequently, in 2003, Government decided to constitute a committee under the Chairmanship of Sh. Naresh Chandra former Cabinet Secretary to prepare a road map for civil aviation sector that will provide the basis for a new national Civil Aviation Policy. The Committee submitted the first part of the report on 8.12.2003 and second part on 2.11.2004. The recommendations made in these reports have been examined and a comprehensive "National Civil Aviation Policy is presently under inter-ministerial consultation before being submitted to the Cabinet for approval."

1.11 As regards the new Civil Aviation Policy the Secretary, Ministry of Civil Aviation stated during evidence:-

"Sir, the need for a new Civil Aviation Policy was first felt by the Government in 1997, and at that time a Draft Policy was prepared after detailed consultations with various users, industry representatives, and it was also put up on the web site of the Ministry for inviting any comments and suggestions. Then, a final Draft was prepared and a Cabinet Note was also prepared by July, 2000. At this stage, when the Government was close to formulating a policy, a view emerged about disinvestments in the Air India and Indian Airlines. There was a thinking that these two public sector carriers be converted into private enterprises by disinvestment.

So, because of pending decision on this subject, it was felt that now it would be necessary to make major changes in the Draft Policy regarding disinvestment, and the whole policy related to those issues about foreign investment and participation of foreign airlines. It was, therefore, decided that the policy may be kept pending till a decision is taken finally on the fate of these two carriers.

Then, Sir, another major event in the problem of Civil Aviation took place. That was the event of September, 11 in the United States where for the first time, aircraft were used as a means of terrorist attack, which created a whole range of new issues to look after the aircraft safety requirements. So, this again required completely a fresh thinking on the part of the aviation security experts into responding to this new kind of challenge that has emerged. Therefore, keeping in view these two major issues, in July 2003, the government then decided to constitute an Expert Committee under the chairmanship of an eminent former Civil Servant, a former Cabinet Secretary, Shri Naresh Chandra. This Committee was asked to prepare a roadmap for civil

aviation sector, which would then become a major input into the new Civil Aviation Policy. This Committee had a number of expert Members also. And, it submitted its Report in two parts. The first part of the Report Came in December, 2003 and the second part was submitted in November, 2004. After this Committee's both Reports came, they were examined in the Ministry. As I submitted, the last Report was in November, 2004 about six to seven months back. After that we had again a round of discussions with all the stake holders in the Civil Aviation Industry, i.e. , the Airlines, Airport operators, cargo, tourism operators and cargo handlers. So, we have been having a series of meetings. Based on these consultations, we have now finalised the Draft of the new Civil Aviation Policy.

The Draft was circulated about six weeks back to the concerned Ministries of the Government of India for securing their comments on the Draft Policy. I am happy to report to the hon. Committee that most of the comments from the concerned Ministries have come. Different Ministries like Ministry of Home Affairs, Ministry of Tourism etc., have different perceptions again on some of the different issues. We are in the process of harmonizing these views today, and I expect that by the end of this month, we would be able to take this Paper to the Cabinet with all the comments on this.

So, my submission to the hon. Committee would be that we are now at the final stages of the preparation of a new document on the National Civil Aviation Policy and as soon as the Cabinet approves this Draft Policy, we will be able to promulgate it."

1.12 The Committee desired to know the main components which are considered for incorporation in the New Civil Aviation Policy. In reply, the Ministry in a written note stated that the draft Civil Aviation Policy specifically addresses issues related to enhancing affordability, air transport services, airport infrastructure, safety regulations and civil aviation security.

1.13 On being asked what the new policy going to do when so many major decisions like the open sky policy, private carriers, disinvestment etc. have already been taken without a civil aviation policy. The Secretary, Ministry of Civil Aviations stated during evidence:-

"Some of the major decisions have been taken and as you rightly observed, with the approval of the Cabinet from time to time. The first

major decision that took place, which actually paved the way for preparation of this Documents was the final view taken by the Government about no disinvestment in Air India and the Indian Airlines. This decision was taken in the previous Government. Then, during the recent past, in the last few months, a couple of other decisions were taken about the opening of the aviation sector in terms of permitting more airlines to fly in and our private airlines to fly out, and to bring about a regime of more open, more liberal entitlements with other countries.

