

**AIR INDIA LIMITED –
UNDUE FAVOUR TO GENERAL SALES AGENT**

MINISTRY OF CIVIL AVIATION

COMMITTEE ON PUBLIC UNDERTAKINGS

2002-2003

NINTH REPORT

THIRTEENTH LOK SABHA

Presented to Lok Sabha on 28.4.03

Laid in Rajya Sabha on 28.4.03

**LOK SABHA SECRETARIAT
NEW DELHI**

April , 2003/Vaisakha , 1925(S)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Ninth Report on Air India Limited – Undue favour to General Sales Agent.

2. The Committee's examination of the subject was based on Audit Paragraph 3.1.1 contained in the Report on Union Government (Commercial) of the Comptroller & Auditor General (No. 3 of 2002) of India.

3. The Committee took evidence of the representatives of Air India Limited and Ministry of Civil Aviation on 16th September, 2002.

4. The Committee considered and adopted the Report at their sittings held on 31st March, 2003 and 22nd April, 2003.

5. The Committee wish to express their thanks to the representatives of Ministry of Civil Aviation 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 of Air India Limited and Ministry of Civil Aviation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation for the assistance rendered by the Comptroller & Auditor General of India.

7. They 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;
April 23, 2003
Vaisakha 3 , 1925(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2002 – 2003)

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Prof. Vijay Kumar Malhotra

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SECRETARIAT

- | | | |
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| 3. | Shri C.S. Joon | Deputy Secretary |
| 4. | Shri Raj Kumar | Under Secretary |
| 5. | Shri Tirthankar Das | Sr. Executive Assistant |

* **Elected to the Committee w.e.f. 13.12.2002 vice Shri Vikram Verma ceased to be Member of the Committee on being appointed as Minister w.e.f. 26.8.2002.**

PART - A

REPORT

UNDUE FAVOUR TO GENERAL SALES AGENT

I. GENERAL BACKGROUND

1.1 The Comptroller & Auditor General of India in Paragraph No. 3.1.1 of the Report on Union Government (Commercial) No. 3 of 2002 relating to 'Undue favour to General Sales Agent' has observed that Air India extended undue favour to its General Sales Agent (GSA) appointed for UK by admitting Productivity Linked Incentive (PLI) claims outside the terms of the agreement that too by working it on the amount of net sales from the first pound rather than at the rates prescribed for each slab. The total amount released on such payment during 1987-2000 was equivalent to Rs.57.02 crore, besides out of the payment of PLI released during the last three years Rs.13.82 crore was clearly inadmissible due to incorrect principle of calculation.

1.2 According to Audit, Air India appointed Welcome Travels as its General Sales Agent for UK in 1986. In accordance with the agreement entered into, the GSA was entitled to receive 9 per cent normal sales agent's commission and 3 per cent overriding commission on all sales of international passenger transportation effected by them involving carriage on services of Air India. Further, in the cases of sales through his agents, GSA was supposed to pass on 9 per cent normal commission to its sub-agent. The agreement specifically provided that the GSA should not be entitled to any remuneration for its sales / service in excess of the normal sales commission.

1.3 The issues highlighted by the Audit in this Para are given at Annexure-I. The various acts of omission and commission revealed by the Audit in this Para have been dealt with in the succeeding paragraphs.

II. PAYMENT OF PLI OUTSIDE THE TERMS OF AGREEMENT

2.1 It has been stated in the Audit Para that Air India had been paying additional incentive not covered by the agreement to General Sales Agent (GSA) over all these years in the form of Productivity Linked Incentive (PLI) on the net sales revenue (after excluding basic commission, discount, refunds, carriage on other carriers, *pro rata* losses and refund orders etc.). The rate of PLI was fixed with reference to the net revenue determined for every year through executive instructions approved by the Managing Director from time to time on the recommendation of the Regional Director (UK and Ireland). On the basis of the data provided by Air India, the total PLI payment to GSA during 1987-2000 was 10.79 million pound (figures of 1999-2000 are provisional) equivalent to Rs.57.02 crore at the official rates of exchange for the month of March of respective years.

It has also been stated that as per the executive instructions for the payment of PLI, Air India was to ensure that the GSA had passed on 9 per cent agent's commission to their Sub - Agents. Of the years verified by Audit, Air India did not obtain any such certificate from the GSA for two years 1998-99 and 1999-2000. Even for 1997-98, for which the GSA furnished a certificate of passing on the agent's commission to them, Air India did not verify the correctness of certificate.

2.2 In response to the above observations of Audit, Air India in its reply has furnished the following comments :-

“Welcome Travels were appointed as AI's GSA in the UK in 1986. It is the normal practice in UK and elsewhere for airlines to disburse appropriate Productivity Linked Bonus (PLB) to GSAs, Agents and Sub-Agents in various territories on the basis of revenues produced by such Agents / Sub-Agents in the distribution network. It is true that these additional incentive payments were not covered by the agreement with the then GSA in the UK. The PLB payments have been made on the net revenue (after excluding basic commission, discounts, refunds, carriage

by other carriers, pro rata losses and refunds). Based on the targets assigned to the region, the GSA was expected to produce an appropriate quantum of the target assigned to the region from year to year. The rate of PLB was fixed with reference to the net revenue determined for each year through executive instructions approved. The practice of payment of PLB is not covered by the agreement with the GSA. This payment is intended to motivate the GSA / Agent to achieve higher levels of revenue. This concept of volume generated incentive is practiced in the aviation industry as a motivation to produce higher volumes of business for the airline. It is true that the PLB as an incentive is to be approved and communicated in the earlier part of the Financial Year to which it applies, the concept as such is practiced in the aviation industry. It is the practice not to include such arrangements in the agreement and most airlines offer these incentives outside their agreements. It has been stated in the draft audit para that the rate of PLB was fixed with reference to the net revenue determined every year through executive instructions approved by the Managing Director from time to time on the recommendation of the Regional Director. The practice followed in Air India was that PLB was approved by Commercial Headquarters upto 1996-97 and by the MD after and including 1997-98 till date. Audit has further stated that for the payment of PLB, Air India was to ensure that the GSA had passed on 9% agent's commission to their Sub-Agents and that of the years verified such statements for the years 1997-98, 1998-99 and 1999-2000 were not obtained. Our London office has provided us with these statements."

2.3 When asked whether payment of PLI to GSA outside the terms of agreement was a matter of compulsion or convenience, Air India in a post-evidence reply has stated:-

"The payment of PLI to the GSA was outside the agreement and is in line with industry practices followed by the airlines. This is in a way a matter of compulsion since if Air India does not provide these incentives, the revenue of the region would be affected."

2.4 In this connection, when the Committee sought the opinion of the Ministry of Civil Aviation regarding the payment of PLI to GSA, the Ministry in a written reply, have stated as below :-

"As per the agreement, the GSA is entitled to receive 9% normal sales agents commission and 3% overriding commission on all sales of international passenger transportation effected by them involving carriage on services of Air India. Agreement also specifically provides that the GSA should not be entitled for any remuneration for its sales / services in excess of normal sales commission. The PLI has been determined every year through executive instructions issued by the Head Office."

Copies of the PLI schemes offered from 1997-98 onwards are at Annexure II.

2.5 .When the Committee enquired about the action taken by Air India to recover the excess payment made to the General Sales Agents namely M/s Welcome Travels, Air India in a post-tour reply stated as follows :-

“The agreement signed between AI and M/s Welcome Travels, London, stipulated an arbitration clause between the parties in the case of a dispute concerning the scope, meaning and construction of the agreement and the seat of this arbitration was to be London. Further, under this agreement, it was stipulated that the laws of England will govern the agreement and the disputes had to be settled in accordance with the laws of England.

In view of the above, when the CBI, in its report of 27/11/01, had recommended initiation of action to recover the additional PLI paid to them amounting to GBP 268,888 (Rs.1,85,53,272), our Dy. GM-Legal, after taking the views of AI’s lawyers at Mumbai, visited UK and had detailed discussion with AI’s Retainer Solicitors, M/s Hobson Audley & Co., our Solicitors informed as under :-

- a) action could be initiated within a period of six years from the date of payment and hence any action taken against the GSA would be in time;
- b) after going through the papers, including the CBI report, he expressed a preliminary view that it won’t be possible to state if the claim on behalf of AI would succeed in view of the fact that the additional PLI have been paid by AI with full knowledge;
- c) claim, however, if made on the grounds of mistake could be quite difficult;
- d) if the claim is to be made on the grounds of fraud, misrepresentation, undue influence etc., then he was of the opinion that it would be further necessary to take action against our employees who have colluded with the GSA and also it would be necessary to establish on what considerations these payments were effected. The Solicitors, however, declined to give a clear cut written opinion at this stage as they needed some more documents, which have since been forwarded to them.

In the meantime, a Notice has been served on 07 August 2002 by our Corporate office on M/s. Welcome Travels asking them to repay the excess payment of GBP 268,888 made during 1997-

98 within a specified period, failing which Air India will inform Bank of India, London (who have given the Bank Guarantee to Air India) to encash an amount of GBP 268,888 from the Bank Guarantee in favour of Air India.

In the event of M/s. Welcome Travels proceed with litigation, then Air India would also need to take appropriate legal steps to defend its action. Simultaneously, our London office will take all precautionary steps to ensure that Air India's ticket stock held by M/s Welcome Travels are protected and accurately accounted for both in terms of existing unused ticket stock held by them and also for tickets issued by them and for which the amounts due should be appropriately remitted to Air India. Suitable steps will also be initiated to ensure that there is no decrease in Air India's productivity."

2.6 Explaining the legal action initiated for recovery of money from M/s Welcome Travels, Air India in a post-evidence reply stated as under:

"M/s Welcome Travels were served with a Notice on August 7, 2002 asking them to repay the excess PLB paid to them amounting to GBP 268,888 for the year 1997-98. In turn M/s. Welcome Travels replied vide their letter dated August 22, 2002 that their claim for PLI was duly verified and settled by Air India and that they do not accept that there has been any over-payment.

Prior to this the possibility of encashing the Bank Guarantee in order to realise these dues was also taken up with our lawyers who had opined that since the Bank Guarantee related to the current Consolidatorship Agreement dated July 11, 2000, it would not be possible for us to realise the dues which have now become payable as they relate to the period when the GSA Agreement was in force and which has subsequently expired in July 2000.

The agreement between Air-India and M/s. Welcome Travels (as GSA) stipulates an arbitration clause covering disputes concerning scope, meaning, construction or effect of the Agreement or the rights and obligations of the parties arising therefrom or under the Agreement. In view of this, Air India may have to invoke the arbitration clause and make a reference of this dispute to arbitration in case M/s. Welcome Travels continue to default in the payment of dues. Legal counsel is being sought on this issue."

2.7 With regard to repayment of money to Air India in case of excess payment made to the GSA, when the Committee enquired whether the PLI scheme contain any specific provision to this effect, Air India in a written reply stated:-

“No such provision is specifically mentioned in the PLI Scheme as approved by Air India. However, in general practice excess payment, if any, made by Air India to any Agent / GSA arising out of omission / commissions is to be recovered.”

2.8 When the Committee further enquired whether any specific undertaking was obtained from GSA to pay back excess payments, the Air India replied that generally no specific undertaking to this effect from any Agent / GSA is taken.

2.9 When the Committee desired to know whether any specific letter/document was

obtained from the GSA accepting the term and conditions contained in the PLI scheme, Air

India in a written reply stated as under :-

“The Commercial Headquarters advises the RD-UK’s office the terms and conditions of the PLI Scheme as approved by Air India. The RD-UK’s office in turn advises the GSA in writing about the scheme and implements the same. The GSA in turn acknowledges accepting the terms and conditions of the approval.”

Copies of the Acknowledgment of the GSA are at Annexure III

2.10 The Committee also wanted to know whether Air India has ensured that Bank Guarantee of M/s Welcome Travels shall remain valid until recovery is effected. In this regard, Air India, in a written reply, stated as under:-

“The Bank Guarantee is renewed every year and the current Bank Guarantee is valid up to March 31, 2003 which will be renewed before its expiry. The dues from M/s Welcome Travels as Consolidator are covered by the current Bank Guarantee in force.”

