C. P. U. No. 397

# COMMITTEE ON PUBLIC UNDERTAKINGS (1978-79)

## (SIXTH LOK SABHA)

## FIFTY-SECOND REPORT

## ON

# AIRINDIA - WORKING RESULTS AND ALLIED MATTERS

**(Ministry of Tourism and Civil Aviation)**

*Presented to Lok Sabha on 30-4-1979*
*Laid in Rajya Sabha on 30-4-1979.*


L O K S A B H A S E C R E T A R I A T
N E W D E L H I

*April, 1979/Vaisakha, 1901 (S)*

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52nd Report of the Committee on Public Undertakings (1978-79)

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| Page | Para | Line | For | Read |
|---|---|---|---|---|
| (viii) | 4 | Last | Loan Capital Rs. 33,40,81,87 | Loan Capital Rs. 33,40,81,737 |
| 1 | - | 2 | E. Working Results | Working Results |
| 2 | 1.3 | 7 | Inventorry | Inventory |
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| 10 | 1.31 | 14 | Rs. 1581 Crores | Rs. 15.81 Crores |
| 11 | 2.1 | 12 | As on 31.3.1976 | As on 31.3.1975 |
| 17 | 2.8 | 12 | Zodian | Zodiac |
| 23 | 2.33 | 3 | Rs. 3.817 lakhs | Rs. 3817 lakhs |
| 24 | 2.37 | 13 | lesses | losses |
| 31 | 2.37 | 1 | being | bring |
| 37 | - | 3 | FLEET COMPOSITION | A. FLEET COMPOSITION |
| 38 | 4.3 | 25 | 3.2* | 32.2* |
| 39 | 4.5 | 4 | 7.7 | 707 |
| 47 | 4.3 | 6 | among | amount |
| 52 | - | 3 (from below) | 2.58 | 2.38 |

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# COMMITTEE ON PUBLIC UNDERTAKINGS

## (1978-79)

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Shri Jyotirmoy Bosu

### MEMBERS

2. Shri O. V. Alagesan
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### SECRETARIAT

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer.*
3. Shri K. C. Rastogi—*Senior Financial Committee Officer.*

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*Elected *w.e.f.* 26-12-1978 *vice* Shri Deorao Patil died.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fifty-second Report on "Air India—Working Results and Allied Matters".

2. Undoubtedly Air India could have earned much more dividend for the country had it been run honestly and in an unselfish manner especially by the top brass. The people have not got the correct picture about its working results which certainly reveal malpractice.

3. An indepth examination of the entire working of Air India was not possible on account of paucity of time. However what has come out of the limited examination of a few aspects is quite revealing.

4. There is no reason why there should be such a directional imbalance in the fare structure of Air India and payment in rupee for travel ex-India should be so high. This has created a situation where a poor country like India is made to subsidise passengers originating from affluent countries. The fare structure should not be artificially raised but be allowed to be determined by market fares and charging of lower fares by some foreign airlines operating in India need not be a punishable offence. As the membership of our national carriers in the IATA seems to inhibit certain steps Government should consider pulling them out of the IATA, which has outlived its utility.

5. It is surprising that the break even load factor of B-747 aircraft which was estimated to be 32.2 when the purchase was decided in 1967, turned out to be 54.6 immediately after the purchase in 1971-72 and is currently even higher. This was curiously as a result of under-estimation of indirect operating expense and over-estimation of revenue. This gives rise to serious suspicion. Interestingly the actual position does not appear to have been brought to the notice of the Government and the matter is only now stated to be under review. This is indeed a matter of serious concern. All further deals with the Boeing Co. should therefore be stopped until an indepth study is made.

6. There is immense scope for augmenting foreign exchange earnings of Air India if only expenses abroad are cut down and the sales agency arrangements rationalised and reduced to the minimum. No malpractice should be allowed to thrive.

7. For making the necessary improvements and ensuring efficient functioning of Air India it is essential that undesirable elements should be got rid of and there should be a separate whole-time Chairman stationed at Bombay.

