FOURTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (2000-2001)

(THIRTEENTH LOK SABHA)

AIR INDIA LIMITED

MINISTRY OF CIVIL AVIATION

Presented to Lok Sabha on ....14 MAR 2001..........
Laid in Rajya Sabha on ....

LOK SABHA SECRETARIAT
NEW DELHI

February, 2001/Magha, 1922 (Saka)

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Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Prasanna Acharya
3. Shri Sudip Bandyopadhyay
4. Shri Surinder Singh Barwala
5. Shri R.L. Bhatia
6. Shri Shiv Raj Singh Chauhan
7. Shrimati Sangeeta Kumari Singh Deo
8. Shri C.K. Jaffer Sharief

*9. Shri Ram Tahal Chaudhary

10. Shri K.E. Krishnamurthy
11. Shri Vilas Muttemwar
12. Shri Dharam Raj Singh Patel
13. Shri R.P. Rudy
14. Shri Tarit Baran Topdar
15. Shri Devendra Prasad Yadav

Rajya Sabha

16. Shri Jibon Roy
17. Smt. Ambika Soni
18. Shri Suresh Kalmadi
19. Shri Ranjan Prasad Yadav
20. Shri K. Kalavenkata Rao
21. Shri B.P. Singhal
22. Shri Satishchandra Sitaram Pradhan

SECRETARIAT

1. Shri Rajagopalan Nair — *Joint Secretary*
2. Shri S. Bal Shekar — *Director*
3. Shri Raj Kumar — *Under Secretary*
4. Shri Tirthankar Das — *Senior Executive Assistant*

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*Elected w.e.f. 29th November, 2000 *vice* Maj. Gen. (Retd.) B.C. Khanduri ceased to be member of the Committee consequent upon his appointment as a Minister w.e.f. 7th November, 2000.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Fourth Report on 'Air India Limited.'

2. The Committee took evidence of the representatives of Air India Limited on 21 June, 2000. The Committee took evidence of the representatives of the Ministry of Civil Aviation and Department of Disinvestment on 8th August, 2000.

3. The Committee on Public Undertakings (2000-2001) considered and adopted the Report at their sitting held on 8th January, 2001.

4. The Committee wish to express their thanks to the Ministry of Civil Aviation, Department of Disinvestment and Air India Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Civil Aviation, Department of Disinvestment & Air India Limited who gave evidence and placed their considered views before the Committee.

5. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
February 7, 2001
Magha 18, 1922 (S)

VIJAY KUMAR MALHOTRA,
Chairman
Committee on Public Undertakings

CHAPTER I

BACKGROUND ANALYSIS

A. Historical Background

1.1 Air India was established in 1953 under the Air Corporations Act, 1953, to provide safe, efficient, adequate, economical and properly co-ordinated international air transport services. The undertaking of Air India was transferred to and vested in Air India Limited, a Public Limited Company registered under the Companies Act with effect from 1st March, 1994 after the Air Corporations (Transfer of Undertakings and Repeal) Act, 1994 came into effect.

B. Objectives

1.2 The objectives of Air India are to:

(a) take effective steps to provide a high level of customer satisfaction;

(b) enhance its competitive market standing and image as an international carrier;

(c) optimist its share of the air market to/from India, consistent with the objectives of long term financial viability and sustainable growth;

(d) optimise the utilisation of its resources—aircraft fleet and employees;

(e) return to operating profitability within two years, and following the necessary financial restructuring to embark on the path of sustainable growth in the longer term;

(f) achieve the highest level of safety of operations;

(g) reduce the number of employees through the formulation and implementation of an attractive Voluntary Retirement Scheme and other innovative schemes.

1.3 When asked how far Air India has been able to achieve its principal objectives, it was stated by Air India in a written reply that the Company make continuous efforts to:

(i) provide a high level of customer satisfaction, enhance its competitive market standing and image—through the upgradation of its Products and Service, both in flight and on the ground.

(ii) optimise its share of the air market to/from India consistent with the objectives of financial viability and sustainable growth—through the deployment of capacity on profitable routes.

(iii) optimise the utilisation of its resources—by increasing its aircraft utilisation and reducing staff strength.

(iv) achieve the highest level of safety of operation—by according the highest priority to this aspect and implementing required Safety policies and procedures.

1.4 It has also been stated by Air India in a written reply that it has been able to:

(i) achieve a reduction in its number of employees—by placing a ban on recruitment, freezing vacancies, terminating services of excess staff at foreign stations, reversion in retirement age from 60 to 58 years, implementing innovative schemes, (such as Shorter Working Week, Leave Without Pay, Allowances) and re-deployment of staff from non-operational to operational areas. Through the implementation of these measures, Air India has been able to reduce its staff strength by over 1200 numbers during 1999/2000.

(ii) Air India is also in the process of implementing an attractive Voluntary Retirement Scheme (VRS) which is expected to result in a further reduction of approximately 1000 employees.

(iii) Air India has been able to generate an Operating Profit of Rs. 76 crores during 1999/2000.

1.5 When the Committee wanted to know the Ministry's viewpoints regarding achievement of objectives by Air India, the Ministry of Civil Aviation in a written reply have stated the following:

"Air India was established in 1953 under the Air Corporations Act, 1953 to provide safe, efficient, adequate economic and properly co-ordinated international air services. Air India has been the premier airline of this country for several years and has earned a reputable name for itself even on a global level. It is the chief national carrier of India for international operations and has been providing worldwide links either through actual physical operations or through code sharing and block space arrangements. It is worth mentioning here that Air India has had a good safety record. It is felt that constant endeavours have been undertaken to achieve its objectives by Air India but there is always scope for improvement. Air India has been a profitable organisation upto the mid-Nineties, after which its performance has taken a dip. However, it can still be maintained that it is India's one of the best known brands abroad."

1.6 When the Committee enquired to know whether in the light of the changing scenario in the aviation industry any change has been contemplated in the policy/guidelines for re-shaping the objectives, the Ministry of Civil Aviation have stated through a written reply the following:

"The Ministry has always laid great emphasis on assisting Air India to reach higher levels of performance. There are changed expectations from the airlines today with increasing competition on the one hand

and economic liberalisation on the other. Also, the emphasis on profitability and better commercial results has increased. It is imperative that in order to keep pace with the world class airlines that are gaining ground; that Air India steps up its product, enhances the quality of its services, expands its fleet size and infuses a sense of discipline in the company. The Ministry has been encouraging Air India to induct more aircraft on dry lease after attempts at infusion of funds for purchase of aircraft did not materialise. Further, the Ministry has guided Air India to expand its network through the modes of code sharing and block space arrangements with other airlines. An overall analysis of the company has been done and it is felt that it would be in the interest of Air India for disinvestment of its Government equity partially so that fresh expertise can be involved in the reshaping of the organisation."

1.7 On being asking whether any plan has been submitted by Air India for capital investment and organisational restructuring for achieving growth to regain market standing and to develop competitiveness, the Ministry of Civil Aviation have in a written reply stated as under:

"Following the advise of the Disinvestment Commission, Air India has written to the Ministry for infusion of Rs. 1000 crores on 26.5.1999 requesting for equity capital to serve as margin money for the acquisition of new aircraft. This proposal has come in the wake of the recommendations of the Disinvestment Commission, wherein it has been suggested that Rs. 1000 crores may be added as equity to Air India by the Government. This Ministry has sent a draft Cabinet Note on 9.6.1999 to the Finance Ministry recommending the infusion of these funds. On 8.7.1999, Finance Ministry, however, has expressed its inability to provide these funds."

On 13.5.1998, a request had been received from Shri Vijay Kelkar, Chairman of the Committee set up to suggest measures for Air India's turn around, requesting for Rs. 500 crores to be earmarked in the Budget for the year 1998-99. (It is for information that this Committee did not submit any report). However, prior to this, on 13.4.1998, this Ministry itself had written to the Planning Commission, seeking budgetary support for Air India as one-time equity infusion. This request was not approved by the Planning Commission."

CHAPTER II

BOARD OF DIRECTORS

2.1 In reply to an Unstarred Question No. 2595 dated 16.12.1999 in Lok Sabha, it has been stated that four Functional Directors and five non-official Directors in Air India Board were to be appointed.

2.2 When the Committee enquired to know whether these Functional Directors and non-official Directors have been appointed in the Board, Air India have stated in a written reply, as follows:

> "Four Functional Directors in-charge of Finance, Commercial, Engineering and Personnel and Five Non-official Directors, as provided for in the Ministry of Civil Aviation's Order No. AV. 18012/2/97-AA dated December 12, 1998 reconstituting the Board of Air India, are yet to be appointed on the Board by the Government."

2.3 It was also stated that the posts of Functional Directors are full-time operational Directors responsible for day to day functioning of the enterprise. The Bureau of Public Enterprises had issued guidelines in 1984 that the posts of Director (Finance) and Director (Personnel) be created in all Schedule 'A' and Schedule 'B' enterprises and on a selective basis in Schedule 'C' Companies. Apart from these two functions, the enterprises could have representation at Board level for other disciplines such as production, marketing, project planning etc. It was added further that the number of full-time Functional Directors on a Board should not exceed 50% of the actual strength of the Board.

2.4 Regarding appointment of Government Directors, it has been stated in a written reply that these Directors are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. It has further been stated that the number of the Government Directors on a Board should not exceed one-sixth of the actual strength of the Board. The number should in no case exceed two.

2.5 In a written reply furnished to the Committee, Air India has stated that the induction of Non-official Directors on the Boards of Public Sector Enterprises has been considered essential in order to make the Boards more professional. They are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability. It was further added that the number of Non-official part-time Directors on a Board should be atleast one-third of its actual strength.

2.6 When the Committee desired to know details about the Government Directors on the Air India's Board and the role the Government Directors play in the Board of Directors, the Ministry of Civil Aviation stated, in a written reply, the following:

"Following are the Government Directors on the Air India's Board:—

1. Shri A.H. Jung — Part time Chairman
   Secretary(CA)

1. Shri V. Subramanian, JS&FA,
   Ministry of Civil Aviation

2. Shri Sanat Kaul, Joint Secretary,
   Ministry of Civil Aviation

Shri Sunil Arora, Jt. Secretary, Ministry of Civil Aviation holding additional charge as CMD, Indian Airlines Ltd. is also on the Board of Air India in his capacity as CMD of Indian Airlines Ltd.