So, some of those decisions had been taken but I may humbly submit that there are still a large number of areas. For example, there are issues pertaining to the aviation turbine fuel pricing; there are issues pertaining to the ground handling where it would be looked into as to what agencies can be permitted; and there are a number of issues pertaining to security concerns, which are all going to be addressed. Therefore, this would become a complete Document, which encompasses various aspects of the civil aviation sector. I may also submit that the decisions that have already been taken are in conformity and in accordance with the broad approach and thinking, which is going to be reflected in this new Policy Document. So, if I can submit for the consideration of the Committee, yes some decisions have been taken anticipating the directions, which the new Policy would be taking. But I would submit that it is not that the Document has become irrelevant completely.”

1.14 When asked whether various organizations/stakeholders/Ministry were consulted while finalizing the New Civil Aviation Policy, the Ministry in a written note stated that, various stakeholders such as trade organization and tour operators (FICCI, ASSOCHAM, CII, TAAI, IATO etc.), airlines, operators, organizations and public sector undertakings of the Ministry of Civil Aviation have been consulted and the Ministries/Departments of Home Affairs, External Affairs, Revenue, Economic Affairs, Expenditure, Legal Affairs, Petroleum and Natural Gas, Commerce, Science and Technology, Tourism, Defence, Planning Commission, have been consulted in preparing/finalizing the Civil Aviation Policy.

1.15 As regards the constraints being faced in finalizing the New Civil Aviation Policy, the Ministry Civil Aviation stated in a written note that, there have been delays

in receiving the comments/views of the Ministries/Departments to whom the draft policy was referred to.

1.16 When asked whether the Government proposes to keep the interest of IA/AI including their employees in view while finalizing the new civil aviation policy, the Ministry replied in a written note that, the draft Policy also contemplates strengthening of IA/AI by undertaking a programme of organizational and financial restructuring.

1.17 As regards the precise role the Government envisage for the private players in Civil Aviation Sector in the new policy, the Ministry stated in a written note that, the New Policy envisages a level playing field for all operators whereby the service will improve and fares will become competitive.

1.18 In a specific query whether interest of the passengers are being adequately protected in the proposed new civil aviation policy the Government replied in the affirmative.

1.19 The Committee desired to know the time by which the whole exercise would be completed and a new policy brought out. In this context, during evidence, the Ministry of Civil Aviation stated:-

“We have sought extension for these four assurances up to 14 July 2005. We were expecting that if we had got the comments from all the Ministries a little earlier, we would have stuck to this schedule. I have received comments of the other ministries only now. All the comments are in now. So, one process which often delays matters has been completed. We have consulted all the concerned Ministries on this. We had meetings with the stake-holders, private sector people. Airlines, Airport Authority, Cargo agents, tour operators and taken their concerns on board. Now I hope we are attempting to complete by 14th of July. We are still trying to complete this process. At best, I would seek the indulgence of this Committee for one more extension of three months after which we will fulfill the assurance.”

1.20 A new Civil Aviation Policy was first felt by the Government in 1997. Accordingly, a draft policy was prepared after detailed consultations with various users, representatives of the industry etc. and it was put up on the web site of the Ministry of Civil Aviation inviting comments and suggestions.

1.21 The Lok Sabha was assured way back in the year 1999 in reply to an Un-starred Question No. 681 dated 2 December, 1999 that a new draft of the National Policy on Civil Aviation was under consideration. The assurance was reiterated a number of times thereafter.

1.22 The Committee note that subsequent to the assurance initially made in Lok Sabha, the Ministry of Civil Aviation prepared a draft Cabinet note in July 2000. At that stage a view emerged about disinvestment in Air India and Indian Airlines. The finalisation of the new policy was delayed as it was felt that foreign investment and participation by foreign airlines in the domestic airlines may affect the disinvestment process. The finalization of the policy was further delayed as the Civil Aviation Policy, particularly those provisions related to Civil Aviation security had to be reviewed after the terrorist incident in USA on 11 September, 2001. Keeping in view these two major issues, the Government decided in July 2003, to constitute an Expert Committee to prepare a road map for Civil Aviation Sector which would then become a major input into the new Civil Aviation Policy. The Expert Committee submitted its reports in two parts, the first part on 8.12.2003 and the second part on 2.11.2004. The recommendations made in these reports have been examined and a comprehensive National Civil

Aviation Policy is presently under inter-Ministerial consultations before being submitted to the Cabinet for approval.

1.23 From the sequence of facts narrated above, the Committee regret to observe that the assurance made to Lok Sabha over five years back still remains unimplemented.

The Committee are aware of the significance of the issues like disinvestment, air safety etc. which are required to be sorted out in the process. However, they are of the opinion that the inordinate delay in the implementation of the assurance could have been obviated, had the Government accorded high priority to this important subject.