8. The Committee considered and adopted this Report at their sitting held on 28th April, 1979.

NEW DELHI; JYOTIRMOY BOSU,

*April* 29, 1979. *Chairman,*

*Vaisakha* 9, 1901 (*Saka*). *Committee on Public Undertakings.*

## INTRODUCTORY

### A. HISTORICAL BACKGROUND

1. Air-India was established on 15th June, 1975 on nationalisation of the Air Transport Industry in India. It was formed out of the predecessor company *viz.* Air-India International Ltd. which company was vested in the new Air Corporation, then known as Air-India International with effect from August 1, 1953. On this date Air-India International took over the assets and business of Air-India International Ltd., while all the other Air Transport Companies operating scheduled services within India, vested in Indian Airlines.

### B. OBJECTS AND FUNCTIONS

2. The functions of the Corporation have been reflected in Section 7 of the Air Corporations Act, 1953, according to which, subject to the rules, if any, made by the Central Government in this behalf, it shall be the function of each of the Corporations to provide safe, efficient, adequate, economical and properly co-ordinated air transport service, whether internal or international or both, and the Corporations shall so exercise their powers as to secure that the air transport services are developed to the best advantage, and, in particular, so exercise those powers as to secure that the services are provided at reasonable charges.

### C. ORGANISATIONAL SET UP OF AIR-INDIA (INCLUDING OVERSEAS ESTABLISHMENT)

***Board of the Corporation:***

3. Under Section 4 of the Air Corporation Act, 1953, the Board of Directors of the Corporation shall consist of a Chairman to be appointed by the Central Government and not less than 8 and not more than 14 other Directors to be appointed by the Central Government and the Chairman or any other Director may be required to render wholetime or part-time service as the Central Government may direct. The existing Board of the Corporation as reconstituted *w.e.f.* 1st February, 1978 consists of the following Directors :

1. Air Chief Marshal P. C. Lal—Full-time Chairman
2. Shri K. G. Appusamy—Vice-Chairman and Managing Director

3. Shri C. B. Jain—Director
4. Miss P. Lal—Director (w.e.f. 1-8-1978)
5. Shri M. C. Sarin—Director
6. Shri N. B. Dastur—Director—(Resigned w.e.f. 5-4-1978)
7. Shri Narottam Sahgal—Director
8. Miss Thangam E. Philip—Director
9. Shri J. M. Chudasama—Director
10. Shri C. L. Sharma—Director (w.e.f. 16-12-1978)
11. Shri I. D. Sethi, Director (w.e.f. 16-12-1978).

## D. AUTHORISED AND PAID-UP CAPITAL

4. The Corporation has no Authorised Capital. The entire Capital is provided by Government of India and is notionally divided equally as "Equity Capital" and "Loan Capital". The "Equity Capital" and "Loan Capital" as on 31st March, 1978 are indicated below:

| As on | Equity Capital Rs. | Loan Capital Rs. | Total Rs. |
|---|---|---|---|
| 31-3-1978 | 33,40,81,737 | 33,40,81,787 | 66,81,63,474 |

# CHAPTER I

## E. WORKING RESULTS

### (a) *Capacity Offered*

1.1. The capacity offered by Air-India in respect of the following three years, for the service it provides, is indicated in terms of ATKMS (*i.e.*, Available Tonne Kilometres).

| Year | ATKMS in Millions |
|---|---|
| 1974-75 . . . . . . . . . . . | 737·986 |
| 1975-76 . . . | 975·774 |
| 1976-77 . . . . . . . . . . . | 1132·518 |
| 1977-78 . . . . . . . . . . . | 1165·732 |