The Government Directors participate fully in the deliberations of the Board and play an important role in guiding the company with regard to the Government directions and instructions. Also they monitor the performance of the Company."

2.7 When enquired about the vacant posts of Functional Directors and non-official Directors, the Ministry of Civil Aviation in a written reply have stated:—

> "The posts of Functional Directors in Air India's Board have not been filled. The posts of Non-Official Directors are vacant since 12.12.98."

2.8 When the Committee desired to know why the Ministry have not been able to decide the appointments on the Board of Directors, it was stated by the Ministry of Civil Aviation as follows:

> "It is desirable to have a full-fledged Board for all PSUs including Air India. A detailed examination was made in the case of Air India and it was felt necessary to create the posts of Functional Directors. Since the company is likely to be disinvested shortly, it was felt, it would now serve no purpose to fill up the posts of Functional Directors."

CHAPTER III

AUTONOMY

3.1 In an answer to a question relating to the role of the Government in the functioning and management of Air India, the Managing Director stated during evidence that the Board of Air India function under the overall approval of the Ministry of Civil Aviation. He further added:

> "In some cases, it is sent to the Government. For example, investment decision in excess or Rs. 50 crores would go to the Government. The matters concerning bilateral rights, increase in service, etc. which are decided at the airlines, level, in any case would go to the Ministry for approval. As far as aircrafts are concerned, they are taken care of by the Management of Air India. They are also subject finally to filing and approval of the DCGA which is another arm of the Ministry ....The major constraint is the systemic problem. Any investment decision above Rs. 50 crores not only requires the approval of the Board of Air India, the Ministry of Civil Aviation but it has to go through the entire gamut of approval of pre-PIB, PIB, Planning Commission, the Ministry of Finance, the Department of Economic Affairs, and sometimes even the PMO. With Rs. 50 crores you cannot think of buying a fleet of aircraft. This is one major problem area."

3.2 In this connection, AI in a written reply has stated the following:

> "The wide bodied aircraft that Air India operates would cost upwards of Rs. 400 crores per unit. Therefore, all aircraft acquisition decisions fall beyond the limit of Rs. 50 crores..........Therefore the Air India Board does not enjoy full autonomy in decisions relating to the aircraft fleet. Increasing the investment limit by even 10 times will not lead to significant increase in autonomy as, even then, most aircraft acquisition projects will exceed the limit. Therefore, in Air India's view, the Board should have autonomy for any investment, without limit—if Government financing or guarantees are not sought."

3.3 When asked whether the investment limit can be raised beyond Rs. 50 crores, the Ministry of Civil Aviation in a written reply have stated as follows:

> "The investment limit of Rs. 50 crores was fixed *vide* order dated 29.8.1990 of the Deptt. of Public Enterprises..........The Ministry of Civil Aviation agrees that it is desirable to enhance the investment limit beyond Rs. 50 crores to give more financial Autonomy to the Board of Air India."

3.4 The Ministry of Civil Aviation have further stated that acquisition of aircraft is a highly capital intensive project and requires substantial amount of funds. The proposals for this purpose would also be governed by the existing guidelines of the Government with regard to the financial powers vested with PSUs. In the case of Air India, the investment limit stands at Rs. 50 crores beyond which the proposal has to be approved by the Government. Even enhancement of this limit by 10 times would not be sufficient to enable the company to go in for the purchase of appropriate aircraft. It needs to be examined whether the entire powers for purchase of aircraft be vested with Air India. However, in this context, it is worthwhile to mention that Air India has been acquiring aircraft by following due procedures and the non-acquisition of aircraft by Air India in the last few years cannot be attributed to the Government procedures or investment limits delegated to the company.

3.5 When enquired whether all decisions of the company needs the approval of Government, the Ministry of Civil Aviation in a written reply stated as under:

> "It is not necessary for all decisions of the company at the Board level to be approved by the Ministry/Government. Only those proposals that are governed by statutory provisions or rules, guidelines or specific directions from the Ministry need to be sent for approval of the Ministry/Government. It is essential to point out that all managerial functions are within the purview of the airline. The Ministry does not play any role in their commercial or operational matters. However, since there have been complaints about poor performance on several fronts, such as commercial and marketing aspects, inflight services, on-time performance, etc., the Ministry has been monitoring all these areas and guiding the airline to improve its results."

CHAPTER IV

FLEET

A. Fleet Strength

4.1 The fleet of Air-India is as follows:

Type of Aircraft	No. of Aircraft	Average Age (in years) As on 31.12.2000
B 747-200	4	21.0
B-747-300(COMBI)	2	12.2
B-747-400	6	6.1
A310-300	8	13.5
A300 B4	3	18.3
Total	23	

In addition, the Company has wetleased one IL 62 M aircraft from Aeroflot for its passenger operations on the India/Moscow/India-route till July, 2000. Besides, AI has signed agreements with two parties for dry lease of 2 each A-310 aircraft, one of which has already arrived.

4.2 When asked whether any fleet plan has been developed for Air India the Company in a written reply has stated as under:

> "A fleet plan has been developed for Air India. It aims at increasing capacity at an average annual growth rate of 4.5% during the next five years, inducting new aircraft types matched to market requirements, rationalising the fleet to fewer aircraft types and also modernisation of the fleet by replacing older aircraft with newer more economic aircraft types."
>
> In March 1999, a Technical Committee had been set up to identify the need for new aircraft types to specify the desired size, range and number of units of new aircraft types and to shortlist candidate aircraft. The Technical Committee recommended the induction of 6 Small Capacity Long Range (SCLR), 6 Small Capacity Short Range (SCSR) and 1 B747-400 aircraft during the next five years. The Technical Committee has also recommended the phase out the remaining older generation B 747-200/300s and A 300-B4 aircraft during this period."

The fleet plans indicated above have been revised recently, when the Business Plan was drawn up. The Government is processing for disinvesting its stake in Air India. Aircraft acquisition is likely to be implemented only after review of the fleet plan by the strategic partner, who is expected to assist in financing.

4.3 On the question of procedure for acquisition of aircraft, the Air India have stated in a written reply, as follows:

> "The present procedure for aircraft acquisition is cumbersome and time consuming. First, there is the internal aircraft selection procedure based on guidelines framed by the Government which involves three Committees—a Technical Committee, a Negotiating Committee and a Techno-Economic Evaluation Committee. Then, Air India has to seek the approval of its Board and finally the Public Investment Board (PIB). In the PIB approval process, aircraft acquisition projects are appraised by numerous agencies—a process which takes a lot of time. The projects get cleared only if there is no objection from any of the appraising agencies.
>
> According to CVC guidelines, Air India can only negotiate with the lowest bidder. In appraising aircraft project with differing revenue potential, fuel consumption and maintenance requirements, the techno-economic appraisal takes into account all these parameters. Therefore, determining the lowest bidder only on price considerations may not be appropriate. Further, it is an industry practice to negotiate simultaneously with both major manufacturers to get the best possible terms. If Air India were to follow CVC guidelines, this opportunity would be lost. Air India have advised the Ministry of its views and sought its direction on this matter.
>
> Air India needs a simplification of the approval procedure for aircraft acquisition projects so that aircraft acquisition decisions can be taken expeditiously and the best possible terms can be obtained from aircraft/engine manufacturers."

4.4 When enquired whether Government have specific guidelines in regard to aircraft acquisition, the Ministry of Civil Aviation have stated the following in their written reply:

> "There are guidelines of the Government with regard to aircraft acquisition. *Vide* letter dated 5.9.1997 (Annexure-I), Instructions were issued to both Indian Airlines as well as Air India with regard to streamlining of procedures for acquisition of aircraft. Subsequently, another letter was issued to MD, Air India on 20.7.1999 discussing the issues pertaining to the acquisition of aircraft (Annexure-II)."

4.5 When the Committee enquired to know whether the Ministry have simplified the procedure regarding acquisition of aircraft, the Ministry of Civil Aviation, in a written reply, have stated as follows:

> "In order to simplify and broadbase the approval procedure for acquisition of aircraft, the Minister, Civil Aviation had written a letter to the Prime Minister on 1.12.1999 recommending the constitution of an Empowered Committee under the Chairmanship of Cabinet Secretary to review the proposals received for aircraft acquisition. It was proposed that the Finance Secretary, the Secretary (Expenditure), the Secretary (CA), Secretary, Planning Commission, Chief of Air Staff and Secretary, Defence Production

be the other members of the Committee (Annexure-III). This was, however, not agreed to and it was communicated that the existing institutional arrangements may continue."

4.6 In their written reply, Air India has informed the Committee that they had sought clear cut directions from the Ministry on how the price negotiations with aircraft/engine manufactures are to be conducted for the purpose of Aircraft Selection study. This issue has not yet been clarified by the Ministry.

4.7 When enquired as to why the Ministry have not issued clear-cut guidelines/directions regarding price negotiations, the Ministry, in a written reply, have stated as under:

> "In a letter dated 20.7.1999 on the subject of acquisition of aircraft by Air India, (Annexure-II), it was intimated to Air India that post tender negotiations are banned with immediate effect, except in the case of negotiations with the lowest tenderer. This was in pursuance to the instructions issued by the Central Vigilance Commissioner. To this letter, Air India replied on 6.8.1999 expressing difficulties in the implementation of these instructions. Air India have referred to this letter in their reply to the COPU. The matter was taken up with CVC, who did not agree to exempt Air India from the instructions already issued and this was intimated to MD-Air India and other Officers in the quarterly performance review meeting held on 14.2.2000."

B. Fleet Utilisation

4.8 The fleet utilisation achieved by Air India during the last 5 years (1995-96 to 1999-2000) and the first 9 months 2000-2001 is given here under:

The utilisation is presented in term of block time and fleet utilisation

		1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001 (April-Dec.)
		1	2	3	4	5	6
B747-200	Hrs.per annum	17791	17951	13534	11891	7661	5835
	Hrs/day/aircraft	5.40	5.46	4.28	4.65	3.14	5.30
B747-300	Hrs.per annum	6183	4538	4673	5403	6123	4117
	Hrs/day/aircraft	8.54	6.22	6.40	7.40	8.36	7.49
B747-400	Hrs.per annum	16299	17442	22668	25612	24686	18457
	Hrs/day/aircraft	11.13	10.00	10.35	11.70	11.24	11.19

		1	2	3	4	5	6
A300 B4	Hrs.per annum Hrs/day/aircraft	7610 6.93	7183 6.56	7809 7.13	8747 7.99	8117 7.39	5671 6.87
A310-300	Hrs.per annum Hrs/day/aircraft	23917 8.17	24337 8.33	27101 9.28	28528 9.77	27363 9.35	20734 9.42

It may be seen from the above that Air India's fleet is fully utilised with the exception of B747-200 aircraft.