2.11 To a query about the quantity of unsold tickets and the amount due from the Agent at present, the Company stated in a written reply as under :-

“The position as on 31st August, 2002 was as under:

Balance ticket stock with M/s Welcome Travels as on 31 st August 2002 - 2795 tickets valued at	GBP 1.146 Mill
Balance amount in respect of August 2002 Sale	GBP 0.700 Mill

Total amount required to be covered under Bank Guarantee	GBP 1.846 Mill
Excess payment of PLI for 1997/98	GBP 0.269 Mill

Total	GBP 2.115 Mill

However, it is pertinent to mention that the possibility of recovering AI's claim of excess payment made by encashing the Bank Guarantee is to be explored in consultation with our Solicitors. Based on the preliminary discussions, the Legal Officer, Air India had with the Solicitors in London, it was opined by them that there seems no basis by which existing Bank Guarantee can be used to recover excess payments by Air India(Annexure IV)."

2.12 About the steps taken/proposed to be taken to protect the unused tickets and to recover the amounts of sold tickets subsequent to issuance of Notice to M/s Welcome Travels on August 7, 2002, Air India has also stated that it will ensure to keep minimum ticket stock with M/s Welcome Travels, the value of which including the amount outstanding and the excess payment of PLI for 1997-98 does not exceed GBP 2.3 million.

2.13 When the Committee desired to know as to whether it will be possible on Air India's part to terminate Welcome Travels as GSA if it refuses to pay the excess amount paid to it, Air India in a post-tour reply stated as below:

"It is not possible to terminate any GSA agreement abruptly as it may give rise to litigation and consequent payment of compensation. This has been Air India's experience in the past. Presently, M/s Welcome Travels are in the process of being served with a notice asking them to pay the excess PLI of UK£268,888 which was made during 1997-98. In the event they do not pay within a reasonable period, action would be taken in consultation with our Solicitors. As the agreement is governed by English law and disputes have to be referred to arbitration under the agreement, the legal course would be followed so that there are no claims against Air India at a later stage of abusive termination.

Further, the sales are also likely to unduly suffer since Welcome Travels produce 75% - 80% of the total sales in the region. Unless Air India develops alternative Consolidators in the region in order to market the existing product, it would be difficult to retain the existing level of revenue in the region. A plan of action has therefore been laid out in case Welcome Travels refuse to pay the amount sought from them."

2.14 On the issue of passing on the 9% commission by GSA to its Sub-Agents during the years 1997-98 to 1999-2000 (as contained in the Audit Para), when the Committee enquired whether the matter has been verified by the Air India, the Company stated in a written reply that the letters from the GSA, London confirming that 9% commission has been passed on to their agents during the above years have been received by Air India.

III. ASSURED PLI AT VERY LOW LEVELS OF RATES

3.1 Audit have pointed out that though Air India termed such payment as productivity linked incentive, which was to be provided beyond a certain level of net sales, it fixed the slabs of net sales qualifying for PLI payments as low as £2 million for UK – India – UK sector. This rendered the concept of PLI meaningless, since it assured GSA of incentive payments, even in case of very low net sales. The rates of incentive were also determined either after the close of the year or towards the end, by which time the figures of sales were already known. Air India approved the rates of PLI for different slabs of net revenue for 1997-98 after the close of the financial year, in May 1998. the rates and the slabs for attracting the payment of PLI for 1998-99 and 1999-2000 were approved towards the close of the financial year in February, 1999 and November, 1999 respectively.

3.2 Air India in its reply on the above observations of Audit has furnished the following comments :-

“The slabs submitted by the region to Management for approval indicated that no PLB could be applicable if the GSA did not produce the minimum turnover. The UK region puts up their proposal in this regard based on market environment, market forces, competition, etc. During 1997-98 approval received from Headquarters did in fact come late. The approvals for 1998-99 and 1999-2000 were also received late in the year. The reasons for the delay are as follows:

During 1998-99, due to a delay in the finalisation of Air India’s budget, targets could only be assigned in June 1998. Thereafter targets were negotiated with the GSA and a proposal was then forwarded to Commercial Department on 30 July 1998. As Commercial Department was not satisfied with the proposal, the region was asked to re-examine the same with a view to introduce further growth in the GSA’s sales. Subsequently, the GSA’s targets were increased and the revised proposal was sent to Commercial Department on 30 November, 1998. Further clarifications were requested for and a proposal was put up to the MD through the CD on 29 January 1999 and approved in February 1999.

We concede that PLB levels and Targets should be fixed at the beginning of the year. PLB for 1997-98 was fixed at the beginning of the year. However, based on the representations from GSA, which was conveyed to Commercial Department to reduce slabs (due to an alleged reduction in capacity by 42%) on the UK/India/UK sector a proposal was put up by the Commercial Department to the Managing Director for approval. The Finance Department when consulted on this issue advised the Commercial Department that any revision of PLB at this late stage after the financial year was over may invite criticism. However, the Finance Department left the decision making in this regard to the Commercial Department if it was justified on commercial grounds.

The actual reduction in seat capacity on flights between the UK and India was examined and it has been found that reduction in the seat capacity during 1997-98 was less than 42% as projected

earlier. The Ministry of Civil Aviation has initiated administrative actions in this regard. The matter had also been referred to Central Bureau of Investigation whose report has since been received.

The slabs for payment of PLB for 1998-99 and 1999-2000 were approved before the end of the financial year, i.e in February 1999 and November 1999 respectively for reasons stated above. Except for the years 1992-93 and 1997-98 the PLB was approved before the end of the financial year though late in the year in some cases.”

3.3 When the Committee enquired the basis and the and the reasoning for fixing net sales at GBP 2 m for qualifying the Agent for PLI payment in UK-India-UK sector, Air India stated in a written reply as follows:

“The proposal for PLI is received from the field based on market potential, competitors’ fares, capacity on the route, etc. These vary from country to country and hence, there is no standard slab system for grant of PLI. Such proposals are received from the field and examined and approved after due consideration, keeping in mind the increase in revenue that accrue to the company consequent to approval of the same.”

3.4 When asked as to how the projection of 42% reduction in capacity in UK-India-UK Sector was computed and at what stage the projection was found to be incorrect, Air India in a written reply stated as below :-

“The office of the Director General of Civil Aviation wrote to Air India vide their letter AV.13018/56/99ATD dated 18th May, 2001 requesting for information on the capacity variation between 1997-98 and 1996-97. The matter was referred to a Committee which examined in detail the capacity during the two years and it was found that the projection of 42% reduction in capacity in 1997-98 was incorrect.

The proposal submitted by the then RD-UK to reduce the productivity slabs for 1997-98 was based on a capacity reduction of 42%. This working of the reduction in capacity was based on the pattern of operations and seat allocations. However, this working did not take into consideration the twice weekly flights to Manchester which continued in both years without any change in frequency. Further, the increase in the seat allocation on the Manchester flights from 73 in 1996-97 to

118 in 1997-98 was not considered. This itself resulted in an increase in capacity in 1997-98 by over 10,000 seats. Further more, the capacity on IND-US flights was less to the extent of 3788 seats in the computation of 42% reduction in the capacity.

The seat allocation from UK to India was not based on actual allocation in the Reservation system on a flight to flight basis. This was proved incorrect by the Committee who examined seat allocations in consultation with Space Management.”

IV. COMPUTATION OF NET REVENUE FOR THE PURPOSE OF PLI

4.1 Audit have also pointed out that not only the payment of PLI was in disregard to the provisions of the agreement with GSA but the GSA was also favoured by calculating the PLI in a manner, which proved beneficial to GSA on different grounds which are discussed in the subsequent paragraphs.

(A) INCLUSION OF FIRST AND EXECUTIVE CLASS REVENUE

4.2. It has been stated in the Audit Para that until 1993-94, Air India reckoned the net revenue for PLI by excluding the revenue earned from the sale of executive and first class tickets and instead provided one free ticket of the respective class to the GSA for every 10 first class and 15 executive class tickets sold. This worked out to 10 per cent and 6.67 per cent of the revenue on these classes. On the recommendation of the Marketing Manager, (UK and Europe), Commercial Director of Air India agreed to include net sales of GSA in the first and executive classes also for determining the net revenue for the purpose of PLI. This resulted in entitling the GSA to PLI at a higher slab rates. The additional benefit to the GSA due to this change of the terms could not be worked out by Audit in the absence of complete data.

4.3 Responding to the above observations of Audit, Air India, in its reply has stated:-

“Since GSA is the main producer for Air India in the UK, it was thought fit that in order to enhance first and executive class uplifts, the first and executive class revenues produced should also qualify for PLB to enable the GSA to attach greater focus on the generation of high yield revenue. Accordingly, for the year 1994-95 a proposal was submitted for the inclusion of first

and executive class traffic produced by the GSA to also qualify for the PLB. The system followed before 1994-95, i.e. one free ticket for every 15 executive class passengers generated was found to be inadequate. The UK region, therefore, initiated this proposal to enhance its first and executive class traffic from the UK. It is extremely difficult for Air India to compete with carriers such as British Airways and other European / American carriers who have always enjoyed the facility of brand loyalty through schemes such as FFP and a much superior product. Therefore, in order to motivate passengers to travel on Air India, the GSA was requested to vigorously promote first and executive class traffic and accordingly were given an added incentive of PLB. The UK region also confirmed that it was the market practice of the GSA in the UK to also disburse 1% over the 9% to Sub-Agents to enhance productivity in the first and executive class.

It is pertinent to mention here that the inclusion of first and executive class sales in the PLB for 1994-95 did not entitle the GSA to a higher slab as shown below:

Sector	Maximum PLB Slab	Maximum PLB (%)	Economy Class Sales (UK£)	First & Executive Class Sales (UK£)
India/UK	12,500,000	5%	16,077,676	1,669,786
UK/USA	2,700,000	5%	2,988,197	359,216
UK/Canada	1,500,000	5%	2,110,501	57,983

Thus by inclusion of F&J sales for the purpose of PLB, the actual payout was 5% as against 10% and 6.67% paid in 1993-94.

The first and executive class uplifts from the UK during 1993-94 to 1995-96 are as follows:

Year	First	Executive
1993-94	272	1381
1994-95	463	2193
1995-96	1007	4394

The above table illustrates an apparent increase in first and executive class load due to the inclusion of this sale in the calculation of PLI.”

4.4 The year-wise details of first and executive class uplifts from UK for the year 1996-97 onward is given as under :

	First Class	Executive Class
1996-97	1527	5140
1997-98	1879	4338
1998-99	1468	3170
1999-00	1559	3207
2000-01	1488	4132
2001-02	1129	3316

(B) AIR INDIA'S OWN SALES RECKONED FOR PLI

4.5 Audit have pointed out that the GSA had been providing the assigned blocks of tickets to the offices of Air India at Birmingham and Manchester for sale by Air India's own staff. Net revenue earned on these sales was also included towards the net revenue of GSA, which could have a similar impact of taking the total net revenue of the GSA to the next higher slab, entitling them to PLI at a higher rate applicable to that slab. Justification by Air India for permitting this on the ground that GSA met a portion of the expenses of these offices was misguided, since it benefited the GSA for the purposes of calculation of PLI on the entire net sales, besides overriding commission on these sales.

4.6 Air India, in its reply on the above Audit observations, has furnished the following comments :-

“The sales generated by the Air India provincial offices in the UK like Manchester and Birmingham, were through the efforts made by the Sub-Agents of the GSA in these territories wherein Air India did not have a full fledged sales set up. In the absence of these arrangements, this business would have been diverted to competitors. The sales made on behalf of the GSA through Air India office also included sales of Sub-Agents of the GSA who did not wish to sell their tickets bearing the GSA stamp. They, therefore, insisted on the tickets being issued by the Air India office. The collections in this regard were guaranteed by the GSA from whom such sales were recovered.”