### (b) *Revenue Earned and Overall Load Factor*

1.2. In Airline business, the production is indicated in terms of capacity produced, *i.e.*, Available Tonne kilometres (ATKMS) flown by the Aircraft fleet of the undertaking. In view of the nature of the activity involved, (*i.e.*, provision of International Air Service) it is not possible to determine the value of the capacity provided through its operations. The appropriate figures are therefore of revenue earned, RTKMS and overall Load factor which are given below for the four years 1974-75 to 1977-78:

| | (Actual Revenue Rs. in lakhs) |
|---|---|
| 1974-75 . . . . . . . . . . . | 13,712·16 |
| 1975-76 . . . . . . . . | 20,161·46 |
| 1976-77 . . . . . | 27,453·90 |
| 1977-78 . . . . . . . . . . . | 30,966·67 |

| | RTKMS (in Millions) | Overall load factor % | (Ratio of Revenue Tonne Kilometres to Available Tonne Kilometres usual expressed on a percentage). |
|---|---|---|---|
| 1974-75 . . . . . | 406·323 | 57·3 | |
| 1975-76 . . . . . | 581·957 | 59·7 | |
| 1976-77 . . . . . | 696·538 | 61·6 | |
| 1977-78 . . . . . | 730·594 | 62·8 | |

(c) *Profit|Loss and its percentage prior to payment of tax and after payment of tax (i) to assets and (ii) to sales.*

1.3. The relevant information is furnished below:

| | 1977-78 | 1976-77 | 1975-76 | 1974-75 |
|---|---|---|---|---|
| | | | (Rs. in crores) | |
| Profit (+) /Loss (—) . | (+) 28·45 | (+)17·59 | (+) 6·35 | (—)8·85 |
| (i) Percentage prior to payment of tax to Assets* . . | 9·30 | 6·92 | 2·87 | 4·85 |
| (ii) Percentage prior to payment of tax to Sales . . . | 9·31 | 6·46 | 3·21 | 6·53 |

*After deduction of depreciation from Gross Block and Obsolescence from Invenstorry and including current assets etc.

No Income-tax was payable in respect of the Profit/(Loss) for the years 1974-75, 1975-76, 1976-77 and 1977-78.

(d) *Exemptions|reliefs given by Central|State Governments*

1.4. The following exemptions|reliefs have been given to Air-India by Central|State Governments:

(1) Duty exemption from payment of customs duty on air-craft:

| 1974/75 | 1975/76 | 1976/77 | 1977/78 |
|---|---|---|---|
| | | | (Rs. in lakhs) |
| Nil | 223·10 | Nil | 261·17 |

(2) Exemption from payment of customs duty for Import of Aircraft Spares: (effective 13th June, 1975):

The total amount of relief of customs duty availed of on aircraft spares yearwise is as under:—

| 1974/75 | 1975/76 | 1976/77 | 1977/78 |
|---|---|---|---|
| | | | (Rs. in lakhs) |
| Nil | 391·00 | 672·00 | 830·58 |

(3) Savings on account of exemption from Sales Tax on fuel to International Scheduled carriers effective 26-4-1974 in

*This is not an exemption but the savings achieved by the Corporation on account of establishment of Aircraft Bonded Warehouse.

Tamil

three States, *viz.*, Maharashtra, West Bengal and Tamil Nadu:

| | 1974/75 | 1975/76 | 1976/77 | 1977/78 (Rs. in lakhs) |
|---|---|---|---|---|
| Air-India uplift . . . . | 172·53 | 288·80 | 390·20 | 458·50 |
| Payable on behalf of other carriers (TMA, Alitalia and Egypt Air) . . . . . . | 150·70 | 166·66 | 149·66 | 237·07 |

NOTE : Sales Tax paid on behalf of other carriers reimbursed to Air-India by the Government of India during 1974/75—Rs. 11·37 lakhs.