4.9 In this connection, AI have furnished an update of comparison of Air India's aircraft utilisation with that of the industry which has been tabulated below:

	Industry(base)	AI as a % of industry (Apr.—Dec. 2000)
B747-200/300	100%	70%
B747-400	100%	84%
A300B4	100%	183%
A310-300	100%	142%

4.10 When the Committee desired to know what measures Air India have taken to increase the aircraft utilisation in respect of under-utilised aircraft, it was stated by Air India that improvement in aircraft utilisation is possible by:

(i) Increase the average flight cycle time by operating more long haul flights;

(ii) Eliminate or minimise the domestic legs on international flights;

(iii) Reduce the multiplicity of fleet types and achieve a 2-3 types in the fleet;

(iv) Modernise the fleet by replacing the older aircraft with new aircraft.

To this extent Air India has drawn up a time table which minimises the domestic legs except when absolutely necessary from the commercial point of view. Air India also has taken up a study to rationalise its fleet whereby some of the old aircraft will be replaced by younger airplanes taken on dry lease. With this, the fleet will be brought down to 2/3 types instead of the present 5 types.

4.11 When the Committee enquired whether there is any scope for improvement in daily utilisation of aircraft in Air India, the Ministry of Civil Aviation stated in a written reply, the following:

> "There is scope for improvement in the daily utilisation of aircraft, chiefly of Boeing 747-200/300, as the utilisation of other aircraft, is either at par with the industry achievements or higher. With regard to the B-747-200, Air India has decided to phase out its B-747-200s as they are not commercially viable. (Three aircraft have already been sold). International comparisons can be made and it is agreed that Air India is perhaps not one of the best airlines as far as daily utilisation of aircraft is concerned. The Ministry has been constantly reviewing the utilisation of aircraft along with other subjects in the performance review meetings and exhorting Air India to reach the best levels of performance."

4.12 It has come to the notice of the Committee that apart from UK and France, Air India does not fly to any destination in Europe while a number of European carriers are doing flourishing business here. As against entitlement of 39210 seats per week as on 19 July, 2000 for UK and Europe together, AI's actual utilisation of entitlements is 5371 seats / week with own aircraft and additional 840 seats / week under different BSA / CSAs with European Airlines. In the Gulf sector, entitlements of 7841 seats / week unutilised as on 19th July, 2000.

4.13 On being asked as to why available capacity was not fully utilised, the Ministry of Civil Aviation have in a written reply, stated:

> "The chief reason for not being able to fully utilise the traffic rights available to Air India is related to its aircraft capacity constraints. The Ministry has reviewed this aspect several times and it is felt that on the one hand an expansion of fleet is desirable, on the other the overall improvement in the on-time performance and the inflight services is a crucial factor. In fact, in order to enable Air India to access funds, which is the chief restricting factor for induction of aircraft, the Ministry has approached the Finance Ministry twice already but have drawn a blank. Therefore, now the Ministry has approved Air India's proposal to got in for dry lease of aircraft to regain its lost ground and utilise its under-utilised traffic rights. Apart from other meetings, discussions and correspondences, periodic performance reviews are held the last of which was held on 14.2.2000."

C. Route Rationalisation

4.14 Air India is stated to have taken action to rationalise route structure by cutting down non-profitable routes and concentrating core routes. It has also been stated that Air India has withdrawn its services from Frankfurt, Geneva and Rome. It has entered into an agreement with Air France to have connect code share flights to Frankfurt, Geneva, Amsterdam and Berlin. They have entered into code share/block space

Arrangements with various airlines. Air India currently has ten code share-cum block space arrangements to/from India *viz.*, Air France and Austrain Airlines, SAS, Swiss Air, Bellview (of Nigeria), Kuwait Airways Asiana Virgin Atlantic, Aeroflot and Emirates. In addition, Air India also has connect code shares with Air France and Singapore Airlines.

4.15 In reply to a Lok Sabha Starred Question No. 369 dated 23.12.1999, it has been stated that Air India and Indian Airlines fly to 34 and 17 foreign destinations respectively. There has been an overlap on seven destinations. The Government had issued route rationalisation guidelines in December, 1998 requiring synergised operations to optimise utilisation of available traffic rights. Air India is stated to have first right of refusal to operate on all international sectors. The airline co-operation issues are reviewed in the light of the above guidelines from time to time.

4.16 When enquired what specific guidelines the Government had issued regarding route rationalisation in December, 1998, Air India has informed the Committee that the Government of India had *vide* its order dated 18 December, 1998, directed Air India and Indian Airlines to rationalise their schedules and take other related measures with effect from 01 January, 1999 as follows:

(i) Schedules to/from commonly operated foreign stations to be rationalised to secure effective presence of Indian Carriers, wide spread of timings and optimal utilisation entitlements.

(ii) Fares to be common rated by both Air India and IC.

(iii) Network to Network Code Share Arrangement to be implemented.

(iv) AI and IC should have common officers and GSAs, as far as possible.

(v) For commencement of international operations on a new route/sector or expansion thereof, the first right of refusal would be with AI, within a given time frame.

(vi) Both airlines will first explore the possibility of leasing in and leasing out of capacity to/from each other at going market rates.

(vii) AI will not expand its operations on the Domestic Routes.

(viii) Advertising, market promotion activities etc. should be taken up jointly by AI and IC.

4.17 When asked what actions have been taken by Air India in consonance with these guidelines to minimise overlapping of operations, it was stated that the Ministry of Civil Aviation had formed a Committee comprising of representatives of Air India and Indian Airlines to discuss the concept of Route Rationalisation and to advise the Management ways to reduce competition between Air India and Indian Airlines, improve yields and load factors, increase co-operation between the two airlines, rationalise schedules for the mutual benefit of both the airlines and to jointly take up advertising and market promotion activities for the mutual benefit of both the airlines.

The Committee on Route Rationalisation had a few meetings. However, no concensus on the recommendations could emerge.

Air India is of the view that Air India as the country's international carrier, should have primacy in international operations and that the international routes granted to Indian Airlines at Air India's cost—to help them when they were incurring losses—should be returned to Air India.

Air India is also of the view that parallel operations by Air India and Indian Airlines results in unhealthy competition between the two airlines, to the detriment of both. Air India has, therefore, proposed the allocation of international routes between Air India and Indian Airlines by foreign station and has submitted a detailed proposal to the Ministry in this regard.

While the Ministry has agreed that the 12 Joint Venture flights presently being operated on the Calicut/Gulf/Calicut sectors with Indian Airlines' A320 aircraft should be returned to Air India, a decision on the broader allocation of international routes being pursued by Air India has yet to be taken.

4.18 In this connection, the Ministry of Civil Aviation have stated through their written reply as follows:

> "The issues of route rationalisation between Air India and Indian Airlines have been under consideration of the Ministry of Civil Aviation for quite some time. Although attempts were made earlier too in this direction, a Committee was again set up on 6th January, 2000 consisting of the Commercial Directors of the two airlines to recommend measures for effective co-ordination and route rationalisation of their international operations. Since this Committee could not reach any agreement, the Ministry convened meetings with the representatives of the two airlines to sort out the differences. Pending a final decision* on route rationalisation the Ministry has suggested to the two airlines that the existing joint venture operations from Calicut consisting of four A-320 frequencies each to Muscat, Abu Dhabi, which were operated by Indian Airlines with their equipment may be handed over to Air India. It will be the endeavour of this Ministry to pursue the matter further to ensure that some measure of synergy is achieved in the operations of the two airlines in terms of their route structures and schedules."

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*This decision of the Ministry to hand over 12 JV flights presently being operated by IA to Air India has since been kept in obeyance.

CHAPTER V

FINANCIAL ASPECTS

A. Financial Results

5.1 Air India has, in the past, consistently made profits. However, in the recent years, Air India has been incurring huge losses. A ten year profit/loss profile is given below:

Year	Net Profit (Loss) (Rs. in crore)
1990-91	81.73
1991-92	145.89
1992-93	133.14
1993-94	201.90
1994-95	40.80
1995-96	(271.84)
1996-97	(296.94)
1997-98	(181.01)
1998-99	(174.48)
1999-2000	(37.63)

5.2 When enquired about the reasons for sudden decline in profitability in 1994-95, Air India has stated that the main reasons for decline in profit from Rs. 201.90 crores in 1993-94 to Rs. 40.80 crores in 1994-95 have been due to the following factors:

(i) Frequent industrial unrests leading to disruptions in flight scheduleds;

(ii) Increase in depreciation and interest cost on account of acquisition of four 747-400 aircraft;

(iii) The increase in expenditure by 18.71% due to insurance, fuel and oil, landing, handling, lease rental and hire charges;

(iv) Increase in the allowances payable to the employees and payment of additional perquisites as per the Memorandum of Understanding reached with the Unions, Association, Guids; and

(v) The drop in yield per RTKM by 7.2% to Rs. 18.59 as compared to Rs. 20.12 in the previous year.

5.3 When the Committee desired to know the main reasons for continuous losses in Air India since 1995-96, it was stated by Air India in a written reply as follows:

"(i) Rapid expansion in Capacity from 1994/95 to 1996/97—through the induction of capacity on wet lease.

While this capacity induction helped AI to increase its market share—from 20.3% in 1994 to 21.6% in 1995—this growth came at a great cost. AI's profitability was seriously affected by a softening of yields, partly caused by the need to drop fares in order to be able to sell the additional capacity.

(ii) Increased Competition

(a) The entry of Indian Airlines and other carriers such as Oman Aviation and Qatar Airways on the India/Gulf Route—the most profitable segment of AI's network—has resulted in an over-capacity situation, declining yields and reduced profits for AI.

