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Title: Regarding status of implementation of the recommendations in the 78th and 88th Reports of the Standing Committee on Transport, Tourism & Culture – Laid.

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12.05 hrs.

(ix) STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

CONTAINED IN THE 78TH AND 88TH RREPORTS OF STANDING
COMMITTEE ON TRANSPORT, TOURISM AND CULTURE
PERTAINING TO THE MINISTRY OF CIVIL AVIATION

THE MINISTER OF STATE OF THE MINISTRY OF CIVIL AVIATION (SHRI PRAFUL PATEL): Sir, I am making a statement* on the status of implementation of the recommendations contained in the 78th and 88th Reports of the Departmentally-related Standing Committee on Transport, Tourism and Culture on Demands for Grants for 2004-05 and 2005-06 of the Ministry of Civil Aviation in pursuance of the new Direction 73 (a) issued by the hon. Speaker.

It is a long statement. Would you allow me to read it?

MR. SPEAKER: No. Would you like to stress on any particular point? It will be circulated to the hon. Members.

SHRI PRAFUL PATEL: It will be circulated to the hon. Members but there are some observations. I would like to stress on one paragraph.

MR. SPEAKER: Which one?

SHRI PRAFUL PATEL: It is paragraph 27. It reads :

"The decision of the present Government to allow Indian Scheduled Carriers to operate on international routes was taken on 29th December, 2004. I would like to briefly explain the background of this decisionâ€¦."

It is elaborated. I would like to place it on the Table of the House for circulation.

MR. SPEAKER: Thank you.

* Also Placed in Library, See No. LT 2261/05.

SHRI PRAFUL PATEL : *I am making this statement on the status of implementation of recommendations contained in 78th and 88th Report of the Department Related Parliamentary Standing Committee on Transport, Tourism and Culture on Demands for Grants for 2004-05 and 2005-06 of the Ministry of Civil Aviation in pursuance of new Direction 73A, issued by the Hon'ble Speaker, Lok Sabha vide Lok Sabha Bulletin – Part II, dated September 01, 2004.

The Standing Committee on Transport, Tourism and Culture had held its meeting on 9.8.2004 to consider Demands for Grants for 2004-05 of the Ministry of Civil Aviation. The Committee had also taken the Oral Evidence of officers of the Ministry of Civil Aviation. The Committee analyzed the Demands for Grants for 2004-05 of the Ministry of Civil Aviation with reference

to the aims, objectives and achievements of the Ministry.

In its Report, the Standing Committee made 14 recommendations in all. These recommendations of the Committee have been examined carefully by the Ministry of Civil Aviation and Action Taken Replies on these recommendations have been furnished to the Committee vide this Ministry's OM dated 2nd March, 2005. Statement containing Action Taken Report is annexed herewith.

The approach suggested by the Standing Committee on various issues has been broadly accepted by the Ministry of Civil Aviation and relevant proposals are being processed in consultation with concerned organizations.

The Committee had taken oral evidence of officers of Ministry of Civil Aviation during the course of the meeting held on 30th March, 2005 and 5th April, 2005 to consider the Demands for Grants 2005-06 of Ministry of Civil Aviation.

â€¦â€¦â€¦ This part of the statement was laid on the Table.

We have recently received 88th Report of the Departmentally Related Parliamentary Standing Committee on Transport, Tourism and Culture on the Demands for Grants for 2005-06 of the Ministry of Civil Aviation. In this Report, the Committee has made several recommendations on the functioning of the Ministry of Civil Aviation. We are extremely grateful to the Committee for

- a) its appreciation regarding the role played by Indian Airlines and Alliance Airlines in evacuation of people from Andaman & Nicobar Island after the Tsunami disaster and from J&K after heavy snowfall in the State in the winter session this year.
- b) for the recommendations that the Ministry of Finance should consider and give approval to notify ATF as "Declared Good" under Section 14 of the Central Sales Tax Act so that Sales Tax on ATF could be contained within maximum range of 4%.
- c) for the recommendation that the Ministry of Finance should reconsider its decision about the Fringe Benefits Tax.
- d) for the recommendations of the Committee that the Ministry of Finance should give special consideration to provide exemption from tax on agreement to acquire aircraft or aircraft engine on lease beyond September, 2005.