(4) Reimbursement was received from Government of India for the additional expenses incurred by Air-India on account of the need to avoid overflying Pakistan airspace as under:

| | Rs. in lakhs |
|---|---|
| 1974-75 . . . . . | 114·79 |
| 1975-76 . . . . . . . . . . . | 126·39 |
| 1976-77 (for the period 1-4-1976 to 20-7-1976 only) | 36·85 |
| 1977-78 . . . . . . . . . . . | Nil |

(e) *Cumulative Losses*

1.5. There is no cumulative loss as at the end of the accounting period 1977-78, *i.e.*, as on 31st March, 1978.

(f) *Utilisation of Capacity*

1.6. The Committee called for details of capacity available *vis-a-vis* capacity utilised (separately for revenue and non-revenue traffic), the sales effected for Government Departments (including Public Sector Undertakings) due travel on Government account, Cargo carried on Government account and the cost of journeys of Air India staff on duty during each of the years 1974-75 to 1978-79. Air India have accordingly furnished the following information:—

(g) *Capacity available and the capacity utilized*

1.7. Given below are the figures for total Available Seat Kilometres (Passenger Capacity Available, Revenue and Non-Revenue Passenger Kilometres) (Passenger Capacity Utilised by Revenue and Non-Revenue Passengers) and percentage between the two (percentage of total capacity utilised by Revenue and Non-Revenue passengers).

| Year | Available seat kilometres | Utilised seat kilometres for Rev. Pax. | Utilised seat kilometres for Non-Rev. Pax. @ | % Load factor for Rev. passenger | % Load factor for Non-Rev. passengers |
|---|---|---|---|---|---|
| | | Million | Million | | |
| 1973/74 . . | 5727·349 | 3256·556 | 365·059 | 56·8 | 6·4 |
| 1974/75* . . | 4716·437 | 2586·657 | 333·014 | 54·8 | 7·1 |
| 1975/76 . . | 6338·961 | 3769·519 | 402·523 | 59·4 | 6·4 |
| 1976/77 . | 7548·218 | 4757·723 | 441·601 | 63·0 | 5·9 |
| 1977/78 . | 7809·521 | 5019·738 | 435·548 | 64·3 | 5·6 |

*Pilot strike

@ Non-Revenue Passenger includes :
(i) Staff on duty and on leave and transfer.
(ii) Complimentary passes issued..
(iii) Agents educational tours.
(iv) Government mandatory orders.

(ii) *Sale effected for Government Departments/Public Undertakings*

1.8. The total sale effected for Government Departments (including Public Sector Undertakings) due travel on Government account is as follows:

| Year | Rs. in crores |
|---|---|
| 1974/75 | 8·49 |
| 1975/76 | 9·46 |
| 1976/77 | 13·51 |
| 1977/78 | 14·34 |
| 1978/79 (April/Feb. 1979) | 14·00 |

1.9. The figures given are 'sale' figures and not carriage figures. The 'carriage' figures are not available and are likely to be lower since the sale figures do not take into account cancellations and interline travel.

(iii) *Cargo carried on Government account and revenue realised from Government Departments*

1.10. Cargo carried on Government account and revenue realised from Government Departments/Public Sector Undertakings is as follows:—

| Year | Cargo in tonnes | Revenue Rs. in crores |
|---|---|---|
| 1974/75 . . . | 1046 | 2·76 |
| 1975/76 . . . | 1262 | 3·44 |
| 1976/77 . . . | 1725 | 4·89 |
| 1977/78 . . . . . . . | 1945 | 5·92 |
| 1978/79 (up to Sept. 1978) . | 1119 | 4·37 |

(iv) *Cost of journeys of Air-India staff on duty*

**1.11. The relevant information for the year 1974-75 to 1977-78 (i.e., 4 years is furnished below:**

| Year | Rs. in lakhs |
|---|---|
| 1974-75 . . . . . . . . . . | 32·20* |
| 1975-76 . . . . . . . . | 53·33* |
| 1976-77 . . . . . . . . . . | 66·22* |
| 1977-78 . . . . . . . . . . | 76·03* |

*(National value).

(h) *Net inflow/outflow of foreign exchange*

1.12. The Committee called for a note showing the net inflow/outflow of foreign exchange attributable to Air-India operations during each of the last five years. The Committee also desired to know the cost of fuel incurred in rupees and what would have been the cost in foreign exchange during each of the five years.