(b) Increased bilateral entitlements for European carriers—and the consequent increase in their deployment, to/from India—have led the fare wars and increased discounting in a bid to attract traffic.

(iii) Steep Increase in costs-due to rising fuel prices, increase in salaries and allowances and higher interest burden due to working capital loans.

(iv) Depreciation of the Indian Rupee.

(v) Ageing of Fleet resulting in reduced passenger appeal and therefore lower yields."

During 1997/98, in order to contain the level of losses being incurred, AI implemented a turnaround strategy which essentially entailed:

(a) Withdrawing of capacity from inherently loss making routes and redeploying it on more profitable routes.

(b) Maximising the utilisation of the fleet within the constraints of pilot availability.

(c) Supplementing AI's core network (*i.e.* physical operations) with a secondary network of code-shared services through alliances with selected airlines.

(d) Replacing wet leased capacity with its own capacity to the extent possible.

Effective May 1999, Air India implemented the redeployment of the B 747-200-400 and A-310-300 fleets, sale of surplus B-747-200 and closure of three stations (Rome, Manchester and Frankfurt) and the reconfiguration of the B 747-200, B 747-300 and B 747-400 aircraft. The above re-deployment and reconfiguration has resulted in a significant improvement in AI's operating results. During 1999-2000, AI has earned an operating profit of Rs. 76 crores. In fact, were it not for the steep increase in fuel prices in 1999-2000-from USC 62/USG in April 1999 to USC 126/USG in March 2000—Air India would have generated Rs. 254 crores operating/Rs. 140 crores Net Profits in 1999-2000.

The thrice weekly services operated with the B747-400s on the loss-making India/Frankfurt/Chicago route were withdrawn and the released capacity was redeployed to repalce some of the existing B747-200 frequencies on the more profitable India/Gulf route. The B747-400s also have a higher revenue earning potential and lower operating cost than the B747-200s. Similarly, the four weekly A310 services on the loss-making India/Rome/Manchester route were withdrawn and this capacity was redeployed to operate additional frequencies on the more profitable routes to Hong Kong (3), Kuwait (3) Baharin (3) and Kuala Lumpur (1).

With the replacement of B747-200 frequencies by B747-400s on the India/Gulf route, the B747-200s operation were substantially reduced—rendering surplus 3 B747-200s. These aircraft have since been sold by AI.

With the withdrawal of the India/Frankfurt/Chicago and the India/Rome/Manchester services, three station *viz.* Frankfurt, Rome and Manchester have become off-line. A substantial saving in establishment costs has been achieved by closing down these stations.

The B747-200 and B747-300 Aircraft have been re-configured to eliminate the First Class and to replace the First Class capacity with Economy Class capacity—which has a higher revenue earning potential than First Class capacity.

Other remedial measures taken to improve AI's operating results include:—

(i) Emphasis on total schedules integrity and high on-time performance.

(ii) Improvement in flight service.

(iii) Marketing initiatives to increase loads and yields.

(iv) Focus on route profitability and preference to higher yield stations in allocation of passenger/cargo capacity.

(v) Implementation of more vigorous space management techniques to maximise capacity utilisation and revenues.

(vi) Focus on cost reduction and rationalisation.

(vii) Reduction in staff strength in India and abroad through rollback of retirement age to 58 years and implementation of schemes such as Shorter-Working Week, Leave Without Pay, Staff Redeployment to operational areas, etc.

(viii) Disposal of Air India's non-performing assets which also include the surplus B747-200 aircraft, land at Nerul, Turbhe, Gurgaon, etc.

During the current year 2000-01, Air India is, with the approval of the Board and the Ministry, considering the possibility of rationalising its fleet-by replacing its older B747-200/A300-B4 aircraft and inducting A 310-300/ B747-300 Combi aircraft on dry lease. Air India is inducting 4 to 5 additional A310-300 aircraft on dry lease for growth — to take advantage of profitable growth opportunities in the profitable Gulf Region and to reitre 3 older A 300 B4 aircraft. The first aircraft was delivered by SIA on 15th December, 2000. The second is due on 15 February, 2001. The balance two will be delivered by 30 April, 2001.

5.4 When enquired about the efforts made by Air India to reorient its marketing strategy in the post-liberalisation phase to keep up its profitability, it was stated by Air India in a written reply that the following steps were taken in this regard:—

Improve seat utilisation by Recycling seats

"Implemented auto cancellation of bookings. Bookings effected in the system will be automatically cancelled if they are not ticketed within the prescribed time-limits. This was being done manually earlier".

"New Ticketing time-limits have been drawn out and the system is being programmed so as to accept only the correct time-limits. This will help in weeding out fictituous blocking of seats especially during peak periods."

"To curtail fictituous bookings made by the Travel Agents, at the Board of Airline Representatives in India (BAR India), it was unanimously agreed to levy a charge of Rs. 200/- to travel agents when passengers who are booked by them do not travel at the last minute.

The other ongoing exercise to generate additional revenue are as follows:—

(i) Stations generating higher yields get preferential allocation of seats;

(ii) Two tired pricing system in some station in economy class till the introduction of the ARMS package;

(iii) Targeting the front end of our aircraft by launching Corporate Schemes, Companion Fare Schemes and improve frequent flier promotion;

(iv) Tapping the high yield Government and PSU traffic.

Internet Marketing—To increase our reach Internet Marketing is being launched in USA in the near future. Our fares will be displayed on selected Travel Portals. This will benefit by attracting those segments of the market that do not normally deal through the present travel agents in USA."

Special internet fares were launched in Paris in 2000 for the loan period to improve market share and capacity utilisation.

5.5 It was further stated by the Company that Government had appointed on September 1997 a Committee of Experts under the Chairmanship of Dr. Vijay Kelkar, then Finance Secretary to undertake a comprehensive examination of the reasons for the losses incurred by Air India and to develop strategies—both short term and long term—for turning around the Company. The Kelkar Committee is yet to submit its report.

5.6 When asked to explain the reasons for the continuous losses in Air India, the Ministry of Civil Aviation in a written reply have stated as under:—

"Air India had made excellent profits till 1994-95. However, since 1995-96 it started incurring losses. There were several reasons for the losses to have begun, such as (a) enhanced remuneration through liberal wage agreements; (b) increase in its network by wet leased charter operations even though Air India was aware that it may not be a profit making proposition; (c) high repayment schedules for new aircraft purchased; (d) increased union activities amongst 8 unions as a result of uneven increase in wages; and (e) general decline in discipline.

Besides appointing a Committee (under the Chairmanship of Sh. V. Kelkar) for making recommendations for improving Air India's performance, the Ministry has been monitoring the performance of Air India through periodic reviews. In the last four years, annual losses have now come down as a result of this constant interaction. In 1999-2000, it is estimated that Air India would have made a operating profit of about Rs. 76 crore and it is felt that the company is in the process of making a turnaround. However, it may be noted that the sudden hike in process of Aviation. Turbine fuel (ATF) in the late 1999 and early 2000 has hit the profit margins drastically. Had the ATF prices remained the same, the company would have made a profit in the year 1999-2000 of more than Rs. 254 crores."

B. Debt—Equity Ratio and Infusion of Funds

5.7 It has been stated by Air India that the Company's Debt Equity Ratio is 8.08 for 1999-2000. This is higher than the industry norms mainly due to the fact that Air India has a very low capital base of Rs. 153.84 crores and its reserves were eroded due to accumulated losses of around Rs. 1000 crores since 1995-96. The implications of a high debt equity ratio are weak Balance Sheet resulting in bankers and lenders considering Air India as a high credit risk establishment. The solution to this problem rests in infusion of capital, improving profitability and repaying its working capital borrowings amounting to around Rs. 1024 crores.

5.8 The company has alo stated that the Government have not infused any funds into Air India in the last 5 years. The Disinvestment Commission has recommended infusion of Rs. 1000 crores into Air India for its immediate requirements. If this money was forthcoming, Air India could have drawn up expansion plans/alternatively rapid working capital loans availed of from Indian banks and could have returned to profitability.

5.9 When the Committee enquired about the decision taken by the Ministry on the recommendation of the Disinvestment Commission, the Ministry of Civil Aviation replied as under:

"The Ministry received the recommendations of the Disinvestment Commission in August 1998. The matter was examined and we agreed with the views of the Disinvestment Commission."

5.10 Regarding Capital Infusion, it was stayed by the Ministry of Civil Aviation that Air India Corporation was restructured into a public limited company Air India Limited, within initial paid up equity capital of Rs. 79.47 crores. Subsequently, a loan capital of Rs. 74.36 crores that had been extended to Air India by the Government was converted into equity capital of the Company with effect from 1.4.1994, thus bringing equity base of the Company to Rs. 153.84 crores.

5.11 It was further stated the Ministry support the infusion of funds in Air India by enhancing its equity. The Minister, Civil Aviation has already written a letter to the Finance Minister seeking an assistance of Rs. 750 crores in Air India's equity for aircraft acquisition. The Ministry had also drafted a Cabinet not seeking the infusion of Rs. 1000 crores and circulated to the various other Ministries including the Ministry of Finance.

CHAPTER VI

DISINVESTMENT IN AIR INDIA

6.1 "Disinvestment in Public Undertakings" has been taken up for examination as a subject for horizontal study by the Committee during 2000-2001. Since the concept of "Disinvestment" will be examined in detail in its report on the horizontal study of the subject, it has been decided to deal with Disinvestment with specific reference to Air India in the succeeding paragraphs.

6.2 Air India was one of the PSUs referred by the Government of India to the Disinvestment Commission. The Disinvestment Commission in its Report has recommended the disinvestment in Air India as per the following steps:

(i) The Government should immediately provide Rs. 1000 crores as equity for financial restructuring of Air India which would raise the paid up share capital of Air India to Rs. 1154 crores.

(ii) Simultaneously, initiate the process of induction of strategic partner in Air India on the basis of global competitive bids, through the issue of fresh equity shares of the face value of Rs. 770 crores. This would enhance the paid-up equity capital in AI to Rs. 1924 crores and will reduce the Government holding to 60%. The strategic partner should be a consortium of airlines and investors, with atleast 25% of the equity brought in by the Consortium being held by Indian investors.

(iii) Government should thereafter disinvest 20% of the total paid up capital by offering 10% to domestic institutional investors and the remaining 10% to retail investors and employees at a discount. This will eventually bring the government shareholding in Air India to 40%.