The observations made by the Committee with regard to requirement of trained man power in the aviation sector and retention of manpower in the airlines are very timely and will be taken up for implementation on a priority basis.

As regards pricing of the aircraft proposed to be acquired by Indian Airlines, I would like to state that the Board of Indian Airlines approved a proposal for acquiring 43 aircraft installed with CFM 56 engines at a total cost of Rs.10,237 crores. As regards the concern of the Committee regarding the pricing of the aircraft, there is a laid down procedure to be followed. It may be noted that PIB approval was obtained in November, 2004. The work of the In-house Negotiating Committee of Indian Airlines, which negotiated with the lowest bidder according to CVC guidelines was done under the supervision of an Oversight Committee headed by Shri C.G. Somiah, former Comptroller and

Auditor General which has been constituted to ensure transparency in the price negotiations. The final report of the negotiating committee was received in March 2005 and a draft CCEA Note has been circulated for inter-ministerial consultation. I would like to point out that a note was also sent to the CVC apprising it of the procedure followed.

The recommendation of the Committee regarding LTC facility from Kolkata to Andaman & Nicobar Island will be taken up with the Department of Personnel. As regards Apex Fares, these have already been introduced. The recommendation of the Parliamentary Standing Committee regarding sharing of social obligations by the private operators has been noted. It is stated that the objective of the Route Dispersal Guidelines is to ensure social obligations.

PHHL connects 33 destinations in 64 sectors with 155 weekly flights. As regards connectivity to hilly areas inaccessible by fixed winged aircraft by helicopter, it may be pointed out that PHHL operates some flights to Kedarnath Shrine from Agasthamuni. PHHL has also signed an MoU with Gharwal Vikas Mandal Ltd. in August, 2003 to connect important tourist places in Uttaranchal in the hills. Arunachal Pradesh, Tripura, Sikkim, Lakshadweep and Andaman & Nicobar Islands use Pawan Hans helicopters. Pawan Hans will be willing to operate regular helicopter services in other areas also if the helicopter is taken on long term wet lease basis.

The Ministry of Civil Aviation shares the concern about the rising helicopter accidents. A Helicopter Group has been constituted in the DGCA on 17th September, 2003 to look after the maintenance and operations of helicopters. This group will function till a separate Cell is created in the DGCA for helicopters for which proposal has been submitted to the Planning Commission.

As regards the Proficiency Rating System of Pilots in DGCA, a reply has been sent to the Rajya Sabha Secretariat on 4.5.2005.

Coming to the observations with regard to availability of proper infrastructure before permitting new airlines to commence operations, I would like to clarify that AAI has been advised to plan in advance for meeting the additional demand for parking bays. With regard to observations of the Committee on the proposal for modernization of Delhi and Mumbai airports, it may be clarified that the process of restructuring has taken a definite shape after decisions at appropriate levels and Request for Proposal Document alongwith other transaction documents have been released to the pre-qualified bidders on 1st April, 2005 to submit their technical and financial bids within 12 weeks. Global Technical Advisers have estimated the likely expenditure at these airport over 20 years development plan which is approximately Rs.14,000/- crores. The Joint Forum of AAI's Employees are yet to submit a comprehensive alternate plan. AAI will extend all assistance to the Joint Forum in preparing the comprehensive alternate plan. The Government will consider on merit the plan as and when received from the Joint Forum. A similar exercise of restructuring and modernization of other Metro airports will also be considered and taken up by the Government in due course of time. It may also be mentioned here that this Ministry has also undertaken an exercise of modernization of 25 tentatively selected non-Metro airports.