The Committee have been informed that the draft Civil Aviation Policy *inter-alia*, addresses issues related to enhancing affordability, air transport services, airport infrastructure, safety regulations and civil aviation security. What is surprising to the Committee is that even before finalization of the new Policy, several related decisions which also ought to have been an integrated part of the Civil Aviation Policy like open sky policy, private carriers, disinvestments, etc. had already been decided. While the Committee would not like to get into the merit of these piece-meal decisions which have already been taken in anticipation to be reflected in the new policy document, the Committee feel that still there are a large number of other issues which encompasses various aspects of the Civil Aviation Sector. The Committee, therefore, recommend that these issues should be addressed in their entire implications and expeditious action be taken to give a concrete shape to the new policy document

without any further loss of time. The Committee also desire that while finalising the policy adequate care should be taken to protect the interest of the employees of concerned Public Sector Undertakings under the Ministry of Civil Aviation.

CHAPTER II

PURCHASE OF AIRCRAFT BY INDIAN AIRLINES/AIR INDIA

2.1 On 6 May 2002, S/Shri Iqbal Ahmed Saradgi and N. Janardhana Reddy, MPs addressed the following Starred Question No.561 for answer by the Minister of Civil Aviation:-

- (a) whether the Indian Airlines has signed a Rs.10, 089 crore deal with Airbus Industries for the supply of 43 aircraft to replace its ageing fleet;**
- (b) if so, whether the bid was around 10-15 per cent less than the quotation received from Boeing;**
- (c) whether this is the biggest purchase made by Indian Airlines so far;**
- (d) if so, the details of sources for funding the massive acquisition; and**
- (e) the time by which these aircraft are likely to be obtained?**

2.2 While replying the question, the then Hon'ble Minister of Civil Aviation, Shri Syed Shahnawaz Hussain had laid a statement on the Table of Lok Sabha where it was stated,

“The Board of Directors of Indian Airlines in its meeting held on 27 March 2002 have approved a proposal for acquisition of 43 aircraft at a new project cost of Rs.10,089 crore. The Project Report submitted by India Airlines is under consideration of the Government.”

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 5 August 2002 but was not fulfilled.

2.3 On 24 February 2003, S/Shri T.M. Selvaganapathi and Vilas Muttemwar, MPs. addressed the following Starred Question No.97 for answer by the Minister of Civil Aviation:-

- “(a) the reasons for delay in according approval for the purchase of Airbus for AI and Indian Airlines;**
- (b) the total requirement of Airbuses in Indian Airlines and Air India separately alongwith the types of aircraft;**
- (c) the total amount required for the expansion alongwith the sources of the fund;**
- (d) whether the Government have resorted to external borrowing; and**
- (e) if so, the amount borrowed alongwith the outstanding amount, till date?”**

2.4 In reply the then Minister of Civil Aviation Shri Syed Shahnawaz Hussain had laid a statement on the Table of Lok Sabha which stated that

“Air Indian has taken up evaluation of new aircraft and is yet to finalise selection of these aircraft. The proposal received from Indian Airlines Ltd. for acquisition of new aircraft is under consideration in consultation with various appraising agencies like Planning Commission, Ministry of Finance, Ministry of Environment etc. The proposal will be taken up for an investment decision after due processes.”

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 23 May 2003 but was not fulfilled.

2.5 On 28 April 2003, Shri Rajo Singh, MP, addressed the following Starred Question No.537 for answer by the Minister of Civil Aviation:-

- “(a) whether there is any pressure on the Government of India regarding selection and procurement of Aircraft for the Indian Airlines from a particular company.**
- (b) if so, the details thereof;**
- (c) whether the Government propose to procure 43 aircraft from Airbus Industry, a European Company; and**
- (d) if so, the details thereof?”**

2.6 The then Minister of Civil Aviation Shri Syed Shahnawaz Hussain gave the following reply,

the Project Report is under consideration of the Government.

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 27 July 2003 but was not fulfilled.