6.3 The Disinvestment Commission has indicated that the pre qualification of the strategic investors should be based on their financial technical, marketing and managerial capabilities and commitment for AI's fleet expansion. They have indicated that a shareholder agreement providing an appropriate share in the Management of Air India to the strategic partner would also be necessary.

6.4 When asked to clarify the position about the shares going to be disinvested, the Secretary, Department of Disinvestment stated during evidence as follows:

"The decision that has been taken is that 40 per cent of the Air India's equity would be disinvested to a strategic partner and up to 26 per cent out of that 40 per cent can go to a foreign investor. That is the ceiling. Seventy four per cent will essentially have to be the Indian equity, which means that whoever is the strategic partner, will have to be a consortium of two — one an Indian partner and one foreign partner. Forty per cent of the equity will remain with the Government of India, up to 10% would go to the employees and the balance would go to the financial market. That is the decision which has been taken."

6.5 When enquired about the impact of implementing the recommendations of Disinvestment Commission on Air India, it was stated by Air India as follows:

"Implementation of recommendations of the Disinvestment Commission will result in the strengthening of Air India's Balance Sheet. We expect major structural changes in the organisation on a permanent basis to take place if these recommendations are implemented. The strategic partner is likely to implement organisational restructuring and business process reengineering for increasing efficiency and customer responsiveness. The Disinvestment Commission have also recommended that the maintenance, engineering and ground support operations of Air India be lived off as separate companies. If implemented, this would also be a major structural change."

6.6 On the question of role of strategic partner in management, the Secretary, Department of Disinvestment stated during evidence as under:

"Once the public ownership goes below 50 per cent, obviously, the systems that were prevalent in the management will change, obviously, when a strategic partner comes in, he would like to have role in management, when you have a private shareholder putting in a lot of money, he will have a system in management which will be very substantial. However, the Government of India will continue to hold 40 per cent. It means that the Government of India will also have a say in management. Now, at present, we cannot visualise what the structure of management would be. The structure of management would be decided in consultation with the prospective bidders. If we give the entire control or the entire management to the private sector, obviously, they will give a higher price. If we give a very limited say in management, they will give a very low price. So, there will have to be a cut off, and that cut off will have to be decided after a great deal of discussion with the prospective buyers and within the Government. But it is not as if we are doing this job for the first time. There are very large number of such airlines that have changed hands from public management to private management all over the world and we have got the answers to these questions available, in case of other airlines. These precedents will guide us.

In the Aircraft Act, we have got a provision that there can be a direction to the Board of Air India. There would be many other agreements, many other clauses, where such kinds of interventions are possible in public interest. Now, all those will have to be gone through, and the procedure is like this. The procedure of disinvestment which has been decided here has been decided after a great deal of deliberation. What we have tried to do in Government is to keep this procedure as transparent as possible, keep this procedure in a manner that the Government has very little discretion in the decisions."

6.7 On the question of appointment of Global Advisor for Air India, the Secretary, Department of Disinvestment stated during evidence as under:

"When we issued advertisement, we got four offers, that is, from M/s. J.M. Morgan Stanley, M/s. Lazard India Consortium, M/s. Solomon Smith Barney Consortium, and M/s. Sumitomo Bank Consortium.

The procedure that we follow is, we look at the consortia, we look at their experience in dealing with these questions, we look at their commitment to India, how much of staff they have in India, how many officers they have got in India, what role they have played in the Indian investment operations, and then we qualify two or three out of the offers that we get. We qualified, in this case, two bidders.

The next procedure is that we ask the bidders for price bids. In this case also, price bids were received from the two bidders. The rule is that once we have short-listed someone, and once we have decided that he is technically qualified, then we straightaway go for the opening of his price bid. Once the price bid is opened, then we do not see whether he was better qualified or less qualified. So, there is a line like this. After we opened the price bids, the consultancy was awarded to the lowest bid, in this case, it was M/s. J.M. Morgan Stanley, which is a consortium of an international firm and an Indian Company. Now, they will assist us, the Inter-Ministerial Group consisting of Disinvestment, Civil Aviation, Finance and Public Enterprises in going through the entire process. They will assist us and they will tell us what happened in the other countries. They will assist us and tell us as to what are the management patterns in the privatised airlines elsewhere in the world. They will tell us as to how much of share holding has been given in which country, how much has come through direct investment etc., so that the Government committee can decide as to how to go forward. That is the exercise that we are doing at present."

CHAPTER VII

GENERAL ISSUES

A. General Sales Agent

7.1 There are 70 GSAs in Air India, out of which 68 are in foreign countries. It has come to the notice of the Committee that Air India has decided to do a worldwide review of its General Sales Agents (GSAs). It has taken cognisance of the fact that its distribution costs are among the highest in the world. Some GSAs were given additional commissions as Productivity-Linked Bonus as an incentive for generating optimum business.

7.2 When enquired to know the procedure for appointment of GSAs it was stated by Air India that the current procedure followed for appointment of a GSA for a sales territory is as under:

(i) Manager of the sales territory should put up detailed justification for the appointment or change of a GSA to the Regional Director;

(ii) Based on the justification, if the Regional Director is convinced of the need to appoint a GSA, he sends a proposal to the Commercial Director giving detailed justification supported with a cost benefit analysis for the CD's approval in principle to appoint a GSA for the sales territory;

(iii) On receipt of CD's approval in principle, a local Committee comprising of the Regional Director, the Manager under whose jurisdiction the sales territory falls and the Regional Finance & Accounts Manager release public notices/advertisements in the sales territory calling for applications for appointment of a GSA;

(iv) Responses received are scrutinised by the local Committee, and followed by visits to the applicants' office locations, after interviewing them, a short-list is prepared and the Committee puts up its report to the Commercial Director;

(v) Commercial Director then authorises the GSA Committee to meet and interview the short-listed parties, inspect their office premises and submit its recommendations to him;

(vi) On receipt of the GSA Committee's recommendations, the Commercial Director submits his recommendations to the Managing Director for authorisation to appoint the selected party as Air India's GSA for the said territory.

7.3 Regarding selection criteria for a GSA, it was stated by Air India as follows:

(i) Availability of professional qualified staff;

(ii) Suitable office location;
(iii) Potential to increase Air India's sales;
(iv) Preparedness to provide facilities to Air-India, such as proper office accommodation, sharing of communication costs, etc.; and
(v) Availability of adequate Bank Guarantee.

In addition, if the previous GSA has filed a lawsuit against Air India, the selection criteria also includes the applicants's confirmation that they would bear all legal costs as well as pay the damages on behalf of Air India to the previous GSA if so ruled by the Court.

There are two types of GSAs—Restricted GSAs and Unrestricted GSAs:

(i) *Restricted GSAs*—who are entitled to Over-Riding Commission (ORC) only on the sales performed and tickets issued by them, and
(ii) *Unrestricted GSAs*—who are entitled to Over-Riding Commission (ORC) on all sales and ticketing done in their territory.

7.4 In regard to the appointment of GSA in London, the Secretary, Ministry of Civil Aviation stated during evidence as follows:

"................. the existing GSA in UK or for the matter anywhere, wherever we would be removing the system of GSA, there would be a special consideration for him. May I explain the consideration? When I took over as Secretary for Civil Aviation, this was one of the things which I saw in the papers and I went into that matter. Now, as per IATA rules, GSAs cannot be members of the IATA. Anybody who is a GSA cannot be a member of the IATA. As such, since we were asking for IATA members to apply as consolidators, it would mean that the existing person, whoever it might be, would not considered at all. That would not be to our advantage that the existing person who has built a market and who has known us and who has worked with us, he should be at an disadvantage because we make a rule that only IATA members may apply and that he will not be considered. Therefore, since an existing member is a GSA but he could not be IATA member, this relaxation has been given."

7.5 When the Committee desired to enquire about the Bank Guarantee for being a Consolidator in London, the Secretary, Ministry of Civil Aviation stated during evidence as follows:

".............the Bank Guarantee amount for a Consolidator in the UK market has been fixed at GBP 1 million. Those who have got a turnover of GBP 20 million should apply and GBP 20 million does not mean that he would be doing business for just one airline. He may be doing all kinds of business for five or six airlines. He may be doing it for charters. He should have a size."

7.6 In a related question regarding appointment of GSA in London, the Government in an answer to an unstarred question (no. 5229) in the Lok Sabha dated 22.12.2000, stated that a preliminary inquiry report has been received from Air India alleging that M/s. Welcome Travels, General

Sales Agent of Air India in London have been benefited by Rs. 3 crores in the year 1997-98 by revision of slabs of Productivity Linked Incentives (PLI). It was also stated that the allegations in respect of undue favours shown to M/s. Welcome Travels by officials of Air India is being examined in the Ministry.

7.7 When the Committee enquired to know what role do the Ministry play in the selection of GSAs, it was stated by Ministry of Civil Aviation as follows:

> "The Ministry has no role to play in this area.....On the receipt of the report of the COPU in 1987 on the subject of the appointment of GSAs in Air India, the Air India, has revised the guidelines and procedures for appointment of GSAs."

B. Outsourcing

7.8 During evidence of the representatives of Air India, the Managing Director, Air India stated the following:

> "Most of the airlines have outsources their major activities. Some have even outsourced information technology, which is a vital part in this field, ...To become virtual airlines, they only concentrate on the physical operation of the aircraft......"

7.9 When enquired about the outsourcing activities in major airlines, the information furnished by AI through a post-evidence reply is tabulated below:

Name of the Airlines	Activities contracted out	Whether any local Law apply
1	2	3
Aerlingus	(1) Maintenance of premises (2) Maintenance of air-conditioning plant (3) All electrical work (4) Maintenance of Crew mini buses and all Ramp Equipment.	There is total freedom in law to outsource any work.

1	2	3
Air Portugal	(1) House-keeping and maintenance of premises. (2) Maintenance and operation of air-conditioning plants and electrical installations. (3) Security (4) Transportation and maintenance of vehicles.	There are no compulsory provisions.
Cathay Pacific	(1) House-keeping and maintenance of premises. (2) Maintenance and operation of conditioning plant and electrical installations. (3) Transportation and maintenance of vehicles. (4) Crew pick-up and handling of aircraft.	No local laws governing outsourcing of above activities.
Singapore Airlines	(1) House-keeping and maintenance of premises. (2) Maintenance and operation of conditioning plant and electrical installations. (3) Transportation and maintenance of vehicles. (4) Crew pick-up and handling of aircraft.	