Similarly, I would like to clarify that the restructuring and modernization of Delhi and Mumbai airports to world-class standards is estimated to cost in excess of Rs.14,000 crores over a 20 year period. At present AAI has only around Rs. 1200 crores as reserves. If the development of these two airports is to be financed from AAI's internal resources, it is likely that AAI will not have funds for development and maintenance of other airports. On the other hand after restructuring of the two metro airports, AAI will continue to get revenue from the various sources which are expected to be adequate to maintain and upgrade the other airports managed by AAI.

The suggestion of the Committee with regard to categorization of airports as international airports of world class standard have been accepted and suitable action would be taken.

On the question of capital structure of new Greenfield airport at Hyderabad it has already been decided that the State Government and AAI together will hold 26% equity (13% each) in the Hyderabad International Airport Limited (HIAL) and the remaining 74% will be held by the private sector.

It may also be clarified that the decision to shut down the existing airport for civil operations on commissioning of new airport

had been taken by the Government on the basis of recommendation of Taskforce on Infrastructure headed by the Deputy Chairman, Planning Commission. The existing airport has severe limitations for expansion because of natural and manmade obstructions like hill, railway over bridge, factory chimney, building etc. and even though the present runway length is 9080 ft., landing length is 7060 ft. due to the obstruction in the approach path. Reconsideration of this issue at this stage would amount to Government of India's default and may invite payment of compensation to HIAL. Besides, this would create uncertainty in the minds of prospective future investors on the credibility of the Government's policy to involve private sector in the development of infrastructure through public private partnerships.

As regards absorption of employees of Airports Authority of India in the new companies being floated for development of Bangalore and Hyderabad airports, I would like to clarify that consultations are being held through periodic meetings with the representatives of AAI Employees Joint Forum. AAI is also committed to provide full protection to the employees of AAI working at Delhi and Mumbai airports on their restructuring. These employees shall continue to have same terms and conditions as earlier.

Government has obtained a Comfort letter from HIAL stating that the HIAL will consider taking on deputation / absorption basis the employees of AAI at the existing Hyderabad airport. Government is considering the options available under Concession Agreement to take up the issues relating to the employees at the existing Bangalore airport with Bangalore International Airport Limited.

As regards the observations made by the Standing Committee with regard to opening up of international skies to a particular airline and granting it passage rights to some international routes helped that particular airlines' IPO prospects, I would like to assure the House that there is absolutely no link whatsoever between Government's decision of allowing Indian Scheduled Carriers to operate on international routes and the IPO issue of any airline. I would like to place all the facts before the House. Let me first clarify that it is not the function of Government to keep track of the IPO issues of private enterprises and, in any case, Government decisions are not guided by dates of issue of IPO's of private companies.

In order to place the facts in correct perspective, I would like to inform the House that there was absolutely no haste in taking this decision as has been made out in the report of the Standing Committee. This was a decision that was consciously taken after due consideration. Requests for allowing private airline to operate on international routes were received in the Ministry for the past several years. Keeping in view the advantages for the country, Industry Associations and Trade Bodies as well as Ministries like Tourism had been requesting the Government to allow more Indian carriers to operate on international routes, in addition to Air India. It was emphasized that this would help in better utilization of our bilateral rights, improve connectivity and create business opportunities within the country, which in turn would help the economy as a whole.

Today, airlines of over 50 countries are operating to India whereas Air India and Indian Airlines are together operating to only 25 countries. It is apparent that the balance is tilted in favour of foreign carriers. As I mentioned, there have been demands to adopt a more liberal approach from various quarters, as global access to and from India is crucial for the growth of our economy. I have frequently made Public pronouncements in this regard right from June 2004 onwards in the media and other public platforms emphasizing the need for a more liberal approach in international air connectivity to and from India. For a major part of the year, it is almost impossible to obtain a seat for traveling to India. Various State Governments like Andhra Pradesh, Karnataka, Tamil Nadu, West Bengal and Kerala have also been pressing for increasing international connectivity from their respective States. The point is that there had been many requests for enhancing global air connectivity to and from India as an essential pre-requisite to sustain and increase economic growth, encourage tourism and develop India as an international aviation hub.