2.7 On 8 December 2003, Dr. Nitish Sengupta and Shri Y.V. Rao, M.Ps., addressed the following Starred Question No.81 for answer by the Minister of Civil Aviation:-

- “(a) whether the fleet expansion proposals of Air India and Indian Airlines have been finally cleared?**
- (b) if so, the details of aircraft to be procured by the two airlines stating the name of the company and country from which they are to be procured;**

- (c) the total cost of the acquisition alongwith the date by which the acquisition plan is likely to be implemented; and**
- (d) the sectors on which these aircraft would be indicated?"**

2.8 The then Minister of State of the Ministry of Civil Aviation Shri Rajiv Pratap Rudy had laid a statement on the Table of the House where it was stated that,

"the Board of Directors of Indian Airlines in its meeting held on 27 March 2002 approved the proposal for acquisition of 43 aircraft comprising A-319, A-320 and A-321 from Airbus Industries during the period 2003-04 to 2007-08 at a net cost of Rs.10,089 crore. The Project Report submitted by Indian Airlines is under Government's consideration."

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 7 March 2004 but was not fulfilled.

2.9 On 9 July 2004, Shri Ananta Nayak, MP, addressed the following Unstarred Question No.573 for answer by the Minister of Civil Aviation:--

- "(a) whether the Air India/Indian Airlines have started their fleet replacement and expansion programmes;**
- (b) if so, the details thereof including the airbuses replaced/leased out so far and proposed to be replaced nad leased out under the programmes;**
- (c) whether the expansion plan has been delayed for long; and**
- (d) if so, the steps in this regard?"**

2.10 The then Minister of State of the Ministry of Civil Aviation (Shri Praful Patel) gave the following reply,

“The proposal for acquisition of aircrafts by Air India and Indian Airlines are under consideration of Government.”

The above reply was treated as an assurance and was to be fulfilled within three months of the date of reply i.e. by 8 October 2004 but was not fulfilled.

2.11 The Ministry of Civil Aviation sought extension of time on several occasions for fulfillment of the aforesaid assurances as the proposal for acquisition of aircrafts by Indian Airlines and Air India could not be finalized. There was inordinate delay in the fulfillment of the assurance. In order to know the reasons for such delay in the fulfillment of the assurance the Committee therefore took evidence of the representatives of the Ministry of Civil Aviation, Indian Airlines and Air India on 10 June 2005.

2.12 The Committee desired to know the causes of delay in purchasing of the Aircraft by Indian Airlines/Air India. In reply the Secretary, Ministry of Civil Aviation stated during evidence:-

“Indian Airlines had last purchased Air bus 320s in 1989-90. After that there has been no purchase by the Indian Airlines. In 2000 again there was a proposal of Indian Airlines to induct 43 new aircraft into its fleet, both as replacement of the ageing aircraft that were in use as well as to add some fresh ones. The Board of Indian Airlines approved this acquisition in March, 2002 in its 61st meeting held on 22nd March, 2002. For some time again there was a little trouble in processing because of the uncertainty about the disinvestments process and decision whether the Indian Airlines or Air India could be disinvested or not. Finally when the government took a view that they are not going to disinvest, this proposal was again taken up for acquisition. In the mean time we asked the Indian Airlines in 2004 July to see whether they would agree to revise their earlier decision in any way regarding the fleet configuration because of the changes in technology or because of requirement of new rules, etc. Indian Airlines after examining this matter again came back to the Ministry to say that they would like to stick to whatever earlier view they had taken and the same configuration of 43 aircraft, which comprises 19 A-319, 4 A-320, 20 A-321, all from the Air Bus family is to be acquired. We sought the approval of the Public Investment Board, which was given in November, 2004. As the bids had been received

sometime back, the Public Investment Board also suggested that a fresh round of price negotiations be conducted with M/s Airbus Industrie and this process was started in the month of December. We constituted a Committee for the purpose of price negotiations. A view was taken that there should be a kind of overseeing committee to give guidance to the negotiating committee and also to supervise the functioning of the negotiating committee. We constituted a three-Member Committee under the Chairmanship of Shri S.G. Somaiah, former Comptroller and Auditor General with Secretary Expenditure, Ministry of Finance and myself as the other two members of this Committee. This oversight committee met five times. Negotiations were going on with M/s Airbus Industrie. Finally, in March 2005 we recommended the final price determination where a number of concessions were secured from Airbus Industrie. Again, based on that a draft Cabinet Note had been prepared and this is at the moment at the level of inter-ministerial consultations. The Ministry of Finance has raised some questions on the draft Cabinet note, which we are now responding to. It is our endeavour that by the end of June, we would be able to take this for consideration of the Cabinet Committee on Economic Affairs. As soon as the Cabinet Committee approval is secured, the contracting process would be finalized."

2.13 On being asked whether there is any cost escalation, the Secretary, Ministry of Civil Aviation stated during evidence,

"Sir, it is there in one sense. When the bid came in 2001, they had a provision that there would be factor for escalation till orders are placed. There would also be a factor of escalation from the time the order is placed to the delivery of the aircraft. So, the delay in decision making from 2001 till the time this proposal is finalised, certainly the cost would increase due to the escalation factors."