1	2	3
Lufthansa	(1) Engineering Dept. has been hived off as a separate Company called Lufthansa Technik. (2) House-keeping and maintenance of premises. (3) Maintenance and operation of conditioning plant and electrical installations.	No special national/local laws on outsourcing other than co-determination or co-management laws.
Indian Airlines	(1) Maintenance and operation of conditioning plant and electrical installations.	Contract labour (Regulation & Abolition) Act, 1970 is applicable.

Singapore Airlines have floated a wholly subsidiary company called the Singapore Terminal Services Private Limited (SATS) comprising of three operating companies namely SATS Airport Service, SATS Catering Company, SATS Security Service. In addition, its Engineering Department has been hived off as separate Company called SIA Engineering Company.

The British Airways is also outsourcing in a very large way and endeavouring itself to turn into a virtual airline concentrating completely on core activities by outsourcing other job functionalities and service to Companies specialised in these areas who are competitive and best suited to carry out such assignments.

7.10 When asked to outline the functions which AI would like to outsource, it was stated out by Air India in a written reply as follows:

"Functions which Air India would like to outsource

In general all subsidiary, incidental and peripheral activities relating to the running of the airline business other than the core business and in particular, the following subsidiary functions have to be outsourced:—

(a) Cabin Catering and Cabin Maintenance inclusive of cabin cleaning, cabin trays etc.

(b) Handing of Bond Stores-Loading carts.

(c) Servicing and packing of inflight items like headsets etc.

(d) Civil Utility and maintenance of all electrical installations, air-conditioning plant.

(e) Annual maintenance and operation of installations in the Engineering Facility Division of Engineering Department inclusive of maintenance and servicing of equipment/facilities used in the said Division.

(f) Maintenance and servicing of Transport Equipment in the Ground Services Department inclusive of maintenance and overhaul of diesel tractors and forklifts as well as other equipment used for ground handling.

(g) Maintenance and servicing of vehicles used in the Transport Workshop of Ground Services Department inclusive of servicing of air-conditioners used in the crew pick-up vehicles, stitching of container curtains, upholstery works on all types of vehicles used in the Ground Service Department.

(h) All vehicles and Ramp equipment are fuelled through Petrol/Diesel pumps manned by our staff. This activity can be outsourced.

(i) Servicing/maintenance/operation of water treatment, filtration and softening plant.

(j) Effluent treatment plant.

(k) Maintenance and housekeeping activities of various buildings and premises like security coverage, fire fighting system, cleaning and upkeep of premises, water supply, and plumbing.

(l) Security functions like strapping and screening of passenger baggage.

(m) Elevated Transfer Vehicle.

(n) Specialised Deep upkeep with shampooing of aircraft.

(o) Transport function inclusive of crew pick-up and drop in facility, movement of personnel within the airport premises.

(p) Canteen facilities.

(q) Medical facilities.

(r) Entire network of communication systems.

(s) Maintenance service relating to Housing Colonies and Apartments leased by Air India.

(t) Entire ground handling service functions relating to handling of foreign carriers and HAJ Charters to be carried out by Air India Charters Limited.

(u) Customs clearance of all non-bonded imports.

(v) Transit bond packing of cabin items.

(w) Packing of aircraft spares and other materials for despatch to outstations.

7.11 The reasons for outsourcing are stated to be as follows:

(a) To make the running of the core business of the Company as a financially viable enterprise.

(b) To provide more economical and competitive service to the travelling passengers by reducing the manpower employed in all these operations directly by Air India.

(c) To reduce overhead costs in carrying out these subsidiary functions by way of reduction in inventory items like spare parts etc.

(d) To get these jobs done by specialised agencies that have expertise in these areas of operations.

(e) To avoid payment of Air India salary and allowances and other perks, which are revised regularly, based on the demands from the Unions/Associations Guilds.

7.12 On being asked what impediments are there if certain services in Air India are to be outsourced for cutting costs, it was stated by AI in a written reply as follows:

> "Yes, the existing provisions of Contract Labour (Regulation & Abolition) Act, 1970 (Act No. 37 of 1970) do not permit outsourcing of activities.
>
> The objective of the Act is to regulate the employment of contract labour in certain establishments and to provide for its abolition in certain circumstances and for matters connected therewith.
>
> The Act is not made applicable to establishments in which work of an intermittent of casual nature is performed. In other works, if the work is perennial nature, the provisions of the said Act will be attracted."

Section 10 deals the *Prohibition of Employment of Contract Labour*

(i) Notwithstanding anything contained in this Act, the Appropriate Government may, after consultation with the Central Board, or as the case may be, a State Board, prohibit, by Notification in the Official Gazette, employment of Contract Labour in any process, operation or other work in any establishment.

(ii) Before issuing any Notification under sub-section (1), in relation to an establishment, the Appropriate Government shall have regard to the conditions of work and the benefits provided for the contract labour in that establishment, and other relevant factors such as:

   (a) Whether the process, operation or other work is incidental to, or necessary for the industry, trade, business, manufacture or occupation that is carried on in the establishment;

(b) Whether it is of a perennial nature, that is to say, it is of sufficient duration having regard the nature of industry, trade, business, manufacture or occupation carried on in that establishment;

(c) Whether it is done ordinarly through regular workmen in that establishment or an establishment similar thereto;

(d) Whether it is sufficient to employ considerable number of whole time workmen."

7.13 It was also stated that in exercise of the powers under section 10 of the Contract Labour (R&A) Act, 1970 Central Government has issued two Notifications, the details of which are given below:

"Notification dated December 7, 1976 prohibiting employment of Contract Labour in cleaning sweeping, dusting and watch & ward of buildings owned or occupied by the establishments in respect of which the Appropriate Act under the said Act is Central Government.

Notification dated November 16, 1999 prohibits the employment of contract labour in respect of Air India in the below mentioned activities:

(i) Day-today maintenance and operation of air-conditioning plants, generator sets and electrical installations excluding however, periodical maintenance such as annual overhaul of equipment or heavy break downs.

(ii) Maintenance and operation of effluent treatment plants.

(iii) Telephone mechanics.

(iv) Cargo Handlings i.e. loading and unloading of cargo.

(v) Day-to-day maintenance and operation of fire fighting equipment including fire extinguishers and appliances excluding the annual periodical maintenance of these equipment."

7.14 In view of the Notification dated December 7, 1976 prohibiting the employment of contract labour in cleaning, sweeping and watch and ward, Air India has regularised the following number of contractual Sweepers and Security Guards:—

Safai Kamgars	: 634
Security Guards	: 192
Total	: 826

"The Steel Authority of India have, however, challenged the judgement of the Supreme Court dated December 6, 1996 in the case of Air India vs. Union of India for review petition before Five Judges of the Supreme Court which has been admitted and is pending with the Supreme Court.

In the case of Notification dated November 16, 1999, Air India, Airports Authority of India and Indian Airlines have filed a writ petition in the Delhi High Court which has been admitted and the operation of the said Notification is stayed."

7.15 On being asked to extend their views regarding outsourcing, the Ministry of Civil Aviation have, in a written reply, state:

> "The Ministry is in favour of outsourcing of activities in Air India as it is a practice followed by all private airlines world-wide and helps the airlines to reduce costs tremendously. However, the Ministry is also bound by the Contract Labour (R&A) Act, 1970 which does not permit outsourcing."

7.16 It has also been stated that the Ministry of Civil Aviation have requested the Ministry of Labour for suitable change in the definition of "Workmen under the Industrial Disputes Act, 1947" so as to exclude highly paid personnel like Pilots and Engineers from the purview of the Act.

The question of outsourcing of certain activities by way of exemption from the provisions of Contract Labour Act, 1970 was taken up with the Ministry of Labour in 1997 but no decision has been taken up so far. In the meantime, Ministry of Labour issued a Gazette Notification on 16.11.1999 prohibiting the employment of certain contract labour in jobs, operations or processes in the establishments of Indian Airlines, Air India and Airports Authority of India. The Indian Airlines, Air India and Airports Authority of India have challenged the above notification in the Delhi High Court.

C. New Civil Aviation Policy

7.17 During evidence of the representatives of Air India Limited, it has come to the notice of the Committee that the Ministry were in the process of drafting the New Civil Aviation Policy.

7.18 When the Committee enquired about draft Civil Aviation Policy, the Ministry of Civil Aviation have stated the following through a written reply:

> "The draft Civil Aviation Policy, seeks to set up a policy framework to promote efficient, cost effective and orderly growth of air transport, ensure safety and security in co-ordination with international standards and generate a healthy competitive civil aviation environment which contributes to social and economic development of the country. This policy document is being finalised and will be announced in the near future."

CHAPTER VIII

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Recommendation No. 1

Board of Directors

8.1 The Committee find that there are no Functional Directors and also Non-official Directors in the Board of Directors of Air India for the last two years completely. The current Managing Director is the only person who is professionally conversant with the airlines business in the current Board of Directors which consists of four Government Directors and one professional manager. The Committee regret to note that the current composition of the Board of Directors is not at all in accordance with the guidelines issued by the Department of Public Enterprises in March, 1992. The Committee also wish to point out that in the absence of any Functional Director on the Board, which should be actually 50% of the total strength, the Board of Directors of Air India could not get the appropriate inputs for decision making in such crucial areas as Personnel Management, Engineering, Financial and Commercial Management on which the profitability of a Company definitely depend. The Committee feel that a professionally managed Public Sector Enterprise, which has an ideal combination of Government Directors, Functional Directors and Non-official Directors as indicated in the DPE guidelines of March, 1992, alone can steer a Company on the path of success. The Committee are not at all convinced with the plea of the impending disinvestment as the reason for not constituting the Board of Directors fully and they feel that vacancies on the Board of Directors of the Company should have been filled up so that the state of affairs improved in the Company and the buyers offer a better bid during the disinvestment process.