The Naresh Chandra Committee which was constituted to prepare a road map for the Civil Aviation Sector and which submitted its report in December, 2003 also recommended that the private airlines be allowed to operate on international routes in view of the under capacity in the international segment, particularly during peak season. The Committee also noted that we are presently using barely 40% of our bilateral rights.

Even before the Naresh Chandra Committee's recommendation, in a joint statement made on 21.10.2003, the Prime Ministers of India and Sri Lanka, inter-alia, announced that Indian private carriers would be encouraged to operate to Sri Lanka. The matter was subsequently considered by the Cabinet during the previous Government and a decision was taken on December 10, 2003 to allow private airlines to operate to all SAARC countries. In pursuance of this decision, two private airlines – Jet Airways and Air Sahara – commenced operations to Sri

Lanka and Nepal. Therefore, it is pertinent to note that the policy to allow private carriers to operate abroad is not a recent one.

In the same Cabinet meeting held on 10.12.2003, the Cabinet also directed the Ministry of Civil Aviation to bring up a comprehensive note on liberalizing international air services. In pursuance of this direction of the Cabinet, the Ministry of Civil Aviation initiated a proposal for allowing private airlines to operate on international routes, except the Gulf countries. This proposal was considered by the previous Government in the Cabinet meeting held on February 4, 2004. However, a decision on this proposal was postponed.

The point I am trying to emphasise, particularly in the context of the observations of the Standing Committee, is that the proposal to allow private airlines to operate on international routes has been under consideration of Government for a long time and was not a hasty or sudden decision by the present Government.

The decision of the present Government to allow Indian Scheduled Carriers to operate on international routes was taken on 29th December, 2004. I would like to briefly explain the background of this decision, so that events are understood in the correct context. While approving the Air Services Agreement with Tunisia, the Cabinet in its meeting held on September 8, 2004 directed the Ministry of Civil Aviation to bring up a proposal for building up capacity both in public and private sector for operation of air services for optimum utilization of our bilateral rights.

In pursuance of this direction of the Cabinet, the Ministry of Civil Aviation initiated a proposal for allowing private airlines to operate on international routes, except the Gulf countries. This was exactly in line with the proposal placed before the Cabinet on February 4, 2004 during the previous Government. Before sending the proposal to Cabinet, all due procedures were followed and the draft Cabinet note was circulated to all concerned Ministries on November 10, 2004. After receipt of their comments, the proposal was sent to Cabinet Secretariat in

December, 2004. Thereafter, the Cabinet considered and approved the proposal in its meeting on December 29, 2004. There were no short cuts in procedures and no hasty decision was taken by Government. All due processes were followed. Moreover, as far as I am aware, no IPO issue by any airline was open for subscription at this point of time.

I may also point out that the contention of the Standing Committee that passage rights were granted to a particular airline on the opening day of its public offer does not appear to be factually correct. In pursuance of Government's decision taken on 29th December, 2004, the first traffic rights were awarded to Air India and other Indian Scheduled Carriers for operations to UK on January 31, 2005 as the airlines were required to confirm their entitlements to the UK authorities for slot allocation at UK airports. However, this date has no relevance to the IPO offer, as our enquiries have revealed that the opening day of the IPO issue of a particular airline was February 18, 2005.

The House would agree that the decision of the Government to allow Indian Scheduled Carriers to operate on international routes was the culmination of a well considered process starting from as far back as December, 2003 and was in no way a hasty decision as has been made out. It was essentially based on the need to allow Indian carriers to optimally utilize our entitlements vis-à-vis foreign carriers. The facts clearly reveal that the Government decision had nothing whatsoever to do with the IPO issue. It would be a little far fetched to try and link the two when there is no link and it would be unfair to impute motives where none exist. I would once again like to assure the House that we work with complete transparency and accountability.