4.7 When the Committee wanted to know the reasons as to why two different explanations have been given by Air India to the Audit and to the Committee, Air India in a written reply has stated as below :-

“The replies submitted by Air India to the Audit which stipulated the main reasons for including GSA’s sales at Air India’s offices for PLI productivity were that :-

- a) such sales are through the efforts made by the Sub-Agents of the GSA;
- b) the GSA met a portion of the expenses of the provincial offices in the UK like Manchester and Birmingham; and
- c) the collections in this regard were guaranteed by the GSA from whom such sales were recovered.

It may please be seen from the above replies that the explanations given by Air India to audit are not contradictory.”

4.8 When asked as to why the tickets originally sold by Air India on their own without involving GSA or their Sub – Agents were not identified and excluded for the purpose of calculating PLI of the GSA, Air India replied that the tickets sold every year by Air India’s own offices in UK are identified and reported separately. The quantum of such sales included for the purposes of calculating the PLI of the GSA for the three years viz 1997-98, 1998-99 and 1999-2000 is as under:-

YEAR	GBP
1997-98	1,394,708
1998-99	1,355,483
1999-2000	1,128,208

4.9 In this connection, Air India has also informed that the tickets sold by Air India directly to the passengers without the efforts of the Sub-Agents of the GSA are separately accounted for out of the separate series of the tickets maintained at various Air India offices.

(C) FLAWED CALCULATION OF PLI FROM THE FIRST POUND OF REVENUE

4.10 Audit have also pointed out that Air India worked out the amount of PLI by multiplying the total amount of the net revenue with the highest applicable slab rate of PLI. Thus it paid the PLI from the first Pound of the net revenue rather than limiting it to the progressively increasing rates prescribed for the respective slabs on net sales.

4.11 It has also been stated in the Audit Para that in the minutes of one of the meetings attended by Director Finance, Regional Finance and Accounts Manager (UK and Ireland), Deputy Commercial Director Marketing and Regional Director (UK and Ireland) and the representatives of the GSA on 31 July, 1997, it was indicated that it was the practice in the UK that all incentives paid to the GSA were from the first Pound and not on an incremental productivity basis. Air India maintained the same position in the reply furnished to the Audit, however, expressed its inability to produce evidence in support of this assertion. Therefore, the validity of this assertion, on which hinged substantial payments to the GSA, was not free from doubt.

4.12 The contention of Air India that the PLI was to be paid on the entire amount of net sales at the rates applicable for the highest slab bracket rather than working it out at the rate applicable to each slab was inconsistent with the terms of payment which provided for progressively increasing rates for different slabs. The slab and slab rates of PLI approved for UK-India-UK sector during 1997-98 were as under :-

NET SALE OF GSA ON UK-INDIA-UK SECTOR (IN MILLION)	PLI RATE PAYABLE (PERCENT)
£ 0-2 million	-
Above £ 2 and upto 4	1.00
Above £ 4 and upto 6.5	2.00
Above £ 6.5 upto 8.5	3.00
Above £ 8.5 and upto 11	4.00
Above £ 11 and upto 11.5	5.00
Above £ 11.5 and upto 12	5.25
Above £12 and upto 12.5	5.50
Above £12.5 and upto 13	5.75

Above £ 13 and upto 13.5	6.00
Above £13.5 and upto 14	6.25
Above £ 14 and upto 14.5	6.50
Above £ 14.5 and upto 15	6.75
Above £ 15	7.00

4.13 Audit have further stated that Air India went further to increase the hitherto maximum rate of 5 per cent on the highest slab to 7 per cent with effect from 1997-98 despite disagreement by its Finance Wing. After 1997-98 the maximum rate of PLI had remained at 7 per cent. Though separate rate of PLI was prescribed for each slab of net sales, Air India paid to the GSA on the total amount of the net sales of £ 15.365 million for the year 1997-98 on UK-India-UK sector at the rate of 7 per cent, which was applicable to the net sales exceeding £15 million only. This flawed interpretation of the payment of PLI from first pound rather than at the rate applicable for each slab further resulted in an excess payment of GBP 2.031 million, (equivalent to Rs.13.82 crore) out of the total PLI of £3.664 million released during last three years ended 1999-2000 for all sectors. Similar excess payments had also taken place prior to 1997-98, which could not be worked out by the Audit in the absence of data.

4.14 Air India in its reply on the above observations of Audit, has stated:-

“It has always been the practice for the PLB in the UK to be arrived at by multiplying the total amount of the net revenue with the highest slab rate of PLB. This has historically been paid from the first pound of the net revenue rather than limiting it to the progressively increasing rate prescribed for the respective slabs. Our UK office has confirmed that this practice is followed in the UK by other airlines who also pay from the first pound and not on the basis of incremental productivity. It may be mentioned that productivity slabs of all airlines are a matter of extreme secrecy and it is impossible to obtain in writing evidence to provide this. Other airlines are not willing to disclose marketing strategies finalised with their Agents. Our UK region has stated that one can only be guided by what is picked up in the market place and it is on that basis that Air India had in the past maintained that even British Airways paid their GSA PLB from the first pound.

The maximum payout which was 3% until 1991-92, was raised to 5% from 1992-93 onwards and increased to 7% from 1997-98. In financial year 1997-98, the Finance Department had advised the Commercial Department that any revision of PLB, at a late stage after financial year was over, would invite criticism. It had, however, left the decision making to the Commercial Department. It is also true that the highest slab of 7% was retained for 1998-99 and 1999-2000.

In conclusion, it may be mentioned that there has been a commercial logic in awarding the PLB as a volume incentive

which has been related to the level of operations and capacity provided.”

4.15 When the Committee wanted to know whether any specific clause in the PLI scheme stipulates that PLI will be paid from the first pound of the net revenue instead of calculating PLI at progressively increasing rates prescribed for each slab for the year 1997-98, Air India stated in a written reply as under :-

“There is no specific clause in the PLI scheme approved by Air India stipulating the payment of PLI from the first pound of the net revenue. However, the PLI is paid from first pound of the net revenue based on the practice as followed in the UK by other airlines who also pay the PLI from the first pound and not on the basis of incremental productivity. It may be pertinent to mention that productivity payment by the airlines is a matter of extreme secrecy and is not possible to obtain in writing as evidence to prove this as the airlines would not be willing to disclose the marketing strategies finalised with their agents.

In case the PLI was to be paid only on the incremental productivity basis, the slabs should have been stated as under :-

Slab (GBP)	PLI
0-2,000,000	--
2,000,001 – 4,000,000	1% of the excess over GBP 2,000,000
4,000,001 – 6,500,000	GBP 20,000 + 2% of the excess over GBP 4,000,000
6,500,001 – 8,500,000	GBP 70,000 + 3% of the excess over GBP 6,500,000

4.16 When enquired as to why the PLI rate was increased from 5% to 7% from 1997-98 onwards despite disagreement by the Finance Wing, Air India stated in a written reply as follows :-

“The proposal to increase the PLI rate from 5 to 7 percent from 1997-98 onwards was duly examined and recommended for approval by the Commercial Department. Whilst Finance had raised an apprehension of the delayed approval, due objection / criticism by the Audit, particularly after the lapse of the year, the subject matter was left to the Commercial Department for the final decision.

In his response to the charges Capt. K. Behari has stated that the response of the GM-Finance was discussed with the then Commercial Director who, after taking into consideration the detailed justification, decided to put up the proposal to the Managing Director for approval.”

4.17 After this matter came under the active consideration of the Committee, Air India has now revised its PLI rates for the years 2001-2002 as follows (vide Air India – Commercial Deptt-Mumbai Letter No. MKT/PU/UK/PLB dt. 4 March, 2002

PRODUCTIVITY LINKED INCENTIVE FOR CONSOLIDATORS 0 2001/2002
ANNUAL SLABS

UK/INDIA/UK AND UK USA/UK

(First + Executive + Economy Class)

SLAB (GBP)			PLI (%)
0	-	3,000,000	NIL
3,000.0001	-	4,000.000	2 %
4,000.0001	-	5,000.000	2.5%
5,000.0001	-	6,000.000	3%
6,000.0001	-	7,000.000	3.5%
7,000.0001	-	7,500.000	4%
7,500.0001	-	8,000.000	4.5%
8,000.0001	+		5%

4.18 It has also been mentioned in the Audit Para that the Ministry of Civil Aviation stated in August, 2001 that on an enquiry in the matter by the Chief Vigilance Officer of the Ministry, it was established that the Managing Director of Air India in concert with some other officers had misused their official position and showed unwarranted favour to the GSA. It added that the Managing Director and Regional Director (India) had been placed under suspension. The Ministry further stated that a report had been sent to the Central Vigilance Commission and Central Bureau of Investigation had also been requested to investigate the matter.

4.19 When asked about the findings of CBI investigation, Air India replied as under:

- a. Extra sum amounting to GBP 268,888 which was not admissible, was paid to the GSA for the year 1997-98 as a result of increasing the PLI (commission) from 5% to 7% on productivity of GBP 15 million on post facto basis.

- b. The increase in PLI percentage to 7% was justified by Air India Management citing 42% reduction in flight capacity between UK and India during 1997-98 over the previous year.
- c. It was revealed during investigation that the projection of 42% was incorrect and certain flights such as Manchester terminators and London terminators had been omitted from the calculations. Due to the incorrect projection of figures by certain officers in Air India, the airline suffered a financial loss of GBP 268,888. This loss was avoidable if there had been deeper application of mind on the part of officials.
- d. Shri M.P.Mascarenhas, the then Managing Director, relied on the facts put up to him by senior officers of Air India. The error in mathematical calculation cannot be attributed to the Managing Director, who merely relied on the projections of senior officers in taking a commercial decision. As there was application of mind by the Regional Director, Commercial Manager and Commercial Director, Shri Mascarenhas did not consider it necessary for himself as Managing Director to check the flight capacity details.
- e. As regards the then Commercial Director, the CBI has concluded that he cannot be absolved completely for not checking the details of General Manager – Finance were communicated to him and the letter of the Regional Director – UK in which some prominent flights had been ignored, was seen by him. Similar conclusions have been drawn in respect of the Commercial Manager.
- f. As regards the then Regional Director – UK, who had initiated the proposal for higher PLI justifying it on reduction in capacity by 42%, the CBI has concluded that it was this incorrect projection which led to the financial loss of GBP 268,888 to Air India. This loss was avoidable if there had been deeper application of mind on the part of the officer concerned. However, no evidence has come on record to establish dishonest intention or motivation by malafide consideration.”

4.20 When the Committee asked the Ministry of Civil Aviation whether they are convinced that the MD is not to recheck / verify the data if there is a projection of substantial reduction in

flight capacity by 42% and when the financial implications of the proposal is to the tune of a few crores, the Ministry stated in a written reply as follows:-

“The Chief Executive Officer (MD in this case) is aided and advised by a number of senior officers heading different specialized wings including commercial & finance wings of his organisation. After the data having been examined and policy action recommended by them, the CEO is not really expected to personally check / re-check the data made available to him for their correctness unless there is some apparent / obvious mistake / inconsistency. He has to ensure that all concerned have examined the data and the policy action recommended. He is expected to weigh the pros and cons of the recommended action based on such data and then take the decision.”

4.21 The recommendations made by the CBI in this case have been outlined as under:-

- a) “Initiation of action to recover the additional PLI paid to M/s. Welcome Travels amounting to GBP 268,888 consequent to the revision of PLI slabs during May 1998.
- b) No action is recommended against Shri M.P. Mascarenhas, Managing Director, Air-India (under suspension).
- c) Such action as deemed fit against Shri P.K. Sinha, the then Regional Director, Air-India, London (under suspension).
- d) Such action as deemed fit and permissible under the Service and Conduct Rules of Air-India against Capt. K. Behari, Dy. Commercial Director, Air-India (retired) and Shri H.S. Uberoi, Commercial Director, Air-India (retired).”