Recommendation No. 2

Financial Powers of the Board

8.2 The Committee note that according to an order of Department of Public Enterprises dated 29 August, 1990, the investment limit upto which the Board of Directors can take a decision was fixed at Rs. 50 crores and, therefore, the Board of Air India has to necessarily go to the Government for any investment decision exceeding Rs. 50 crores. The investment decisions beyond this limit have also to go through not only the Administrative Ministry but also to multiplicity of agencies such as PIB, Planning Commission, Ministry of Finance, PMO, Committee of Secretaries, Cabinet Committee etc. which would necessarily involve a lot of time in arriving at a decision. The limit of Rs. 50 crores obviously is abysmally low when it comes to the question of acquisition of aircraft where not a single aircraft can be purchased even with Rs. 400 crores per unit. The Committee not that the question of acquisition of aircraft has been hanging fire for more than a decade and the Company suffered huge losses due to this complicated procedure. The Committee are dismayed to not that no concrete action was taken by the Ministry of Civil Aviation in conferring greater autonomy to the Board of Air India. The Committee wish to point out that the need of the hour is to actual confer full financial autonomy on a completely professionalised Board of Directors so that they really achieve the turn around and overcome their present difficulties which remained insurmountable due to the complicated rigmarole of Government procedures. The Committee also wish to impress upon the Government that complete autonomy to a totally professionally managed Company alone is the key to make an enterprise successful and they, therefore, recommend that concrete action in this regard should be taken immediately delinking the whole issue from the question of disinvestment. Conferment of autonomy again will make the Company more attractive and would help the Government to get a proper value for the Company when they go in for disinvestment.

Recommendation No. 3

Procedure for Acquisition of Aircraft

8.3 The Committee note that the Government have been toying with the idea of acquisition of aircraft for Air India for more than a decade and the Government had come up with an ambitious programme in the Ninth Plan Document for the acquisition of new aircraft. Even after almost four years of the current Plan has been over, the Air India could not even complete the first step of assessment by Technical Committee which is one among the endless number of steps prescribed for the acquisition of aircraft. A perusal of whatever Government orders that were issued recently on the subject of simplification of procedure for acquisition of aircraft show that these do not appear to contain anything meaningful that really cuts down the delay. The Committee also are surprised to note that the Government has been exercised over the CVC guidelines on the procedure relating to post-tender negotiations, while in actuality they are several miles far away from that stage. The entire concern over this matter appears to be meaningless and purposeless at this stage. The Committee feel strongly that the matter of simplification of procedure for acquisition of aircraft by Airlines Companies should be readdressed at the highest level immediately.

Recommendation No. 4

Flight Utilisation

8.4 The Committee note that the hours per day an aircraft is operated on an average for various types of aircraft has been not satisfactory and it was not comparable to the achievements of the best airlines in the world in the matter of higher daily utilisation of aircraft. The Committee note that the Ministry of Civil Aviation had already approved the proposal of Air India to go in for dry-lease of aircraft to make use of its unutilised traffic rights. The Committee recommend that the matter of dry-lease of aircraft by Air India should be quickly finalised. The Committee further recommend that effective steps should be taken to increase the hours for which each aircraft is put to use every day and the actual level of increased utilisation may be intimated to the Committee.

Recommendation No. 5

Overlapping of Operations by Indian Airlines and Air India

8.5. The Committee note that on several routes, the Indian Airlines and Air India compete with each other leading to unhealthy competition and mutual loss. The Committee further note that some unsuccessful efforts were made by the Ministry to resolve the matter by forming a Committee on Route Rationlisation. Since no consensus could be arrived at in the Committee sittings, another Committee was set up again on 6 January, 2000 consisting of the Commercial Directors of the two Airlines to recommend measures for effective coordination and route rationlisation of their internationl operations, which again failed to reach any agreement. The Committee find that so far the Ministry could not forge out any comprehensive solution to this matter and they find themselves at the same place where they started two years back. The Committee deprecate the intransigent attitude of both the Airlines with regard to this matter which has led to avoidable loss and also deplore the helplessness of the Administrative Ministry concerned in the matter. The Committee, therefore, recommend that this matter should be seriously addressed by the Ministry immediately to arrive at a solution within two months from the date of presentation of this report.

Recommendation No. 6

Kelkar Committee Report

8.6 The Committee have been informed that the Government has appointed a Committee of Experts under the Chairmanship of Dr. Vijay Kelkar in September, 1997 to undertake a comprehensive examination of the reasons for the losses incurred by Air India and other strategies - both short-term and long-term- for turning around the Company and the Kelkar Committee is yet to submit its Report. The Committee are concerned to note that even after a lapse of more than three years, the Expert Committee could not submit any Report while Air India continued to reel under losses. The Committee desire that a definite time-frame should be fixed for the completion of study by the Kelkar Committee, as the Committee find no utility in setting up such an Expert Committee if they could not come up with timely Report to remedy the situation. The need for an early Report from the Expert Committee is all the more urgent in view of the necessity to

show-case Air India for offering it on disinvestment. The Committee desire that the Kelkar Committee should preferably submit their Report before the end of this current financial year.

Recommendation No. 7

Disinvestment

8.7 **The Committee note that the process of disinvestment of Air India had already commenced and M/s. J.M. Morgan Stanley has been commissioned as Global Adviser for the process. In view of disinvestment, decisions on many vital issues such as infusion of equity for acquisition of aircraft, dry lease Constitution of Board of Directors etc. have been kept pending. The Committee, therefore, recommend that if a long time is likely to be taken for completing the process of disinvestment, the Government should take appropriate decision in various matters immediately. The Committee would urge upon the Government that while finalising the disinvestment of the Company, the interest of the employees should be protected and there should be no retrenchment of employees in Air India and the new management of the Company would abide by the Commitments made earlier to the Central Government in this regard. Before finalisation of the agreement on disinvestment, the Committee should be apprised about the transparency of the whole deal including the terms such as valuation, commitments on welfare of employees etc.**

Recommendation No. 8

Appointment of General Sales Agents

8.8 **The Committee note that there is a procedure prescribed for appointment of General Sales Agents by Air India. The Committee feel that certain stipulations prescribed in respect of appointment of GSA in London had excluded several other potential bidders and the reappointment of the earlier GSA again was not satisfactorily explained to the Committee. The Committee recommend that the manner in which this agency was awarded should be thoroughly enquired into and they further recommend that the existing guidelines and stipulations on the subject should be thoroughly reviewed to plug in the loopholes. The Committee also recommend that the Government should explore the possibility of appointing GSAs through the process of auction or by invitation of tenders.**

Recommendation No. 9

Outsourcing

8.9 **The Committee have been given to understand that most of the airlines have outsourced many of their activities. They only concentrate on core activities, that is the physical operation of the aircraft. The Aerlingus, Air Portugal, Cathay Pacific, Singapore Airlines, Lufthansa and the British Airways have outsourced in a very large way most of their allied activities. Even the Singapore Airlines have floated a wholly subsidiary company for undertaking outsourcing activities. The Indian Airlines in our country has outsourced the activities relating to maintenance and operation of air conditioning plant and electrical installations. Even though Air India is** willing to outsource some of its functions in order to make the running of the core business of the company as a viable enterprise, it has not been able to do so because the existing provisions of Contract Labour (Regulation & Abolition) Act, 1970 (Act No. 37 of 1970) and Notification issued thereunder which do not permit outsourcing of activities. Moreover, section 10 of the Contract Labour (R&A) Act prohibits the employment of contract labour in cleaning, sweeping, dusting and watch & ward of buildings. The Committee gather an impression that had the company been given an opportunity to outsource its allied activities, it could have concentrated on the core activity and would have either earned profit and/or would have reduced the losses. In the circumstances, the Committee can only recommend that Government should give due considerations to amend section 10 of the Contract Labour Act, 1970 accordingly. They also desire that at least one member from the Ministry of Civil Aviation should be associated with the Central Advisory Contract Labour Board which recommends abolition or continuance of the systems to the Labour Ministry. The action taken in this regard may be intimated to this Committee at the earliest.

Recommendation No. 10

New Civil Aviation Policy

8.10 The Committee note that formulation of a new Civil Aviation Policy by the Government has been pending for quite a long time. Taking into consideration that the process of disinvestment of the airlines has begun, the Committee recommend that the new Civil Aviation Policy should be finalised without any further delay.

NEW DELHI;
February 7, 2001
Magha 18, 1922(S)

VIJAY KUMAR MALHOTRA,
Chairman
Committee on Public Undertakings

ANNEXURE I
(vide para 4.4)

No. AV. 18018/5/95-AA
Government of India
Ministry of Civil Aviation

New Delhi, date 5.9.97

SUBJECT:—*Streamlining of procedure for acquisition of aircraft.*

The proposals for acquisition of aircraft by Air India and Indian Airlines have been under the consideration of the Management and the Boards of the two Companies for quite some time. The delay in acquisition of aircraft has been criticised in various fora including the Parliament and the Press. It is, therefore, necessary that the procedure for acquisition of aircraft is streamlined by reducing the delays at various stages and at the same time ensuring that the proposals are processed in transparent manner. With view to achieving the above objective, it is suggested that the following procedure may be adopted in dealing with the proposals for acquisition of aircraft:—

(i) **Tender Procedure:** The technical parameters should be standardised and frozen and only thereafter the financial bids should be evaluated. In case certain changes are made in the technical parameters at the time of financial negotiations, the matters should be referred back to the Technical Evaluation Committee for inclusion of the amended/amplified parameters. Thereafter, negotiations should be conducted on the basis of revised technical parameters.

(ii) **In-house Committee:** Techno-economic evaluation and negotiations with the shortlisted parties should be carried out by In-house Committee of Experts of the airlines as the requisite expertise for this purpose is available in both the airlines. It will also result in user agency/department being closely associated in the process of selection of the aircraft.

(iii) **Approval by Board:** To reduce delays, it is advisable that report/recommendations of the In-house Committee be placed before the whole Board (rather than any Sub-Committee) for recommendation.

Sending of proposals to Government: Based on the recommendations of the Board, the Management of the Airline should send proposal to the Ministry for further necessary action in securing approval of the competent authority.

Sd/-

(Prakash Chandra)

Under Secretary to the Govt. of India.

To

1. Shri P.C. Sen,
   Chairman & Managing Director,
   Indian Airlines Ltd.,
   New Delhi.
2. Shri M.P. Mascarenhas,
   Managing Director,
   Air India Ltd.,
   Nariman Point,
   Mumbai—400 021.