1.13. Air India have accordingly given the following information:

(Rs. in crores)

| | 1977/78 | 1976/77 | 1975/76 | 1974/75 | 1973/74 |
|---|---|---|---|---|---|
| Foreign exchange actually earned | 180·82 | 147·84 | 114·37 | 70·99 | 70·49 |
| Foreign exchange expenditure actually incurred . . . | 150·51 | 139·35 | 108·83 | 74·65 | 62·32 |
| Foreign Exchange earning (Net) | 30·31 | 8·49 | 5·54 | 3·66 | 8·17 |

1.14. These figures are as per the formula approved by the Reserve Bank of India and the Government. It may be noted that the figures of earnings and expenses shown are the actual receipt and disbursement figures on revenue account during a particular year and do not take into account outstanding liabilities, prior period adjustments, sundry debtors, etc., etc.

1.15. The cost of fuel incurred in Indian Rupees during these five years is as follows:—

| Year | Rs. in crores |
|---|---|
| 1973/74 . . . . . . | 12·13 |
| 1974/75 . . . | 16·23 |
| 1975/76 . . . . . | 15·81 |
| 1976/77 . . . . . | 19·12 |
| 1977/78 . . . . . | 21·91 |

1.16. Air India have stated that it would be difficult to give any accurate figures regarding the foreign exchange content in the fuel cost shown above, since the precise quantum of imported crude and its price included in production of aviation fuel in India is not available with them. It is understood that at present, imported crude is about 55 per cent of the total requirements while earlier it used to be around 70 per cent

1.17. It may be mentioned that the statement prescribed by the Reserve Bank for presentation of this data does not end at the figures of foreign exchange earnings (Net), as given in para (1) above, but is required to include Depreciation allowance in respect of assets purchased out of country's foreign exchange resources as a debit, and Savings—50 per cent of the collections in India on account of international travel as a credit. After making these two adjustments, the figures of total foreign exchange earned/saved for these five years would be as under:—

| 1977/78 | 1976/77 | 1975/76 | 1974/75 | 1973/74 |
|---|---|---|---|---|
| | | | (Rs. in crores) | |
| 69·29 | 44·57 | 31·17 | 11·37 | 17·98 |

1.18. It may also be mentioned that the Corporation has been progressively acquiring assets by way of aircraft and allied equipment from abroad. The estimated value in foreign exchange in respect of these assets for which loans have been already repaid is approx. Rs. 150 crores.

1.19. The representative of Air India informed the Committee during evidence that the profit of Rs. 28.45 in 1977-78 represented a return of 43 per cent on the total capital (*viz.* Rs. 66.82 crores) If the reserves of Rs. 89.19 crores were also to be taken into account the return would represent 18.5 per cent of the net worth. The operating profit in 1976-77 was Rs. 31.34 crores and the budget estimate for 1977-78 was in the same region.

1.20. Asked if at the present level of utilisation of the aircraft, it ought to have been a lot more, the witness stated:—

> "I think, profit bigger than this, would be rather difficult. Not only in terms of percentage, but in other direction too, we have been able to finance our growth, we have not taken any more capital from the Planning Commission. If an organisation can grow at the same rate as the rest of the industry and finances its growth out of its own internal resources, then at least the Financial objectives can reasonably be said to have been met."

1.21. The Committee enquired from the Ministry of Tourism and Civil Aviation if they had carried out a comprehensive review of the performance of Air-India and its functioning in recent years? If so, what were the results of such review and what directions if any, had been given to Air India in pursuance thereof. In a note, the Ministry have stated that while no separate comprehensive review as such has been carried out, a review of the performance and functioning of Air India is at present ensured through the following measures|documents:

(1) In regard to capital expenditure and capital schemes through a provision in the Air Corporations Act whereby prior approval of the Central Government for Capital Expenditure beyond certain prescribed limits (Rs. 40 lakhs) is required.