4.22 When asked about the action taken by the Company in the light of CBI’s recommendations, Air India in its post-tour reply has stated :

“The CBI had recommended such actions as deemed fit against Shri P.K.Sinha, the then Regional Director, AI, London, Capt.K. Behari, Dy. Commercial Director (Retd) and Shri H.S. Oberoi, Commercial Director (Retd), while exonerating Shri M.P.Mascarenhas, the then MD,. AI.

In view of the above, Shri P.K.Sinha was placed under suspension w.e.f. 23 May 2001 and subsequently reinstated w.e.f. 1 January 2002 on his representation. The investigation having been conducted by the Ministry of Civil Aviation, the first stage advice of the CVC is reportedly awaited by the Ministry. After

receipt of the first stage advice, a charge-sheet as per the advice will be framed against the concerned official. Mr. Sinha has already gone through his first stage of punishment when he was placed under suspension between 23 May 2001 until the date of his reinstatement.

As regards Capt. K. Behari, who has retired, AI has withheld its contribution to PF and has only released the employees' contribution. As regards Mr. H.S. Uberoi, who retired in March 1999, much before the incident came to light; his post-retirement entitlements like Medical and Passages have been suspended effective September 2001."

4.23 When enquired whether the action to withholds AI's contribution to PF, in respect of Capt. K.Behari is in consonance with the provisions of the Contributory Provident Fund Act, Air India replied in affirmative :-

4.24 To a query by the Committee as to whether the amount involved is sufficient for recovery from the erring officials considering that the legal efforts for recovery from M/s. Welcome Travels are not likely to succeed as per opinion obtained by the Company, Air India answered in the negative.

4.25 It has been noticed by the Committee that Air India Management has constituted a Senior Committee of the following Directors to examine the report submitted by the CBI in respect of Shri P.K. Sinha:-

- (1) Shri N.S. Rajan, Director(HRD)
- (2) Shri S. Punhani, Director(Finance)
- (3) Shri A.N.K.Kaimal Director (Properties & Facilities)

4.26 When the Committee desired to know whether the members of the Senior Committee (In-house) possess sufficient knowledge and experience about commercial matters to appreciate the gravity of the various acts of omission and commission by the indicted officers, Air India in a written reply stated as follows :-

"A senior Committee consisting of the following was constituted to examine the report dated 27th November 2001 submitted by the Central Bureau of Investigation on Shri P.K. Sinha, the then RD-UK:

Mr.N.S. Rajan, Director-HRD
Mr. S.V. Punhani, Director-Finance

Mr. A.N.Kaimal, Director-P&F

Mr. Rajan and Mr. Kaimal have administrative capabilities to appreciate the gravity of various acts of omission/commission by the indicted officer. The issue under consideration is commercial/finance issue. The Finance Department has access to various revenue documents, PLB formula, all physical and financial data. Therefore, Director of Finance having wide range of experience and expertise in the matter relating to this case was also nominated as a member of the Committee. Mr. Punhani was posted as Regional Finance & Accounts Manager in U.K. from August, 1994 to October, 1997.

Mr. Rajan, Director-HRD, member of the Committee has since retired before any advice was received from Ministry of Civil Aviation on the CBI report.”

4.27 When the Committee further desired to know the present position of the investigation undertaken in the matter, Air India in a written reply stated as under:

“Ministry of Civil Aviation advice on the action to be taken on Mr. P.K. Sinha has been received and AI will carry out MOCA’s advice as per AI rules. As regards Mr. Oberoi and Capt. Behari, AI is examining possible action that can be taken on retired employees. No specific advice on action against these

officers has been communicated by MOCA. MOCA has recommended major penalties against Mr. Dileep Row.”

4.28 When the Committee enquired about the action taken on the CBI report, the Ministry of Civil Aviation in a written reply stated as below :

“The CBI report was received in the Ministry on 27.11.2001. After its examination and approval by the Minister for Civil Aviation, a copy of this report was sent on 17.1.2002 to the Managing Director, Air India Limited, for recovery of additional PLI amounting to GBP 2,68,888 paid to M/s. Welcome Travel.”

4.29 When enquired whether the Ministry of Civil Aviation have sought any advise from CVC on the CBI Report, it has been informed to the Committee that the Ministry has submitted its comments on the CBI’s Report to the CVC requesting CVC for guidance for further course of action. The CVC inter-alia recommended no action against Shri M.P.Mascarenhas, Managing Director, Air India, minor penalty proceedings against Shri P.K. Sinha and major penalty proceedings against Shri Dileep Rao and also asked the Ministry to expedite recovery of additional PLI from M/s Welcome Travels amounting to GBP 268, 888.

4.30 At the factual verification stage, Air India vide their letter No. HQ/AOH/7944 dated 7/12 March, 2003 have informed the Committee that a minor penalty of “reduction of one stage in the time scale” was imposed on Mr. P.K. Sinha, Director-Delhi Region vide our order dated 1.11.2002 for negligence in performing his duties resulting in loss to the Company. On his appeal dated 27.11.2002 to the Chairman, the said penalty was reduced to “censure” by the Chairman.”

V. APPOINTMENT OF GENERAL SALES

AGENTS/CONSOLIDATORS

5.1 The Committee in their Seventh Report on the action taken by the Government on the recommendations contained in the Fourth Report of Committee on Public Undertakings (2000-2001) on Air India Ltd., had reserved their comments on Recommendation No. 8 regarding appointment of General Sales Agents. This Audit Para relating to 'Undue favour to General Sales Agent' was under examination by the Committee. The Committee decided to deal with this aspect while finalising their report on this Audit Para.

5.2 The Ministry of Civil Aviation in their reply to this Recommendation No.8 pertaining to appointment of General Sales Agents have outlined the procedure for the appointment of General Sales Agents (GSAs) or Consolidators for Air India which is as follows:-

- “(i) Aspiring GSAs or Consolidators are invited to forward their applications to the airline by means of advertisements in local newspapers.
- (ii) The applicants are forwarded the Eligibility & Responsibility Criteria as well as the Questionnaires which are completed by them and forwarded back to the airline.
- (iii) A local junior Committee made up of suitable India-based officers from the Commercial and Accounts Departments posted at the station is constituted to scrutinize the applications and questionnaires in order to shortlist the applicants. The Committee's Report is forwarded through the Regional Director or Regional Manager to a constituted Senior Committee in the case of appointment of Consolidators, and to the GSA Committee in the case of appointment of a GSA.
- (iv) The Senior Committee from India or the GSA Committee as the case may be, visits the station concerned and interviews the shortlisted applicants, visits their premises as required and puts up its joint report naming the most suitable Consolidators or GSA to the Commercial Director.
- (v) The report is scrutinized by the Commercial Director who send it with his recommendations to the Managing Director for approval.
- (vi) Once approved by the Managing Director, the appointment letters are issued and the agreements are signed.

Air-India Management had been advised to review the relevance and procedures for the appointments of GSAs on its network by COPU at its meeting held on 31st January, 2000. The Management, with a view to rationalizing the marketing and distribution policy of the Corporation, proposed to replace GSAs by Consolidators in certain regions.

The significant advantages of Consolidators in place of GSAs are:

- (i) The Consolidator is not entitled to 3% Overriding Commission (ORC)resulting in a direct saving for the airline.
- (ii) Consolidators, being strong players in the market, can work on net-net fares and are given specific revenue targets to earn productivity.
- (iii) Since more than one Consolidator can be appointed in a territory unlike a single GSA, competition between them protects both consumers' interests and ensures wide coverage for the airline.
- (iv) It is easier to terminate Consolidators if they fail to meet their targets.

Consolidators for the territory of UK and Ireland in lieu of the GSA, M/s. Welcome Travel, were appointed in July, 2000.

A local Junior Committee consisting of Mr. Dileep Row, the then Marketing Manager, UK and Ireland, Mr. A.J. D'Souza, RFAM-UK/Europe and Ms. S. Kulkarni, Manager Heathrow Airport, London, all India based officers posted in London, met in the last week of June 2000 to open 22 applications received by Air-India London and scrutinized them in detail.

Of these 22 applicants, the Junior Committee rejected 17 applications since they did not meet the required turnover criteria of GBP 20 million.

The following 5 applicants were shortlisted by the local Junior Committee:-

- A. M/s. Somak Travels.
- B. M/s. Comondore International Travel Ltd.
- C. M/s. Gimvale Trading as Welcome Travels.
- D. M/s. Flight Bookers.
- E. M/s. Travel Pack.

Of these 5 applicants, the following 3 were appointed as Air India's Consolidators in UK & Ireland on July 11, 2000 by the Senior Committee:-

- a. M/s. Somak Travels
- b. M/s. Travel Pack
- c. M/s. Welcome Travels

Each Consolidator has provided Air India with a bank guarantee of GB Pounds 1 million.

As it may be known, M/s. Welcome Travels had been Air India's GSA for the territory of UK & Ireland for several years. When the decision was taken to appoint Consolidators for UK and Ireland, M/s. Welcome Travels was terminated as Air India's GSA for this territory.

Since M/s. Welcome Travels was not an IATA Agent, their associate company M/s. Gimvale Trading which had IATA approval as an agent, applied to be considered for appointment as one of Air India's Consolidators. M/s. Gimvale Trading as M/s. Welcome Travel went through the due process along with other applicants and were appointed as one of Air India's 3 Consolidators for the territory of UK & Ireland. It may, therefore, be kindly noted that there was no reappointment involved. In fact the GSA concerned was terminated and the Consolidators were appointed afresh. M/s Gimvale Trading as M/s. Welcome Travel, having been appointed as one of 3 Consolidators helped in maintaining a sense of continuity in the business for the region.

It may, therefore, be noted that the termination of M/s. Welcome Travels as GSA and the appointment of the 3 Consolidators in the territory of UK/Ireland was processed strictly in accordance with management guidelines. Every applicant's data received was scrutinized in detail, keeping Air-India's commercial and financial interests in mind.

The process of selection was fair and adequate opportunity was given to all interested applicants to apply since the criteria for appointment was also made available on Air India's website on the Internet."

The conditions for appointment of Consolidators are at Annexure V

5.3 Regarding selection of M/s Gimvale Trading as Air India's Consolidator, the Secretary, Ministry of Civil Aviation, during the evidence stated as under:

".....the Gimvale Trading in the name of Welcome Travels and it was decided at that point of time that Welcome Travels will have to be the Consolidator to start with. That was the presumption on which the whole thing has been done."

5.4 Explaining the technicality of the tender document, the Secretary, Civil Aviation stated during evidence the following:-

".....it is true that the tender document did not have a condition that anybody who is doing business with other airlines can be rejected. It is also true that one Consolidator who had applied was not selected or technically rejected on this ground."

5.5 When enquired whether M/s Gimvale Travels independently had business valuing GBP 20 million when that company made application for the consolidatorship, the Committee have been informed as under:

“The Selection Committee in its report for the appointment of Consolidators had indicated the turnover of M/s. Gimvale Travels as under:

(Amount in GBP)

	Year Ended		
	<u>December 1999</u>	<u>December 1998</u>	<u>December 1997</u>
Annual Turnover (Mill.)	24.3	23.1	24.5
Net Profit after Tax	154.269	16,638	60,654”

5.6 When the Committee desired to know the details of turn-over of M/s Gimvale Travels and M/s Welcome Travels separately, the Committee have been informed that the turn-over of M/s Gimvale Travels Ltd. And that of M/s Welcome Travels was the same, since M/s Gimvale Travels was trading as M/s Welcome Travels.