Copy to JS & FA; JS(S), JS(RC) for information and necessary action.

ANNEXURE-II
(vide para 4.4)

No. AV. 18039/1/99-AI
Government of India
Ministry of Civil Aviation

R.G. Bhawan,
Safdarjung Airport,
New Delhi 110003
20th July, 1999

To,

Shri M.P. Mascarenhas
Managing Director
Air India Ltd.
Air India Building
Nariman Point
Mumbai

SUBJECT:—*Acquisition of aircraft by Air India*

Sir,

Please refer to your letter No. HQ/14-56(1)/1722 dated 26.5.1999 requesting the Ministry for infusion of Rs. 1000 crores as equity capital to serve as margin money for the acquisition of new aircraft by Air India. In this connection, your attention is also invited to the discussions on the Report of the Technical Committee in the meeting of Air India Board held on 29-6-1999.

2. Acquisition of aircraft is an extremely critical decision for any airline, which determines its range, character and profitability for the next 15—20 years, besides sending signals regarding its corporate vision, strategy and business acumen. The decision is irreversible in the short run and for an airline with a small fleet (like Air India) an error may cause irreparable damage. Therefore, apart from the observations made at the meeting of the Air India Board to consider the Report of the Technical Committee, Air India needs to take into account the following factor before finalising their proposal for acquisition of aircraft:—

(i) **Clarity of Mission:**—

Air India need to initiate the exercise for selection of aircraft with a clear vision and definition of its mission, brand image and presence level in different parts of the world over the next two decades. The preferred client-group (first/business or economy class) with corresponding product development, targeted market share and desired alliances (for better operations, connectivity and marketing) would need to be spelt out clearly. The International standards, as also the present and projected future products/services by competitors, would need to be surveyed and taken into account. In-depth analysis of alliance and route options would need to be undertaken on this basis.

(ii) **Aircraft Technology:—**

The parameters and choices with regard to aircraft technology, performance and options including operational/fuel efficiency, maintenance considerations, etc. would need to be clearly analysed. This exercise would include the factors relevant in determination of the range, capacity and configuration of the candidate aircraft.

(iii) **Financial Analysis:—**

Acquisition of aircraft would also necessarily have to be a sound investment decision. A detailed financial analysis would, therefore, be essential for a decision in this regard. This should take into account the margin money requirement, quantum and terms of borrowing, repayment schedule for the loan and interest, income accruals, cash flows, financial returns and Air India's capacity to sustain this on a viable basis. A long-term Corporate plan would need to be evolved for Air India.

(iv) **Domestic Linkages:—**

Finalisation of the strategy would also involve provision of effective domestic linkages for passenger convenience and tapping the hinterland with clear definition of the relationship between Air India and Indian Airlines.

(v) **Strategic partner:—**

The acquisition of aircraft would also require convergence of the objectives of Air India and the strategic partner. In fact, synergy between the two with regard to the routes to be operated, fleet planning, maintenance, marketing etc. would be essential. The recommendations of the meeting on disinvestment in Air India, taken by the Finance Secretary on 26-6-1999, especially in regard to the strategic partner and acquisition of aircraft would need to be kept in view.

3. In this connection, the extract of the Ninth Plan document as approved by National Development Council is enclosed, which may also be kept in view in policy formulation.

4. In aircraft acquisition, the importance of ensuring minimum costs, through a totally transparent process of open competitive bidding must also be fully recognised. It would therefore, be necessary for Air India to

observe the requisite procedures and guidelines issued in connection with tender process. In this context, attention is invited to the following extract from the instructions issued by CVC *vide* letter No. 8(1)/(h)/98(1) dated 10th November, 1998:—

> "2.4 **Tenders:** Tenders are generally a major source of corruption. In order to avoid corruption, a more transparent and effective system must be introduced. As post tender negotiations are the main source of corruption, post tender negotiations are banned with immediate effect except in the case of negotiations with LT (i.e. Lowest Tenderer)"

5. During discussions on the subject, Air India had indicated their intention to enter into post-tender negotiations on the plea of industry practice, in order to achieve the lowest negotiated prices. This may be examined in the light of the aforesaid instructions and the considered views of Air India communicated to the Ministry.

Yours faithfully,

Sd/-

(ALOK CHATURVEDI)
Deputy Secretary to the Govt. of India

Encl: As above

ANNEXURE-III
(*vide* para 4.5)

SHARAD YADAV

(*Vide* Para No. 2.4)

New Delhi-110001
Civil Aviation
Government of India
New Delhi-110003

December 1, 1999

Respected Shri Atal Ji

In recent years, both Air India and Indian Airlines have failed to operate as highly viable commercial enterprises of excellence. While this can be attributed to a number of factors, one of the important reasons has been their inability to suitably renew and augment their fleet. Both Air India and Indian Airlines have a large number of ageing aircraft leading to poor product, low utilisation and high maintenance costs.

2. I have given deep thought to the underlying reasons for the failure of the airlines to take timely measures for fleet renewal. I find that, apart from the question of availability of funds, there has been some reluctance on the part of management to acquire aircraft on account of apprehension about the sensitivities involved in such major investment decisions. This situation must be remedied.

3. I would, therefore, recommend constitution of an Empowered Committee under the Chairmanship of Cabinet Secretary to review proposals received by the Ministry of Civil Aviation from Air India and Indian Airlines for acquisition of aircraft. Finance Secretary, Secretary (Expenditure), Secretary (Civil Aviation), Secretary (Planning), Chief of Air Staff and Secretary (Defence Production) may be the other members of the Committee. The Committee may invite Chief Executives of the Airlines or any other officer for assistance. The Committee would review the Airlines' proposals regarding the need/selection and price negotiated for the aircraft and give a go-ahead for processing the proposals for obtaining due Cabinet approvals.

4. I shall be grateful if you could kindly pass necessary orders, if felt appropriate.

Personal regards.

Shri Atal Behari Vajpayee,
Hon'ble Prime Minister of India,
New Delhi.

Yours Sincerely,

Sd/-
(SHARAD YADAV)

ANNEXURE-IV

MINUTES OF 3RD SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 21ST JUNE, 2000

The Committee sat from 1500 hrs. to 1645 hrs.

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Surinder Singh Barwala
3. Shri Shiv Raj Singh Chauhan
4. Maj. Gen. (Retd.) B.C. Khanduri
5. Shri Tarit Baran Topdar

Rajya Sabha

6. Shri Jibon Roy
7. Smt. Ambika Soni
8. Shri K. Kalavenkata Rao
9. Shri B.P. Singhal
10. Shri Satishchandra Sitaram Pradhan

SECRETARIAT

1. Shri S. Bal Shekar —*Director*
2. Shri R.C. Kakkar —*Under Secretary*
3. Shri Raj Kumar —*Under Secretary*

REPRESENTATIVES OF AIR INDIA LIMITED

1. Shri M.P. Mascarenhas—*Managing Director*
2. Shri J.N. Gogoi—*Dy. Managing Director*
3. Shri N.S. Rajan—*Director (HRD)*
4. Shri V. K. Verma—*Commercial Director*
5. Shri S. Ranganathan—*Offg. Director (Finance)*

2. At the outset, the Chairman welcomed the representatives of Air India Limited to the sitting of the Committee.

3. The Committee then took the evidence of representatives of Air India Limited in connection with examination of Air India Limited. A copy of the verbatim proceedings of the sitting of the Committee has been kept on record.

4. **** **** ****

The Committee then adjourned.

ANNEXURE-V

MINUTES OF 8TH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 8TH AUGUST, 2000

The Committee sat from 1600 hrs. to 1745 hrs.

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Surinder Singh Barwala
3. Shri R.L. Bhatia
4. Smt. Sangeeta Kumari Singh Deo
5. Maj. Gen. (Retd.) B.C. Khanduri

Rajya Sabha

6. Shri Suresh Kalmadi
7. Shri B. P. Singhal
8. Shri Satishchandra Sitaram Pradhan

SECRETARIAT

1. Sh. M. Rajagopalan Nair	— *Joint Secretary*
2. Sh. S. Bal Shekar	— *Director*
3. Sh. R. C. Kakkar	— *Under Secretary*
4. Sh. Raj Kumar	— *Under Secretary*

REPRESENTATIVES OF M/O CIVIL AVIATION

1. Sh. A. H. Jung,	— *Secretary (CA)*
2. Sh. Sanat Kaul	— *Jt. Secretary*
3. Sh. V. Subramaniam	— *JS & FA*
4. Sh. H. S. Khola	— *DGCA*
5. Smt. Vandita Sharma	— *Director*

REPRESENTATIVES OF DEPTT. OF DISINVESTMENT

1. Sh. Pradip Baijal	— *Secretary*
2. Sh. Amitabh Bhattacharya	— *Jt. Secretary*
3. Sh. Arun Bhatnagar	— *Officer on Special Duty*

At the outset, the Chairman, COPU welcomed the representatives of Ministry of Civil Aviation and Department of Disinvestment to the sitting of the Committee.

2. The Committee then took evidence of the representatives of Ministry of Civil Aviation and Department of Disinvestment in connection with examination of the subject—the working of Air India Limited.

(The representatives withdrew from the sitting)

3. **** **** ****

4. **** **** ****

5. **** **** ****

The Committee then adjourned.

ANNEXURE-VI

MINUTES OF 12TH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 8TH JANUARY, 2001

The Committee sat from 1600 hrs. to 1630 hrs.

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Surinder Singh Barwala
3. Shri R. L. Bhatia
4. Smt. Sangeeta Kumari Singh Deo
5. Shri Dharam Raj Singh Patel
6. Shri Rajiv Pratap Rudy
7. Shri Tarit Baran Topdar

Rajya Sabha

8. Smt. Ambika Soni
9. Shri Suresh Kalmadi
10. Shri Satishchandra Sitaram Pradhan

SECRETARIAT

1. Shri S. Bal Shekar — *Director*
2. Shri R. C. Kakkar — *Under Secretary*
3. Shri Raj Kumar — *Under Secretary*

2. The Committee considered the draft report on Air India Limited and adopted the same with minor modifications.

3. The Committee authorised the Chairman to finalise the Report on the basis of factual verifications by the Ministry of Civil Aviation and Air India Limited and to present the same to Parliament.

The Committee then adjourned.