(2) Examination and scrutiny of the Corporation's Annual Plan prior to its submission to the Planning Commission.

(3) In regard to financial performance and efficiency of the operations through the following:—

(a) Revenue & Expenditure Budget Estimates.

(b) Annual Reports.

(c) Monthly Estimated Financial Results.

(d) Quarterly Financial Review by the Director of Finance of A.I.

(e) Performance Budget.

(f) Operating and Traffic Statistics (Quarterly).

1.22. In reply to a question if they were satisfied with the level of net foreign exchange earnings and profits of Air India, the Ministry have stated that the net foreign exchange earnings of Air India have increased from Rs. 8.17 crores in 1973-74 to Rs. 30.31 crores in 1977-78. In regard to profitability (after adjustment of tax) of Air India, as against Rs. 0.30 crores in 1973-74, it was Rs. 28.45 crores in 1977-78.

1.23. Viewed on an overall basis the performance of Air India in regard to net foreign exchange earnings and profitability seems to be progressively improving and their performance of 1977-78 is considered satisfactory. In addition during 1977-78, Air India has paid dividend of Rs. 3.31 crores to Government.

(i) *Yield per Revenue tonne km.*

1.24. At the instance of the Committee, Air India have furnished the following figures of the average yield per revenue tonne kilometre achieved by the airline during the years 1975-76 to 1977-78 and those reported by other airlines to International Civil Aviation Organisation:

| | Air-India | KLM | Swiss-air | AF | Luf-thansa | Ali-talia | BA | Qantas | JAL | PANAM |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | U. S. Cents | | | | | |
| 1975/76 . . | 40·5 | 49·4 | 64·4 | 54·0 | 55·9 | 56·6 | 51·8 | 44·5 | 48·1 | 39·1 |
| 1976/77 . . | 45·3 | 51·2 | 63·8 | 51·2 | 56·4 | 50·8 | 49·8 | NA | 45·2 | 37·8 |
| 1977/78 . . | 46·9 | 57·0 | 69·3 | 51·7 | 61·1 | 59·0 | 55·0 | NA | 50·8 | 41·3 |

1.25. It has been stated that the yield per revenue tonne kilometre experienced by the European Airlines *viz.* Swissair, British Airways, Air France, Lufthansa, Alitalia etc. is strongly influenced by their large operations within Europe on which they realised a substantially higher yield per unit of traffic. Therefore, while it can be said that Air-India's yield is lower than the average, the operators with whose figures a correct comparison could be made are in fact the purely international operators like PANAM and JAL.

1.25. The Committee pointed out during evidence that the yield per revenue tonne km. was one of the lowest among the world airlines and enquired why it was so. The witness stated:—

> "Without having the figures before me I can generally say that our yield would compare rather unfavourably. It would be lower than some other airlines in the world."

1.27. Asked if this was not due to Air India carrying low yield traffic, the witness replied:—

> "My answer to the previous question was in that form."

1.28. In a note on the subject furnished by the Ministry of Tourism and Civil Aviation, it has been stated that the reason for the comparative lower yield experience by Air India has been due to the various promotional Government directed fares that Air India has introduced largely between India and U.S.A. sometimes in 1971 and between U.K. and India in 1973. These promotional fares are intended to increase Air Iindia's share of the Indian ethnic traffic. There is a large content of such traffic on Air India's routes west of India. Air India devotes a large portion of its capacity on their routes USA|U.K. It is relevant to note that while the yield per tonne kilometre of Air India in US Cents 45.3 per tonne kilometre, during 1976-77, it is also a fact that other foreign airlines who are operating on routes parallel to Air India also experience such percentage of yield per tonne kilometre operated by them. Among these airlines are Japan Airlines 45.2 US Cents. Singapore International Airlines— 42.2 US Cents. PANAM is further towards the end of the scale with a yield of 37.8 US Cents.