2.14 When asked the details of the proposal the Government have cleared for purchase of Aircraft for Indian Airlines and Air India the Ministry of Civil Aviation in a written note stated that the Board of Directors of Indian Airlines Ltd. (IAL) had approved the proposal of acquisition of 43 aircraft comprising 19 A-319, 4 A-320 and 20 A-321 from Airbus Industrie in its 61st meeting held on 27.3.2002. The proposal was approved by PIB in its meeting held on 10.11.2004. Subsequently, negotiations were held by a Inter-Departmental negotiating Committee of IAL with the manufacturer during Dec., 2004 to February, 2005. the Government also constituted

an Overseeing Committee headed by Shri C.G. Somaih, former CAG to ensure the integrity of negotiation process and to guide the Negotiating Committee. The Cabinet Committee on Economic Affairs in its meeting held on 25.8.2005 has decided to constitute an Empowered Group of Ministers to hold a further round of negotiations for procurement of aircraft by IAL.

2.15 To a specific query regarding the average age of aircrafts of Indian Airlines the Ministry of Civil Aviation in a written note stated as under:-

“Current owned fleet of Indian Airlines consists of thirty (30) A-320 aircraft, eleven (11) B-737-200 aircraft, three (3) A-300 aircraft and (2) DO-228 aircraft. The average age of these aircraft as on 01.08.2005 is given below:-

Fleet position of Indian Airlines Limited as on 1.8.2005.

Type of Aircraft	No. of aircraft (Excluding 17 A-320 and 4 ATR-42 aircraft on lease)	Average Age
Airbus A-300	03	22.9
Airbus A-320	30	14.0
Boeing 737-200	11	24.0
Dornier DO 228	02	20.2
Total	46	17.2

It would be seen that the age of A-300 and B-737-200 aircraft are in the range of 22.9 to 24.0 years. Although there is no safety issue in respect of these aircraft since the aircraft are maintained as per stipulated safety regulations. However, the aging aircraft results in higher maintenance cost, higher fuel consumption and poor market perception.”

2.16 Insofar as Air India is concerned, during evidence the Secretary Ministry of Civil Aviation informed the Committee:-

“Sir, Air India today also has a very ageing fleet and except for induction of Boeing 747 which was done in mid-nineties, in the last 10 years no aircraft has been purchased by Air India. Again there was this factor of

likely disinvestment in the airline which caused the delay. However, they had been preparing for fleet acquisition plan for some time. They have finally come up with two proposals. One is to acquire 18 aircraft of 737-800 variety which will be utilized for the new low cost carrier of Air India which would be called Air India Express. Then 50 aircraft are proposed to be acquired. These are wide bodied aircraft for long distance travel and this consists of three kinds of aircraft. One is 250 seater, another is 350 seater, and an aircraft which can be of extra long range fleets which can fly non-stop from India to New York. So, finally it was in December 2004 that Air India approved the acquisition of 18 B737-800 aircraft. Its project report has been received by the Government from the Air India and a pre-PIB has already been held where in principle clearance is now available to this acquisition. Now we shall be going before the Public Investment Board for acquiring these 18 aircraft.

As regards 50 large aircraft, it was only recently that the Board of Air India has given its final choice after evaluating the Airbus and the Boeing aircraft in all the three configuration and decided to opt for the Boeing family of aircraft.

Now the Project Report has just recently been received by the Government. We are now in the process of authorizing the Air India management to start price negotiation with the Boeing companies on this. As soon as the price negotiation is completed it will then finally come to Government for the Public Investment Board and then finally for Cabinet clearance. So, this is little behind India Airlines process in terms of its timing. But we hope that by December, which is the time that is available to us for meeting the assurance, we would have completed the process of acquisition for Air India."

2.17 When asked how the Government will ensure the smooth functioning and profitability of Indian Airlines and Air India and whether delay in the acquisition of new aircraft has resulted in loss of market share of both the organizations including facing problems in competition with the rivals, the Ministry in a written note stated as under:-

"INDIAN AIRLINES LTD - The new aircraft will replace the entire fleet of A-320 and B-737-200 as well as leased A-320s in a phased manner and will cater to the projected traffic of around 5% during the 5 year period. The augmentation/renewal of fleet will ensure that the product offered by Indian Airlines is comparable with the competitors.