Let me reiterate that the decisions by this Government are not guided by any vested interest but are taken in the overall public interest. Under the circumstances, I am of the considered view that the observations made by the Standing Committee in this regard have been adequately answered. Further, based on the facts enumerated, there is no necessity for any further enquiry into this

issue by an independent agency, since we have been completely transparent and there is no issue that needs to be investigated.

In respect of the observations of the Standing Committee that there is an element of arbitrariness in imposing the restriction on

airlines in terms of experience etc. and not allowing all the domestic scheduled airlines to fly on international routes, I would like to clarify that the minimum requirement prescribed for airlines to qualify for operation on international routes is entirely based on the consideration that only airlines with proven track records in the domestic sector should be allowed to operate internationally. This was particularly important, as the Government does not want airlines to withdraw operations from domestic routes once they start international operations. That is why a minimum fleet strength of 20 aircraft has been prescribed. This would ensure greater domestic connectivity while enabling the airlines to gain greater experience for operations on international routes at a later stage. The experience clause of 5 years operation is also a carefully thought-out decision based on advice of the safety regulator i.e. the Directorate General of Civil Aviation. It needs to be understood that once airlines start operating to foreign countries, they are subject to checks and inspections by the safety regulators of those countries. It is, therefore, important that airlines first stabilize operations in the domestic sector and establish the requisite safety/maintenance standards before they are considered for international operations.

I may also point out that on the date of Government decision in this regard i.e. 29.12.2004 there were only three private scheduled airlines operating on domestic sectors. Out of the three, two qualified for international operations as per the eligibility criteria decided. One airline, which did not qualify, was in any case only about one year old and had also not shown any interest in international operations. Therefore, there was no discrimination against any airline as such.

As regards due diligence and performance record of the airlines is concerned, once an airline has operated in the domestic sector for five years in accordance with the laid down standards, there is no further requirement for any due diligence. As the House is aware, there are stringent safety requirements that airlines have to follow and each of the airlines is also required to meet social obligations by adhering to route dispersal guidelines. There is strict monitoring of their adherence to the route dispersal guidelines by DGCA. It is, by the same logic, important that the track record of airlines performance over a period of time is taken into consideration as eligibility criteria.

The Standing Committee has observed that the basic objective of the Government behind allowing the private airlines to fly international destinations was to provide connectivity to new international destinations and that this purpose is defeated as the eligible airlines have applied for the same routes as are being operated by the national carriers. Let me clarify that while it is our intention to encourage the operation of eligible airlines to fly to newer destinations, the primary objective is optimum utilization of the bilateral traffic rights. India offers tremendous opportunities to airlines because of the fast growing size of international traffic to/from India. This potential was largely being exploited by foreign airlines. It is also significant to note that much of the carriage on international routes was also taking place through 3rd countries, instead of direct traffic between India and the concerned country. It can be nobody's case that foreign airlines be allowed to carry traffic to/from India in increasing numbers while restricting our own airlines – public or private – from operating on international routes.

Moreover, Government feels that there should be increased direct connectivity between point-to-point destinations. If the traffic size between UK and India is significant, the commercial opportunities out of this should ideally be utilized either by Indian carriers or carriers of UK. The Government have approached the issue of liberalization of international services with these

objectives in mind. It may be emphasized that this is only the beginning. As the process evolves, Government will keep on taking stock of the situation and we are confident that newer destinations will certainly get added.

Sir, I have tried to respond to the various important recommendations made by the Standing Committee. We have taken note of these recommendations and suggestions of the Committee, which will help us in developing and strengthening this sector. On a few issues in which there is a lack of appreciation of our view point, I have tried to satisfy the concerns expressed by the Committee. Sir, in conclusion, I thank the Chairman and Members of the Committee for the many useful and valuable recommendations made in their Report.*