5.7 When the Committee enquired as to why Air India had fixed the turnover criteria of GBP 20 million as a pre-requisite qualification for appointment as Consolidator, Air India in a written reply has stated as under:

“The eligibility criteria of a turnover of GBP 20 million was fixed by the Commercial Department. From the available records it is seen that the following formula was adopted to arrive at the turnover of GBP 20 million for Consolidators in the UK region:

- i. The total revenue potential from the UK region was estimated to be approximately Rs. 260 crore
- ii. Number of consolidators to be appointed in the UK region were meant to be 3-4.
- iii. Whereas GSA’s total revenue goes to the Principal, the Consolidator markets other airlines also and, therefore, at best, Air-India should not expect more than 50% from his annual revenue.
- iv. Therefore, the arithmetic that follows is as under:

Rs. 260 crores divided by 4 = Rs. 65 crores

Since we expect to earn Rs. 65 crores average from the Consolidator, his revenue earning potential should therefore be Rs. 65x 2= 130 crores. Taking the currency conversion i.e. 1GBP – Rs. 66 in April 2000, the

turnover criteria for Consolidators in UK comes to approximately GBP 19.6 millions rounded off to GBP 20 millions.

The basis of eligibility formula as indicated above is the expected potential business of UK market which was estimated at Rs. 260 crores. However, there is no justification of this figure on record.

From the records available, no co-relation of this figure to either the target performance or past performance figure of the previous financial year could be established. If the ceiling is lowered, it is possible that there may be a larger base of bidders and Air-India would have a wider selection in order to choose its Agents.”

5.7 When asked about the amount of Bank Guarantee taken from the Consolidators, Air India in a written reply stated as below:

“Out of the three selected Consolidators, M/s. Travel Pack and M/s. Somak Travels had provided Air-India a Bank Guarantee of GBP 1 million each as per the criteria laid down for selection and no reduction was granted to any Consolidator. As for the third Consolidator M/s. Welcome Travels, Air-India continued with the original Bank Guarantee of GBP 2.3 million based on their level of productivity at that time”

Later taking into consideration the volume of business generated by M/s. Travel Pack and M/s. Somak Travels, it was proposed that their Bank Guarantee be suitably reduced to be commensurate with the volume of business generated by them :

- I. The amount of Bank Guarantee in respect of M/s. Travel Pack reduced to GBP 700, 000 effective November 1, 2001, for a period of one year thereafter ; and
- II. that of M/s. Somak Travels reduced to GBP 350,000 effective July 10, 2001 for a period of one year thereafter.”

5.9 Explaining the reasons for fixing the limits of the Bank Guarantee for different Consolidators, Air India in its post-tour reply stated as under:

“The then GSA’s annual net turnover on Air-India was approximately 19 million per annum. The GSA had then provided a bank guarantee of GBP 2.3 million to Air India. Taking into consideration that the overall productivity from the UK would increase with the appointment of at least 3-4 Consolidators who would jointly contribute to the total turnover on Air-India amongst themselves, one of the prerequisites for

the eligibility and responsibility criteria for appointment of consolidators in UK stipulated the provision of a bank guarantee of GBP 1 million which, it was opined would adequately cover the anticipated net sales turnover generated by each of the appointed parties. It was thought fit to request for a bank guarantee of a minimum of GBP 1 million as such an amount would eliminate any possibility of selecting a party who did not have the financial resources to guarantee the anticipated remittances due to Air-India. Thus, every precaution was exercised to ensure that the parties selected were financially sound.”

5.10 The Committee desired to know the volume of the business generated by the three Consolidators, Air India in its post-tour reply informed that the net productivity of the three Consolidators who were appointed in July 2000 is as under:

	GBP – Million	
	Aug. 2000-March 2001	August 2001-March 2002
Welcome Travels	13.687	8.323
Travel Pack	2.153	2.555
Somak Travel	0.591	0.534

PART-B

RECOMMENDATIONS /OBSERVATIONS OF THE COMMITTEE

RECOMMENDATION NO. 1

PAYMENT OF PLI OUTSIDE THE TERM OF AGREEMENT

The Committee note that Air India had extended undue favour to its General Sales Agent (GSA) appointed for UK by providing Productivity Linked Incentive (PLI) claims outside the terms of the agreement during the years 1987-2000. The total amount released on such payments during these years was equivalent to Rs. 57.02 crore. The Committee also understand that although the agreement signed between Air India and the General Sales Agent (GSA) clearly stipulates that the GSA should not be entitled for any remuneration for its sales in excess of normal sales commission, the GSA was extended benefits in the guise of incentive in an undue manner by Air India outside the terms of agreement. The Committee have also been told that in line with the industry practice in vogue, the additional incentive in the form of PLI is generally not covered by the agreement. The Committee at the outset wish to point out that the very introduction of PLI Scheme is violative of the provisions of the General Agreement entered into by Air India with its General Sales Agent and it is completely contradictory to the specific provision therein that GSA should not be entitled to any remuneration for its sales/services in excess of the normal sales commission. The Committee are of the view that even though Air India desired to fall in line with the practice followed by most airlines in the world, they earnestly feel

that at least Air India should have incorporated in the PLI scheme a suitable provision to the effect that if it is found at a later date that excess payment has been made to the GSA, an amount equivalent to the excess payment made should be paid back to Air India by the GSA. What surprises the Committee more is that although a document was obtained from the GSA accepting that the PLI would be calculated on net revenue as per Air India formula vide GSA's letter no. WCT/107/OPG/048, dt. 18 June, 1998 and in subsequent letters each following year, no effort was made by Air India to bind the GSA to their undertaking to recover excess payments made to them, even if there is no specific clause stipulating that any excess payment would be paid back to Air India. Even after the audit has pointed out instances of excess payment, Air India has not obtained any undertaking from the Consolidators to repay any excess payments made to them. This speaks volumes about the degree of carelessness on the part of Air India.

The Committee also find that the PLI Scheme is outside the GSA Agreement and the arbitration clause contained in that agreement concerned only with the scope, meaning and construction of the agreement and nothing about PLI is covered under it. Surprisingly, the payment of PLI to the GSA which involves monetary transactions and where chances of litigation are likely to occur, is not covered under any separate agreement. It has also come to the notice of the Committee that since the Bank Guarantee relates to the current Consolidatorship Agreement dated July 11, 2000, it would not be possible to realise the dues as they relate to the period when the GSA Agreement was in force, which

subsequently expired in July, 2000. The Committee take a serious note of the casual attitude of Air India in not inserting any provision in the agreement which would have ensured the repayment of excess amount paid to the GSA. From the entire episode it appears that some officials in Air India deliberately managed to extend undue benefits to the GSA. The Committee, therefore, recommend that Air India should recover the excess payments made to the GSA by making use of the implied consent of the GSA in their letters dated 1 April, 1996, 3 February, 1997, 18 June, 1998, 7 May, 1999 and 5 May 2000. The Committee also urge the Government to devise suitable guidelines in this regard so that whenever any public sector unit has to execute such type of agreements with any party, they should insert relevant clauses in the agreement so that in case of default at any subsequent stage, the excess money paid may be recovered without any legal impediments.

RECOMMENDATION NO. 2

NEED FOR TIMELY ANNOUNCEMENT OF PLI SCHEME

The Committee are surprised to note that Air India approved the rate of PLI for different slabs of net revenue for 1997-98 after the close of the financial year in May 1998. Similarly, the rates and slabs for payment of PLI for 1998-99 and 1999-2000 were approved towards the close of the financial year in February, 1999 and November, 1999 respectively. The Committee are of the view that the PLI scheme should be announced at the beginning of the financial year to encourage the Agents to put in their best efforts to boost the sale of Air India tickets in the course of that year. Announcement of the PLI at the close of the year or after the end of the financial year will not provide any incentive at all to the sales agents and is contrary to the concept of offering incentives for sales and as such constitutes an imprudent commercial practice. The Committee feel that such practices will only breed corruption in the establishment and will not serve any useful purpose. The Committee, therefore, recommend that Air India should announce the contents of the PLI Scheme well before the commencement of every financial year with no ambiguities in the terms and conditions as to how the incentive would be computed and it should also be ensured that the acceptance of the terms and conditions are received well in time from the consolidators / sales agents.

RECOMMENDATION NO. 3

COMMISSION PASSED ON TO SUB-AGENTS BY GSA

The Committee note that as per the executive instructions for the payment of PLI, Air India was to ensure that the GSA has passed on 9 per cent commission to their Sub-Agents. Although Air India claim to have obtained certificates from the GSA regarding passing on the 9 per cent commission to their Sub-Agents, the Committee feel that mere obtaining of the certificates does not confirm the fact that the same has been passed on to them in reality. They feel that in financial matters, particularly when such types of commission are to be paid as per executive instructions, Air India should have devised some tangible method by virtue of which this fact could be verified. On the other hand, Air India seems to be satisfied with the fact that the certificates have been obtained from the GSA to this effect.

The Committee, therefore, desire that Air India should ascertain immediately from the Sub-Agents whether they have actually received the 9% commission from the GSA for the years 1997-98 to 1999-2000. They also urge the Government to give suitable instructions to Air India to insert an appropriate clause in the agreement under which the GSA should obtain certificates from the Sub-Agents of having received the commission and passed them on to Air India for record in future. Action taken in this regard may be intimated to this Committee at an early date.

RECOMMENDATION NO. 4

ASSURED PLI AT VERY LOW LEVEL OF SALES

The Committee note that although Productivity Linked Incentive (PLI) was to be provided beyond a certain level of net sales, Air India fixed the slabs of net sales qualifying for PLI payments at as low as £2 million for UK-India-UK sector, which has virtually made the concept of PLI irrelevant, as it assured incentive payments to the agent even in case of very low net sales. The reason extended by the Company for fixing the slab at £2 million does not appear to be logical in so far as it states that there is no standard slab system for grant of PLI. The Committee feel that the idea of granting PLI becomes a meaningless affair, if the minimum slab is fixed at an unreasonably low level of net sales. They, therefore, desire that the minimum level of net sales fixed earlier for grant of PLI may be reviewed

RECOMMENDATION NO. 5

ROLE OF MANAGING DIRECTOR

The Committee note that the demand for increasing the PLI was put forward on the ground of alleged reduction in the flight capacity by 42% in 1997-98 which was subsequently proved to be an incorrect projection of figures by officers of Air India Limited. The Committee are concerned to note that the Administrative Ministry are satisfied with the fact that the Managing Director was not to recheck or verify that data even when there was a projection of substantial reduction in flight capacity by as much as 42% and the financial implications of the proposal was to the tune of a few crores. The Committee feel that such drastic reduction in projections of flight capacity should have shocked and alarmed the Managing Director, who should have immediately called a meeting of the senior-most officers concerned to analyze every bit of details relating to the matter with a view to introducing appropriate remedial measures. It would be highly irresponsible if a Managing Director were to only go through a file on this grave matter quite mechanically, accepting blindly the statistics cooked up by his subordinates. The Committee feel that this instance of processing of this file should not be viewed in isolation, as it is actually a part of the whole scheme to favour a General Sales Agent by everyone concerned in Air India right upto the top. It is unfortunate that the matter had not been viewed by the authorities concerned in the proper perspective and even the investigating agencies have failed to appreciate this fact which had resulted in condoning a reprehensible act on the part of the then Managing Director. The Committee recommend that the whole matter should be re-examined with the an open mind so that appropriate action is taken in the

matter which should act as a deterrent in future. The Committee feel that no officer should be allowed to go unpunished and go into retirement with all perks and post-retirement benefits, if he had committed acts of deliberate intent or even indiscretion which had put a company, that was already on the red, to further loss. The Committee wish to add further that the example already set in this case will serve as a bad precedent which can be deliberately exploited by the Chief Executives of many Public Undertakings and therefore, they feel that there should be a complete review of the decision taken already in this regard.

RECOMMENDATION NO. 6

AIR INDIA'S OWN SALES RECKONED FOR PLI

The Committee note that the net revenue earned on the sale of tickets at the offices of Air India at Birmingham and Manchester was also included towards the net revenue of GSA. This benefited the GSA by enabling him to be eligible for a higher PLI slab. It appears to the Committee as if Air India is itself an agent of GSA, as Audit pointed out that GSA had been providing the assigned blocks of tickets to the offices of Air India's own staff at Birmingham and Manchester for sale by Air India's own staff and the sales are made on behalf of the GSA through the Air India Office.