It has been established in the industry that capacity share and market share have a close and positive correlation. A greater capacity share gives rise to a higher market share and a lower capacity share results in a correspondingly lower market share. In the recent past, the private carriers have been increasing the capacity offered by them by inducting more and more aircraft in their fleet whereas IA has not been able to match these capacity increases. As such IA's capacity share has declined over the years. IA's market share has also dropped correspondingly. Although IA has been resorting to leasing-in of aircraft, the leased aircraft have only helped to make up for the capacity lost due to the phase out of some of IA's older aircraft.

In qualitative terms, the delay in the acquisition of new aircraft has adversely affected the air passengers'/markets' perception of Indian Airlines/Alliance air as it is generally perceived that newer aircraft make for better/superior service.

Further, air passengers, especially business travelers who form a vast majority of the Indian domestic air traffic, are time sensitive and as such on-time performance is one of the most important product features for any airline. It is an accepted fact that older fleet of aircraft tend to have a lower record of on-time performance due to greater maintenance requirements. As such it is very probable that IA/Alliance Air have also lost a certain percentage of air passengers to their competitors on account of their operating an older fleet (as compared to the competitors).

It is, however, not possible to quantify the loss of traffic to IA on account of its older fleet.

As regard Air India Ltd., Air India had last purchased aircraft (2x B747-400s) in the year 1996. Thereafter, Air India has not been able to acquire any new aircraft for various reasons. However, since the year 2000, Air India has been taking aircraft on dry lease for capacity expansion and augmentation. So far, Air India has taken 25 aircraft on dry lease.

Air India is also not in a position to quantify the loss being incurred in the absence of new aircraft. A recent study that Air India had done in connection with the purchase proposals of B737-800 has shown that the purchase of aircraft would, in the long term, be more economical than the dry lease of aircraft.

With the purchase of new aircraft, the Air India product will improve and it is envisaged that a 5% increase in fares for all classes can be levied. Further, for the Ultra Long Range aircraft, a 5% increase in Y class and a 10% increase in F and J class is envisaged over the present fare levels. This will increase revenues as well as profitability.

2.18 The Committee pointed out that the Ministry were having the final negotiations with the lowest bidder, L-1 in February 2005 and why later on it was decided that the proposal involved of high value procurement hence a high level committee was again formed. When the Committee desired to know why all these aspects were not taken into consideration before arriving at the final decision, the Secretary, Ministry of Civil Aviation stated during evidence:-

“Sir, I think I did not make myself clear. The process of negotiation of the negotiating committee and this high level committee of Shri Somaiah were actions in parallel. They were not consequentially one after the other.”

2.19 When the Committee further pointed out that there was lack of functioning of the whole system where two agencies were given one job which caused the delay, the Secretary replied during evidence:-

“Sir, I would like to clarify this. The negotiations started in end of December, 2004. Simultaneously, this Committee was appointed under this high level committee. The high level committee was not negotiating. It was only meant to guide, advice and oversee the work of the negotiating committee. So, the way the process one with the negotiation committee used to meet the representatives of Airbus Industrie. They would discuss for two-three days. Then the Airbus Industrie would ask for some time to respond to improve their offer and in the meantime the negotiating committee would brief the senior committee.”

2.20 The witness further continued,

“Sir, the observation that you have made is perfectly correct. It was not that this over sight committee of Mr. Somaiah changed any parameters or something which had already been frozen earlier. As you are very familiar with this process, when the proposal comes, the existing committee lays down all the specifications and based on that the bidder makes his bid. Then the evaluation is done and L-1 is determined and then the price negotiations under the CVC guidelines can be held with the L-1 bidder. That was the process that was followed.”

2.21 The Committee note that the Lok Sabha was assured in the year 2002 in reply to a Starred Question No. 561 dated 6 May, 2002 that the Board of Directors of Indian Airlines in its meeting held on 27 March 2002 has approved a proposal for acquisition of 43 aircraft at a cost of Rs.10,089 crore and the Project Report submitted by Indian airlines was under consideration of the Government. Later, in reply to Starred Question No.97 dated 24 February 2003, while re-iterating the assurance, the Lok Sabha was also informed that the proposal of Air India for acquisition of new aircraft was yet to be finalised. The assurances were reiterated a number of times thereafter.

2.22 During evidence, the Committee were informed that Indian Airlines had last purchased Air-bus 320s in 1989-90. In 2000, Indian Airlines gave proposal to induct 43 new aircraft into its fleet both as replacement of the ageing aircraft that were in use and to add some new ones. The Board of Directors of Indian Airlines had approved the proposal of acquisition of aircraft in March 2002. The Committee were further informed that one of the reasons for delay in acquisition of aircraft had been the uncertainty due to the pending decision, whether the airlines could be disinvested. After the decision of the Government not to go in for disinvestment of the airlines, the acquisition proposal was again taken up. After reconsideration, the approval of the Public Investment Board (PIB) was obtained in November, 2004. The Committee were also informed that the bids had been received in 2001 and a Committee was constituted for the purpose of price negotiations. Subsequently, negotiations were held with

the manufacturer during December 2004 to February, 2005. The Government also constituted an overseeing committee to ensure the integrity of the negotiation process and to guide the Negotiation Committee. In March 2005, the final price determination was recommended which included a number of concessions secured from the Airbus Industrie. Finally the Cabinet Committee on Economic Affairs in its meeting held on August 2005 decided to constitute an Empowered Group of Ministers to hold a further round of negotiations for procurement of aircraft by Indian Airlines. The Committee were further informed during evidence that the bid submitted in 2001, contained provisions for escalation in price till orders were placed. The representative of the Ministry also admitted that the delay in decision making from 2001 till the time the proposal is finalised, the cost would increase due to the escalation factors.

2.23 The Committee were further informed that the private carriers have been increasing the capacity-offered to them by inducting more aircraft in their fleet whereas IA has not been able to match their capacity increases resulting in not only decline in capacity share but also its market share. Although IA has been resorting to leasing-in of aircraft, the leased aircraft have only helped to make up for the capacity lost due to the phasing out of some of IA's older aircraft. In quantitative terms, the delay in the acquisition of new aircraft has adversely affected the air passenger/market's perception of Indian Airlines in view of the fact that newer aircraft make for better/superior service than the older fleet.

2.24 Insofar as Air India is concerned, there were two Project Reports viz., one for acquisition of 18-B737-800W aircraft and the other for acquisition of 50 new long range aircraft. The first project report was submitted to the Government on 7 December 2004. The pre-PIB meeting for the project was held on 16 May 2005. The second project report was submitted to the Government on 14 May 2005 to which Air India made a presentation of the details of the project on 30 June 2005. The reports are under the consideration of the Government. The Committee were also informed that Air India had last purchased aircraft in the year 1996. Thereafter, Air India has not been able to acquire any new aircraft for various reasons. However, since the year 2000, Air India has been taking aircraft on dry lease for capacity expansion and augmentation. So far, Air India has taken 25 aircraft on dry lease. According to a study by Air India, the purchase of B 737-800 aircraft would in the long run, be more economical than the dry lease of aircraft and the Air India would improve both in revenues and profitability after the purchase of new aircraft.

2.25 From the sequence of facts narrated above, the Committee regret to observe that the proposal of Indian Airlines to induct 43 new aircraft into its fleet has been lingering on for a fairly long period and the Government has still not been able to finalise the proposal. What is more surprising is the fact that while a Committee was also appointed for the purpose of price negotiations, another high-level Committee was appointed to guide, advise and over-see the work of the negotiating Committee to give a stamp of credibility to the whole process of negotiations. In the absence of any

plausible and convincing explanations the Committee are unable to comprehend the necessity of appointing another high-level Committee just to give a stamp of credibility to the whole process of negotiations. The Committee also fail to understand as to why the Ministry could not accord high priority to the acquisition proposals when they were aware that private carriers were expanding their fleet and the Indian Airlines had not been able to match their capacity. The Committee are of the view that this has not only resulted in decline in capacity but also market share of Indian Airlines. The Committee are dismayed at this slackness on the part of the Ministry in not expediting the process when they were fully aware that the delay in decision making would increase the cost due to the escalation factors contained in the bid. In view of the considerable time already taken, the Committee desire that the requisite procedures may be expeditiously completed so that the proposal of Indian Airlines approved in 2002 by the Board of Directors can take-off without any further delay so that the airlines can atleast now improve its capacity and market share.

2.26 Insofar as the acquisition proposals of Air India is concerned, the Committee expect that the proposal will also be processed expeditiously and all further actions in this context would be taken on priority basis so as to improve its revenue and profitability.

NEW DELHI;
14 December 2005

23 Agrahayana 1927 (Saka)

HARIN PATHAK
CHAIRMAN
COMMITTEE ON GOVERNMENT ASSURANCES

MINUTES
ELEVENTH SITTING

Minutes of the sitting of the Committee on Government Assurances held on June 10, 2005 in Committee Room G-074, Parliament Library Building (PLB), Parliament House, New Delhi.