The Committee are also disturbed to note that two different views had been expressed by Air India on the question of reckoning Air India's own sales figures from Manchester and Birmingham offices as the sales of GSA. While Audit has been informed by Air India that this sales by Air India's own officers was permitted to be added to the sales figures of GSA on the ground that the GSA met a portion of the expenses of these offices, the Committee have been informed on the other hand that tickets were

issued by Air India, but the sales was possible partly through the efforts of the Sub-Agents of the GSA.

The Committee are of the view that it was improper on the part of the Air India to include the revenue generated by the efforts of Air India's offices at Birmingham and Manchester in the net sales produced by GSA, as this addition would lead to unlimited increase in the quantum of PLI to be given to the GSA, as any such addition can easily alter the eligibility slab upwards to the advantage of GSA. The Committee, therefore, recommend that this matter should be delinked from the issue of expenses being met by the GSA on the offices of Air India in Birmingham and Manchester and the liability of Air India and the GSA in this matter of expenses should be quantified separately in definite terms.

RECOMMENDATION NO. 7

FLAWED CALCULATION OF PLI

Another issue highlighted by Audit is the flawed calculation of PLI. The Committee observe that Air India has not only calculated the PLI of the GSA from the first Pound, but has also increased the maximum rate of 5% on the highest slab to 7% with effect from 1997-98. The Committee are not at all convinced with the plea that it is the prevalent industrial practice that all incentives in UK are paid to the GSA from the first Pound and not on the basis of incremental productivity. The Committee also note that although the Finance Wing had raised objections to the decision to increase the PLI rate from 5% to 7% from 1997-98 onwards, the Commercial Division set aside the objections and went ahead with the proposed increase. The Committee wish to point out that the increase of the maximum PLI payable from 5% to 7% was resorted to only in respect of

UK-India-UK sector, whereas in respect of other sectors such as USA/UK and UK/SE/FE/UK, it remained only at 5%.The Committee are of the view that the Table indicating PLI slabs has been formulated in such a manner that it is capable of being interpreted in different ways and is wrought with ambiguities and this has been exploited to benefit the GSA by the officers concerned who appeared to be zealously guarding the pecuniary interests of the GSA rather than that of their own Company. The Committee, therefore, recommend that the format of the Table should be suitably revised and put in unambiguous terms so that the liability of Air India is made definite from legal and financial angles.

RECOMMENDATION NO. 8

RECOVERY OF EXCESS PAYMENT TO GSA

The Committee note that as per Audit Para the total excess payment made to GSA under PLI Scheme from 1987 –2000 worked out to Rs. 57.02 crore and further there was a release of excess payment of Rs. 13.82 crore which was clearly inadmissible due to application of incorrect principles of calculation. The Committee find that according to CBI Report , excess payment of ₹268,888 was made during 1997-98 on post facto basis by increasing the PLI from 5% to 7% on productivity. The fact of even this over-payment of ₹268,888 has not been accepted as over-payment by the General Sales Agent and the recovery of this amount is not possible from the Bank Guarantee related to the current Consolidatorship Agreement with that firm. The Committee have been further informed that there is a possibility of remitting this matter to an Arbitrator for effecting recovery. The Committee find that the Air India is in a helpless position in the whole matter and still they continue to deal with the same firm, although under a different name, as it finds no other alternative to get their business

transacted in UK. The Committee desire that in the first instance the government should quantify the excess amount of overpayment made and thereafter make all efforts to recover the amount due expeditiously within a definite time-frame. In case the GSA does not agree to repay the excess payment made to them, the Committee recommend that their consolidatorship should be terminated forthwith and there should be no dealings whatsoever with the company or its associates in any form thereafter.

Recommendation No. 9

INADEQUATE PUNISHMENT TO OFFICERS INVOLVED

The Committee note that the CBI has indentified three officers of Air India who were responsible for making incorrect projections due to which the airline suffered a financial loss of GBP 268,888. The CBI has observed that this loss was avoidable if there had been deeper application of mind on the part of the officers. The officers concerned were the then Regional Director, London, the then Deputy Commercial Director and the then Commercial Director. Out of these three officers, the then Deputy Commercial Director and the then Commercial Director has already retired. The Committee understand that only some part of provident fund contribution has been withheld in respect of the Deputy Commercial Director, while in the case of the retired Commercial Director, only some post-retirement entitlements like medical and passages have been suspended with effect from September, 2001. The amount withheld and the value of facilities withdrawn in respect of these retired officers, according to Air India, are not sufficient for effecting recovery from the indicted officers considering the fact that the legal efforts for recovery of excess

payment from the General Sales Agents are not likely to succeed as per legal opinion obtained by the Company. As regards the action taken against the then Regional Director posted at London, the Committee have been informed that initially a minor penalty of reduction of one stage in time-scale was imposed in November, 2002 for negligence in the performance of his duties which had resulted in loss to the Company. The Committee have been further informed that on an appeal from the officer concerned, the Chairman, Air India has reduced the said penalty to 'censure'. The Committee find that the quantum of punishment/penalties imposed on the officers indicted by the CBI is too meagre to act as a deterrent in future to stop such misdeeds by the officers in view of the huge loss suffered by Air India which runs to the tune of several crores. In fact, the Committee feel that the management of Air India had been too soft in the matter and have virtually let everyone go free after having committed reprehensible acts which had completely made the sick Company to bleed further. The Committee feel that there should be a complete review of the Air India Rules on the matter of award of penalties, as the Company has stated that action has been taken as per rules of the Company. The Committee feel that there has been a deliberate attempt by the Air India management to shield the wrong doers and they, therefore, strongly recommend that more stringent and deterrent action should be taken against the officers indicted by the CBI so that it acts as a constant reminder to potential offenders in future in the Company.

RECOMMENDATION NO. 10

**APPOINTMENT OF GENERAL SALES
AGENTS / CONSOLIDATORS**

The Committee note that three Consolidators were appointed on 11 July, 2000 by Air India for the territory of UK and Ireland in lieu of the hitherto GSA, M/s Welcome Travels. The committee have also been informed that when the decision was taken to appoint Consolidators for UK and Ireland, the arrangement with M/s. Welcome Travel as Air India's GSA for this territory was terminated. But the Committee find that on the one hand M/s. Welcome Travels ceased to be AI's GSA for London & Ireland territory, while on the other, their associate company M/s. Gimvale Trading was accommodated as one of the Consolidators for that territory. The Committee have been informed that M/s. Welcome Travels alias Gimvale Trading even now are able to do 80 per cent of the current business, as Consolidators. Moreover, the Committee have been informed that the appointment of M/s. Gimvale Trading as M/s. Welcome Travels, as one of the three Consolidators has helped in maintaining a sense of continuity in the business for the region. From the entire episode, the Committee get an impression that Air India is bent upon retaining the services of M/s Welcome Travels in some guise or the other and have found the system of Consolidatorship as a convenient tool to achieve this purpose. The Committee do not understand as to how restricting the Consolidatorship, practically to one company only can help the achievement of the objective of ensuring competition among Consolidators

in order to ensure wider coverage for the Airline and how this virtual monopolistic arrangement would protect the interests of the consumers. The Committee, therefore, recommend that urgent steps should be taken to ensure the appointment of more capable Consolidators in sufficient number for this territory so that the commercial and financial interests of Air India are protected.

**NEW DELHI : PROF. VIJAY KUMAR MALHOTRA
April 23 , 2003 CHAIRMAN
Vaisakha 3 , 1925(S) COMMITTEE ON PUBLIC UNDERTAKINGS**

(Vide Para 1.3 of the Report)

Issues highlighted by Audit in Para No. 3.1.1 of C&AG

Report No. 3 of (Commercial) 2002 relating to Undue favour to General Sales Agent.

- Air India extended undue favour to its general sales agent appointed for UK by admitting productivity linked incentive claims outside the terms of the agreement that too by working it on the amount of net sales from the first pound rather than at the rates prescribed for each slab. Total amount released on such payment during 1987-2000 was equivalent to Rs. 57.02 crore, besides out of the payment of PLI released during the last three years Rs. 13.82 crore was clearly inadmissible due to incorrect principle of calculation.
- As per the executive instructions for the payment of PLI, Air India was to ensure that the GSA has passed on the 9 per cent agent's commission to their sub agents. Air India did not obtain certificate for 1998-99 and 1999-00 and did not verify the correctness of the certificate furnished by him for 1997-98.
- Although PLI was to be provided beyond a certain level of net sales, Air India fixed the slabs of net sales qualifying for PLI payments as low as 2 million for UK- India-UK sector. This rendered the concept of PLI meaningless, as it assured the agent incentive payments even in case of very low net sales.
- Further, Air India approved the rate of PLI for different slabs of net revenue for 1997-98 after the close of the financial year, in May 1998. The rates and the slabs for attracting the payment of PLI for 1998-99 and 1999-2000 were approved towards the close of the financial year in February 1999 and November 1999 respectively.
- Until 1993-94, Air India reckoned the net revenue for PLI by excluding the revenue earned from the sale of executive and first class tickets and instead provided one free ticket of the respective class to the GSA for every 10 first class and 15 executive class tickets sold. On the recommendation of the Marketing Manager, (UK and Europe), Commercial Director of Air India agreed to include net sales of GSA in the first and executive classes also for determining the net revenue for the purpose of PLI. This resulted in entitling the GSA to PLI at a higher slab rates.
- It was the practice in the UK and all incentives paid to the GSA were from the first pound and not on incremental productivity basis. Air India went further to increase the hitherto maximum rate of 5 per cent on the highest slab to 7 per cent with effect from 1997-98 despite disagreement by its finance wing. After 1997-98 the maximum rate of PLI had remained at 7 per cent.

ANNEXURE-II
(vide para 2.4 of
the Report

COPIES OF PLI SCHEMES OFFERED FROM 1997-98 ONWARDS

AIR – INDIA

From : Commercial Department
Mumbai

Date : June 08, 1998

To: RD-UK & Ireland
London.

Ref.No. MKT/PU/LON.

This is further to our letter No. MKT/PU/LON dated May 6, 1998 forwarded to you along with the enclosures.

2. The MD has kindly approved the revision of the PLI slabs for GSA-UK for 1997-98 as under :

UK/INDIA/UK : (F+ J+ V IND)

<u>SLAB</u>	<u>PLI</u>
0-2,000,000	-
2,000,001-4,000,000	1%
4,000,001-6,500,000	2%
6,500,001-8,500,000	3%
8,500,001-11,000,000	4%
11,000,001-11,500,000	5%
11,500,001-12,000,000	5.25%
12,000,001-12,500,000	5.50%
12,500,001-13,000,000	5.75%
13,000,001-13,500,000	6.0%
13,500,001-14,000,000	6.25%
14,000,001-14,500,000	6.50%
14,500,001-15,000,000	6.75%
+ 15,000,000	7.0%

UK/USA/UK (F+J+Y)

<u>SLAB</u>	<u>PLI</u>
500,000 – 1,000,000	1%
1,000,001 - 2,000,000	2%
2,000,001 - 3,000,000	3%
3,000,001 - 4,000,000	4%
+ 4,000,000	5%

UK/CANADA/UK : (F+J+Y)

<u>SLAB</u>	<u>PLI</u>
150,000-300,000	1%
300,001-400,000	2%
400,001-500,000	3%
500,001-600,000	4%
+ 600,000	5%

3. Kindly take necessary action.

Sd/-
 (Capt.K. Behari)
 CM-Marketing & Coordination

Commercial Department
Mumbai.

February 9,1999

RD & Ireland,
London.

MKT/PU/LON

Sub : **PLI for GSA UK - 1998/99**

This has reference to your letter No. RD/J16/98/477 of December 11, 1998 on the above subject.

2. The PLI slabs are approved as per the attachment and subject to conditions as under :

i) PLI to be calculated on nett revenue as per the following formula :

Gross fare less basic commission, less discount, less refunds, less carriage on other carriers, less proration loss, less refund orders.

ii) The payment of PLI should be subject to continuation of the cost sharing for provincial offices.

iii) The payment of PLI should be subject to the GSA confirming that the entire 9% basic commission has been parted to their sub-agents in the market.