The Committee sat on Friday, June 10, 2005 from 1100 hours to 1230 hours.

PRESENT

CHAIRMAN

Shri Harin Pathak

Members

2. Shri Anandrao Vithoba Adsul
3. Shri J.M. Aaroon Rashid
4. Shri Ramesh Jigajinagi
5. Shri Sunil Khan
6. Shri A. Venkatesh Naik
7. Shri M. Shivanna
8. Shri Ajit Singh
9. Shri V. Aruna Kumar
10. Shri Kailash Nath Singh Yadav

Secretariat

1. Shri S.K. Sharma - Additional Secretary
2. Shri P. Sreedharan - Joint Secretary
3. Shri A.K. Singh - Director
4. Shri K. Jena - Under Secretary

MINISTRY OF CIVIL AVIATION

1. Shri Ajay Prasad, Secretary
2. Shri P.K. Mishra, Additional Secretary
3. Shri Raghu Menon, Joint Secretary
4. Shri Sanjay Narayan, Joint Secretary

AIRPORTS AUTHORITY OF INDIA

1. Shri V.D.V. Prasad Rao, Member (Finance)

AIR INDIA LIMITED

1. Shri M.P. Vijay Kumar Director,

INDIAN AIRLINES LIMITED

1. Shri Manet Paes, Dy. Managing Director
2. At the outset the Chairman welcomed the members to the sitting of the Committee. Before the Committee took up the Agenda for the sitting, some of the members raised the issue of the revised Guidelines on tours of Parliamentary Committees. The Members expressed their unhappiness over certain portions of the new Guidelines. They also expressed their feelings not only about the tone and tenor of the Guidelines, but also the manner in which the contents of the same had been publicized by the media before it was circulated to the Members through the Parliamentary Bulletin. The Hon'ble Chairman was thereafter authorized by the Committee to take up the matter suitably with the Hon'ble Speaker.

3. The Committee took oral evidence of the representatives of the Ministry of Civil Aviation, Air India, Indian Airlines and Airports Authority of India regarding fulfillment of pending assurances.
4. The evidence was completed.
5. A verbatim record of the sitting has been kept.

The Committee then adjourned.

MINUTES

FOURTH SITTING

Minutes of the sitting of the Committee on Government Assurances (2005-2006) held on 14 December 2005 in Committee Room 'C', Parliament House Annexe, New Delhi.

The Committee sat on Wednesday 14 December 2005 from 1500 hours to 1550 hours.

PRESENT

Shri Harin Pathak - *Chairman*

Members

2. Shri Anandrao Vithoba Adsul
3. Shri Biren Singh Engti
4. Shri Sunil Khan
5. Shri Rasheed Masood
6. Shri Kailash Meghwal
7. Shri Aruna Kumar Vundavalli
8. Shri Kailash Nath Singh Yadav

Secretariat

1. Shri P. Sreedharan - Joint Secretary
2. Shri T.K. Mukherjee - Director
3. Shri K. Jena - Under Secretary

2. At the outset, the Chairman welcomed the Members and apprised them about the agenda of the sitting. Thereafter, the Committee took up the draft Seventh Report regarding requests for dropping of pending assurances and after discussion adopted the same. The Chairman drew the attention of the Members to the five assurances of Chapter-I which the Committee decided not to drop and informed that these assurances will remain pending until the Committee take a decision to drop them or the concerned Ministry fulfills them.

3. The Committee then took up for consideration the Draft Eighth Report. The Chairman informed the members that the Committee took oral evidence of the representatives of Ministry of Civil Aviation, Airports Authority of India, Air India and Indian Airlines on 10 June 2005 and discussed with them regarding fulfillment of assurances relating to three subjects viz (i) 'New Civil Aviation Policy', (ii) 'Purchase of Aircraft by Indian Airlines and Air India' and (iii) 'Privatisation of Airports'. However the Ministry of Civil Aviation have informed that the assurance regarding 'Privatisation of Airports has been fulfilled and the implementation statement has been laid on the Table of Lok Sabha on 18 August 2005, as such the same has not been incorporated in the Eighth Report. The Committee then took up the other two aspects of the Draft Eighth Report i.e. the New Civil Aviation Policy and Purchase of Aircraft by Indian Airlines and Air India and after discussion adopted the same.

4. The Committee also authorized the Chairman to present the Reports to the House.

The Committee then adjourned.