3. Please note that no further PLI in any form will be given in respect of F/J class on UK/India/UK and UK/USA/UK sectors.

Sd/-
(B.S. Cooper)
C.M.-Marketing Services

Encl :

cc : Mr. S. Ranganathan,
GM-Finance,
Santa Cruz.

GSA NET PRODUCTIVITY LINKED INCENTIVE – 1998/99

UK/INDIA/UK (FIRST CLASS + EXECUTIVE CLASS + VIND LEVEL)

<u>SLAB</u>		<u>PLI</u>
0	2,500,000	NIL
2,500,001	4,500,000	1.0%
4,500,001	7,000,000	2.0%
7,000,001	9,000,000	3.0%
9,000,001	11,500,000	4.0%
11,500,001	12,050,000	5.0%
12,050,001	12,600,000	5.25%
12,600,001	13,150,000	5.50%
13,150,001	13,700,000	5.75%
13,700,001	14,250,000	6.0%
14,250,001	14,800,000	6.25%
14,800,001	15,350,000	6.50%
15,350,001	16,000,000	6.75%
16,000,001		7.00%

UK/USA/UK (FIRST CLASS + EXECUTIVE CLASS + ECONOMY CLASS)

<u>SLAB</u>		<u>PLI</u>
500,000	1,000,000	1.0%
1,000,001	2,000,000	2.0%
2,000,001	3,000,000	3.0%
3,000,001	4,500,000	4.0%
4,500,001		5.0%

UK/S.E.-F.E./UK (ECONOMY CLASS)

<u>SLAB</u>		<u>PLI</u>
0	250,000	NIL
250,001	500,000	1.0%
500,001	1,000,000	2.0%
1,000,001	1,450,000	3.0%
1,450,001	1,600,000	4.0%
1,600,001		5.0%

From : Commercial Director

Date : November 5, 1999

To : Managing Director

Ref. No. MRT/PU/LON

Sub :PLB- UK – 1999/2000-GSA

As you are kindly aware, the GSA in UK has been paid PLB for the last many years.

To reiterate, the main reasons for paying the GSA PLB in the UK market differs from most other GSAs in as much as that the GSA UK is required to part with his 9% commission to his sub-agents. A written confirmation to this effect exists in writing with RDUK.

The GSA commission of 3% goes towards the defrayment of communication, staff and office expenses. In essence, the PLB payout to the GSA becomes his sole source of income from Air India.

For the year 1999/2000, the scenario has changed marginally with the withdrawal of our Manchester services.

To this effect, the UK Region forwarded their first PLB proposal in mid July 1999 consequent to their receiving the UK targets for the year 1999/2000.

In the initial proposal, the UK/IND/UK slab was reduced to GBP 12.75 million for a PLB of 7% due to the withdrawal of our Manchester flights.

On examining the proposal and further discussions with the UK Region, a second revision was forwarded to Marketing on September 21, 1999 raising the UK/IND/UK slab to GBP 13.25 million for a PLB of 7%. Consequent to this, the undersigned visited London and had discussions both with the GSA UK and the RDUK and a fresh revision of the UK/IND/UK slab to GBP 13.75 million for 7% PLB was made on October 8, 1999.

An analysis was made of the effects of withdrawal of Manchester on the UK/IND route by Marketing and the RDUK on October 26, 1999. During the year 1998/99, the GSA achieved a productivity of GBP 16.360 million on the UK/IND route (including Manchester). It has been estimated by Marketing and RDUK that the reduction in GSA's productivity on account of the withdrawal of our Manchester flights would be GBP 2,303 million. Therefore, the GSA UK could be estimated to achieve a productivity of GBP 14.057 million during the current year.

We recommend the following PLB levels for the GSA in UK:

UK/INDIA/UK **(FIRST CLASS + EXECUTIVE CLASS + VIND)**

SLAB

PLI

0	3,500,000	NIL
3,500,001	5,500,000	1.00%
5,500,001	7,500,000	2.00%
7,500,001	9,500,000	3.00%
9,500,001	10,500,000	4.00%
10,500,001	11,500,000	5.00%
11,500,001	12,000,000	5.25%
12,000,001	12,500,000	5.50%
12,500,001	12,750,000	5.75%
12,750,001	13,000,000	6.00%
13,000,001	13,500,000	6.25%
13,500,001	14,000,000	6.50%
14,000,001	14,500,000	6.75%
+14,500,001		7.00%

UK/USA/UK (FIRST CLASS + EXECUTIVE CLASS + ECONOMY CLASS)

<u>SLAB</u>		<u>PLI</u>
500,001	1,000,000	1.0%
1,000,001	2,000,000	2.0%
2,000,001	3,000,000	3.0%
3,000,001	4,500,000	4.0%
+4,500,001		5.0%

UK/S.E./F.E./UK (ECONOMY CLASS)

<u>SLAB</u>		<u>PLI</u>
0	250,000	NIL
250,001	500,000	1.00%
500,001	1,000,000	2.00%
1,000,001	1,450,000	3.00%
1,450,001	1,600,000	4.00%
+1,600,001		5.00%

The above slab represents a growth of GBP 0.5 million taking into account the reduction in capacity due to the withdrawal of our Manchester flights.

We seek your kind concurrence to the above.

Sd/-
(S. Mukherjee)

AIR INDIA

Aug. 29, 2000

Commercial Department
Mumbai

Regional Director-UK & Ireland,
London

Sub : **PLI 2000 – 2001**

We refer to your letter RD/CONS/PLI2000-1/212 dated July 14, 2000, on the subject matter.

2. We approve the PLI to be paid on flown revenue only on the slabs/PLI percentages as indicated in the attachment for all three Consolidators viz. M/s Welcome Travels, Travel Pack and Somak Travel Ltd. The PLI slabs applicable would be on prorata basis to cover the period August 01, 2000 – March 31, 2001 for all three Consolidators.

3. The PLI to M/s Welcome Travels will be calculated in two branches. One for the period April – July 2000 @ 5% if he has generated business at last years level. For the period August 2000 – March 2001, the PLI will be at par with the other Consolidators.

4. We also approve of the Reward Scheme for productive agents within the distribution network of each Consolidator. The reward will be one RT economy class ticket to India to an agent producing a minimum of GBP 50000 per annum. This will be applicable on net productivity sales generated to India as well as transatlantic sales.

5. The above schemes have been approved with a view to improve loads and revenues from the UK Region and you must ensure monthly monitoring of the revenue generation from each Consolidator.

Sd/-
(V. K. Verma)
Commercial Director

Encl.

cc : Director – Finance (O)
Finance & Accounts Dept.
Santa Cruz.

AIR INDIA

Date : March 4, 2002

From Commercial Department,
Mumbai

To Regional Director – UK & Ireland,
London

Sub : PLI 2001/02

1. We refer to your letter No.RD/CON-PLB/96 dated 16th January 2002 on the subject matter.
2. We approve the PLI to be paid on flown revenue only on the slabs/PLI percentages as indicated in the attachment for all three Consolidators viz. M/s Welcome Travels, Travel Pack and Somak Travel Ltd. The reward scheme of one free ticket on sale of GBP 50,000 stands withdrawn. In all matters, the terms and conditions of the Contract with the consolidators should be adhered to.
3. The scheme has been approved with a view to improve loads and revenues from the UK Region and you must ensure monthly monitoring of the revenue generation from each Consolidator.

Sd/-
(V. K. Verma)
Commercial Director

Encl.

Cc : M.D.

- Ref. Your Order vide letter No.HQ/51-25(A)/7875 dated February 19/21, 2002.

Cc : Director of Finance, Santa Cruz.

**ANNEXURE-III
(Vide para 2.9 of
the Report)**

**WELCOME TRAVEL
GSA
AIR INDIA**

WCT/107/OPG/044

01 April 1996

Dr A K Misra
Regional Director UK & Europe
Air-India
Colnbrook
Slough
Berkshire SL3 OHF

Dear Dr Misra

Re: Productivity Linked Incentive 1995-1996

May I refer to letter LON/SL/GSA dated November 23, 1995 on the above subject.

As indicated in the letter we confirm the following :

1. PLI to be calculated on net revenue as per Air-India formula.
2. We confirm our cost sharing for the provincial offices.
3. We confirm 9% basic commission has been parted with our special agents in the market.

Yours sincerely

Sd/-
O P Gulati
Managing Director

**WELCOME TRAVEL
GSA
AIR INDIA**

WCT/107/OPG/018

03 February 1997

Mr B R Satyanarayana Rao
Regional Director UK & Ireland
Air-India
Air India Building
Mathisen Way
Colnbrook
Slough
Berks SL3 OHF

Dear Mr Satyanarayana Rao

Re: Productivity Linked Incentive – 1996/97

May I refer to your letter LON/SL/GSA/406 dated January 28, 1997 on the above subject.

As indicated in the letter we confirm the following :

1. PLI to be calculated on net revenue as per Air-India formula.
2. We confirm our cost sharing for the provincial offices.
3. We confirm 9% basic commission has been parted with our special agents in the market.

Yours sincerely

Sd/-
O P Gulati
Managing Director

**WELCOME TRAVEL
GSA
AIR INDIA**

WCT/107/OPG/048

18 June 1998

Mr P K Sinha
Regional Director UK
Air-India
Colnbrook
Slough
Berkshire SL3 0HF

Dear Mr Sinha

Re: Productivity Linked Incentive 1997-1998

May I refer to letter LON/MKT/ML/240 dated August 26, 1997 and LON/MKT/ML/299 dated June 10, 1998 on the above subject.

As indicated in the letter we confirm the following :

1. PLI to be calculated on net revenue as per Air-India formula.
2. We confirm our cost sharing for the provincial offices.
3. We confirm 9% basic commission has been parted with our special agents in the market.

Yours sincerely

Sd/-
O P Gulati
Managing Director

Cc : Mr Andy D'Souza, RF & AM UK & Europe

**WELCOME TRAVEL
GSA
AIR INDIA**

WCT/107/OPG/052

07 May 1999

Mr Dileep Row
Manager – London
Air-India
Great West House
First Floor
Great West Road
Brentford TW8 9DF

Dear Mr Row

Re: Productivity Linked Incentive 1998-1999

May I refer to letter LON/J16/WT/99/076 dated February 09, 1999 on the above subject.

As indicated in the letter we confirm the following :

1. PLI to be calculated on net revenue as per Air-India formula.
2. We confirm our cost sharing for the provincial offices.
3. We confirm 9% basic commission has been parted with our sub-agents in the market.

Yours sincerely

Sd/-
O P Gulati
Managing Director

**WELCOME TRAVEL
GSA
AIR INDIA**

WCT/107/OPG/046

05 May 2000

Capt K Behari
Regional Director UK & Ireland
Air-India
Great West House
First Floor
Great West Road
Brentford TW8 9DF

Dear Capt Behari

Re: Productivity Linked Incentive 1999-2000

May I refer to letter RD/J16/WT/99/521 dated December 29, 1999 on the above subject.

As indicated in the letter we confirm the following :

PLI to be calculated on net revenue as per Air-India formula.

We confirm our cost sharing for the provincial offices.

We confirm 9% basic commission has been parted with our sub-agents in the market.

Yours sincerely

Sd/-
O P Gulati
Managing Director

**WELCOME TRAVEL
AIR INDIA**

WCT/107/OPG/172

16 December 2000

Mr Dileep Row
Regional Director UK & Ireland
Air-India
Great West House
First Floor
Great West Road
Brentford TW8 9DF

Dear Mr Row

Re : Productivity Linked Incentive

This is to confirm that we passed on 9% commission to our agents between the period 01 April 2000 and 10 July 2000 during which time we operated as your GSA.

Yours sincerely

Sd/-
S Parikh
Executive Director

Communications Regarding Bank Guarantee

From: Thelma Nwagboso <inwagboso@honsonaudley.co.uk>
To: 'LS Krishnan' <L.S.Krishnan@airindia-dit.com.in>
Date: Friday, July 12, 2002 1:18:19 PM
Subject: RE: Welcome Travel

Dear Mr. Kumar,

Thank you for your email dated 9th July 2002.

I note your request regarding the bank Guarantee Number 56/03 ("the Bank Guarantee"). I have confirmed with the Air India office in London that the Bank Guarantee does relate to the current Agreement between Welcome Travel and Air India Limited, which is dated 11th July 2000 and which is for a term of 5 years. I also note that you would like to use the Bank Guarantee as a means of recovering the excess amount of 268,888 erroneously paid to Welcome Travel during the revision of the Productivity Linked incentive (PLI) Scheme in May 1998. However, at this juncture, there seems no basis by which the Bank Guarantee can be used to recover 256,888. This because:

(a) The Bank Guarantee was executed in relation to the Agreement between Air India and Welcome Travel dated 11th July, 2000. The erroneous payment of PLI paid by Air India to Welcome Travel occurred whilst a previous Agreement dated 13th October 1986, between Air India and Welcome Travel, was in operation. Under this former Agreement, there was no specific provision for a Bank Guarantee to be provided by a bank on behalf of Welcome Travel.

(b) Although the subsequent Agreement between the parties has a clause which provides that the Agreement supersedes any or all prior agreements, this does not extend to the Guarantee. As this Guarantee was created after the revision of the PLI, if it were used to attempt to recover the sums due in 1998, the Guarantee would have to take effect retrospectively. It is certainly possible for a Guarantee to be executed with retrospective effect, and to cover only past indebtedness. However, in order for it to be retrospectively effective, it must:

(i) be drafted clearly in those terms; and

(ii) be entered into with fresh consideration from the creditor. Alternatively, the guarantee must be embodied in a deed. This requirement is essential in order to overcome any problems arising by virtue of a perceived lack of consideration.

(c) Having studied the wording of the Guarantee provided by the Bank of India, it does not appear to operate retrospectively.

Even if it were feasible to use the Bank Guarantee retrospectively, due to considerable length of time which has passed, the Bank of India would undoubtedly require some evidence that the sum of 268,888 is owing to Air India from Welcome Travel.

Therefore, it would still be essential to provide the documentation which I requested to previous correspondence and, in particular, my letter to you dated 13th June, 2002.

Please arrange to provide me with all relevant, additional documentation as soon as possible. However, as I have said on current information, a claim on the Bank Guarantee does not appear likely to succeed.

Kind regards,

Yours sincerely

Thelma Nwagboso

-----Original Message-----

From: L S Krishnan [[Mailto:L S Krishnan@airindia-dit.co.in](mailto:L_S_Krishnan@airindia-dit.co.in)]

Send: 09 July 2002 09:06

To: tnwagboso@hobsonaudley.co.uk

Subject: Re: Welcome Travel

Dear Thelma Nwagboso,

We refer to your email of 8th July, 2002 on the subject.

You will get confirmation from Mr. S. Ranganathan, Regional Finance Manager, UK, London. After that, please immediately advise us whether we would have to issue a notice prior to writing to bankers to invoke the Bank Guarantee for this amount due by Gimvate Ltd. (Welcome Travels) or we can do it without a notice. If a notice is required, the same may be drafted and emailed to us urgently.

This may please be treated as most urgent as the Bank Guarantee is expiring by the end of July 2002.

With kind regards,

TN Kumar, Dy.Gen. Manager-Legal, Air India Ltd., HQ, Mumbai.

Hoson Audley
7 Pilgrim Street
London EC4V 6LB
Tel. +44 20 7450 4500
Fax: +44 20 7450 4545
www.hobsonaudley.co.uk

ANNEXURE-V

(Vide Para 5.2 of the Report)

CONDITIONS FOR APPOINTMENT OF CONSOLIDATOR

- 1) Bank Guarantee to be provided to the extent of GBP One Million.
- 2) Issue of Air India's dedicated ticket stocks through their officers and sub-agents.
- 3) In the intervening period, until receipt of Bank Guarantees, the consolidators will be provided with Air India Ticket stocks, subject to making an advance deposit.
- 4) Bookings through Air India's ARTICA CRS System for which terminals will be provided by Air India office in London as in the present BSP system in the U.K.
- 5) Consolidator will report the sale of AI documents on monthly basis along with proceeds to Air India office in London as in the present BSP system in the U.K.
- 6) Each consolidator should generate business of GBP 5 to 8 million for the year 2000/2001 which will be reviewed and revised for subsequent years.
- 7) APLB Scheme- maximum 5% for turnover above GBP 6 million for sale to India and maximum 3% for turnover approx. GBP 3 million for sale to the USA.
- 8) All consolidators will be given the same net fare which they can mark up to sub-agents/direct sale to passengers.
- 9) Air India will be allowed to sell through BSP/other agencies/direct sale net fare plus pound 20 to India on the net fare provided to the consolidator.
- 10) Air India reserves the right to appoint one or more consolidations depending on its market requirements.
- 11) The Agreement will be for a period of 5 years only with a firm agreement for 3 years and renewable in the 4th and 5th year subject to satisfactory performance. At the end of the 3rd year either party can terminate the agreement by giving 60 days notice.
- 12) PLB will be on flown revenue. Separate AOS will be allotted to each consolidator.

ANNEXURE- VI

**MINUTES OF THE 4th SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS HELD ON 16TH SEPTEMBER, 2002**

The Committee sat from 1600 hrs to 1810 hrs.

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Ram Tahal Chaudhary
4. Shri Shivraj Singh Chouhan
5. Smt. Sangeeta Kumar Singh Deo
6. Sh. C.K.Jaffer Sharief
7. Shri Chandra Nath Singh
8. Shri Tarit Baran Topdar
9. Shri V.Vetriselvan

RAJYA SABHA

10. Shri Suresh Kalmadi
11. Shri Kalraj Mishra
12. Shri Satish Pradhan
13. Smt. Ambika Soni

SECRETARIAT

- | | | |
|----|-------------------------|--------------------|
| 1. | Shri S. Bal Shekar, | Director |
| 2. | Shri Raj Kumar | Under Secretary |
| 2. | Shri P.V.L. N. Murthy | Under Secretary |
| 4. | Shri T G Chandrasekhar, | Assistant Director |

OFFICIALS OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

- | | | |
|----|--------------------|------------------------------------|
| 1. | Shri Vijay Kumar, | Dy C&AG-cum-Chairman |
| 2. | Shri A K Awasthi | Principal Director(Comml)-cum-Secy |
| 3. | Mrs. J D Kulkarni, | OSD (Comml) |

REPRESENTATIVES OF AIR INDIA LTD.

- | | | |
|----|------------------------|---|
| 1. | Shri J N Gogoi, | Managing Director |
| 2. | Shri A N K Kaimal, | Director, HRD |
| 3. | Shri S Punhani, | Director, Finance |
| 4. | Shri Amod Sharma, | Secy. & Offg. Director, Corporate Affairs |
| 5. | Shri P K Sinha, | Resident Director (Delhi Zone) |
| 6. | Shri T Narendra Kumar, | Dy GM, Legal |
| 7. | Shri S Venkat, | Dy Secretary |
| 8. | Mrs. D H Khusrokhan, | Dy Comml. Director |

REPRESENTATIVES OF THE MINISTRY OF CIVIL AVIATION

- | | | |
|----|-----------------------|---------------------------|
| 1. | Shri K Roy Paul, | Secretary, Civil Aviation |
| 2. | Shri V Subramanian, | Joint Secretary, PA |
| 3. | Shri Alok Chaturvedi, | Director |

2. At the outset, the officials of Comptroller & Auditor General of India briefed the Committee on the Audit Para pertaining to 'Undue Favour to General Sales Agent by Air India Ltd.'

3. The Committee then took the evidence of the representatives of Air India Ltd. in connection with the Audit Para pertaining to 'Undue Favour to General Sales Agent by Air India Ltd.'

(OFFICIALS OF AIR INDIA THEN WITHDREW)

4. Thereafter, the Committee took the evidence of the representatives of Ministry of Civil Aviation in connection with issues relating to the above Audit Para.

5. A copy of the verbatim proceedings has been kept on record separately.

The Committee thereafter adjourned to meet again on 26th September, 2002

**MINUTES OF THE 5th SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS HELD ON 16TH SEPTEMBER, 2002**

The Committee sat from 1730 hrs to 1810 hrs.

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

14. Shri Sudip Bandyopadhyay
15. Shri Ram Tahal Chaudhary
16. Shri Shivraj Singh Chouhan
17. Smt. Sangeeta Kumar Singh Deo
18. Sh. C.K.Jaffer Sharief
19. Shri Chandra Nath Singh
20. Shri Tarit Baran Topdar
21. Shri V.Vetriselvan

RAJYA SABHA

22. Shri Suresh Kalmadi
23. Shri Kalraj Mishra
24. Shri Satish Pradhan
25. Smt. Ambika Soni

SECRETARIAT

- | | | |
|----|-------------------------|--------------------|
| 1. | Shri S. Bal Shekar, | Director |
| 2. | Shri Raj Kumar | Under Secretary |
| 2. | Shri P.V.L. N. Murthy | Under Secretary |
| 4. | Shri T G Chandrasekhar, | Assistant Director |

OFFICIALS OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

- | | | |
|----|--------------------|------------------------------------|
| 1. | Shri Vijay Kumar, | Dy C&AG-cum-Chairman |
| 2. | Shri A K Awasthi | Principal Director(Comml)-cum-Secy |
| 3. | Mrs. J D Kulkarni, | OSD (Comml) |

REPRESENTATIVES OF THE MINISTRY OF CIVIL AVIATION

- | | | |
|----|-----------------------|---------------------------|
| 1. | Shri K Roy Paul, | Secretary, Civil Aviation |
| 2. | Shri V Subramanian, | Joint Secretary, |
| 3. | Shri Alok Chaturvedi, | Director |

6. The Committee took the evidence of the representatives of Ministry of Civil Aviation in connection with the examination of the Audit Para No. 3.1.1 of C&AG's Report No. 3 (Comml.) of 2002 on "Air India Limited - Undue Favour to General Sales Agent."
7. A copy of the verbatim proceedings has been kept on record separately.
4. The Committee thereafter adjourned to meet again on 26th September, 2002

**MINUTES OF THE 12TH SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS HELD ON 31ST
MARCH, 2003**

The Committee sat from 1600 hrs to 1645 hrs.

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS LOK SABHA

26. Shri Sudip Bandyopadhyay
27. Shri Ram Tahal Chaudhary
28. Smt Sangeeta Kumari Singh Deo
29. Shri K.E. Krishnamurthy
30. Dr. Prasanna Kumar Patasani
31. Shri Chandra Nath Singh
32. Shri Tarit Baran Topdar
33. Shri V. Vetriselvan

MEMBERS RAJYA SABHA

34. Shri Suresh Kalmadi
35. Shri Kalraj Mishra
36. Shri Satish Pradhan
37. Shri K. Kalavenkata Rao

SECRETARIAT

1. Shri S. Bal Shekar, Director
2. Shri C.S.Joon, Deputy Secretary
3. Shri Raj Kumar, Under Secretary

OFFICE OF THE COMPTROLLER & AUDITOR

GENERAL OF INDIA

1. Shri P.K. Brahma, Chairman, Audit Board
2. Ms. Geetali Tare, Secretary, Audit Board
3. Ms. Jayashri D. Kulkarni, OSD (Commercial)

2. The Committee considered and adopted the following Draft Reports with some minor modifications:

(i) Air India Limited –Undue favour to General Sales Agent.

(ii) Xxx xxx xxx xxx

(The representatives of C&AG, then withdrew)

3. xxx xxx xxx xxx

4. The Committee authorized the Chairman to finalize these Reports on the basis of factual verification by Ministries/Departments concerned and present the same to Parliament.

5. xxx xxx xxx xxx

The Committee then adjourned.