1.29. It would be relevant to note that the yield per revenue tonne kilometre experienced by most of the European Airlines is strongly influenced by the fact that on their operations within Europe they realize a substantially higher yield per unit of traffic than carriers who operate largely in other areas. This is substantiated by the fact that according to the data available from IATA Cost Committee report of 1977, the average revenue per passenger kilometre experienced in 1976-77 in the local Europe Area was the highest for any region|route grouping; at 9.10 US cents compared to only 4.36 US cents per passenger kilometre for the TC2-Far East sub-group, which encompasses the predominant segment of Air India's operations.

1.30. The position could be improved by decreasing the percentage of discount on promotional fares. In fact, Air India has applied greater increases to Government directed fares on occasions when general increase in fares took place on normal fares on the basis of

IATA recommendations. This would eventually lead to increase in revenue resulting in increase in yield per tonne kilometre so as to reduce the gap between the yields of Air India and other airlines in this regard.

**1.31. The Committee find that Air India have not paid any income tax during the years 1975-76, 1976-77 and 1977-78, although they have been showing some profits during these year Air India enjoyed exemptions from payment of customs duty on aircraft/ aircraft spares and sales tax on fuel (in three States viz. Maharashtra, West Bengal and Tamilnadu) of the order of Rs. 8.31 crores and Rs. 6.95 crores respectively in 1977-78. The Committee thus find that but for the substantial reliefs in customs duty and sales tax enjoyed by Air India, the financial position of the Corporation would not at all be gratifying.**

**1.36. The net foreign exchange earnings of Air India are stated to have increased from Rs. 8.17 crores in 1975-76 to Rs. 8.49 crores in 1976-77 and to Rs. 30.31 crores in 1977-78. If the expenditure on fuel in India (ranging between Rs. 1581 crores and Rs. 21.91 crores) which is substantially imported, is taken into account there would be virtually no net foreign exchange earnings during this period. The Committee are of the firm view that there is immense scope to augment foreign exchange earnings by cutting down foreign office expenses and foreign travel expenses as well as rationalising the sales agency arrangements and restricting them to the minimum.**

**1.32. In this connection, the Committee wish to point out that the expenses abroad were as high as Rs. 182.29 crores in 1977-78 as against the total operating expenses of Rs. 270.85 crores.**

**1.33. The Committee find that the average yield per revenue tonne kilometre achieved by Air India was very low compared to a number of foreign airlines. During 1977-78 the average yield for Air India was 46.9 only in terms of U.S. cents whereas it was 57 in case of KLM, 69.3 in case of Swiss air, 57.7 in case of Air France, 61.1 in case of Lufthansa, 59.0 in case of Alitalia and 55.0 in case of British Airways. This is attributable to the fact that the operations of Air India are in a very large measure on low yield routes where promotional fares have been established. The Committee fail to understand as to why Air India should continue to operate on routes on which it is losing year after year.**

**1.34. The Committee consider that for the efficient functioning of Air India, it is necessary to have a separate wholetime Chairman stationed at Bombay. He should preferably have a good background of air transport management and its economy.**

## CHAPTER II

### II. *Outstandings due to Air India*

2.1. The total outstandings due to Air India during each of the years 1974-75 to 1977-78 as per balance sheet of the respective years are given below:—

| | Rs. *in lakhs* |
|---|---|
| As on 31-3-1975 . . . . . . . . | 2939·30 |
| As on 31-3-1976 . . . . . . | 3930·11 |
| As on 31-3-1977 . . . . . . | 4585·41 |
| As on 31-3-1978 . . . . . . | 4557·36 |

The total outstandings under dispute as on 31st March. 1975, 1976, 1977 and 1978 were as under:—

| | Rs. *in lakhs* |
|---|---|
| As on 31-3-1976 . . . . . | 58·59 |
| As on 31-3-1976 . . . . . | 86·43 |
| As on 31-3-1977 . . . . . . | 101·81 |
| As on 31-3-1978 . . . . . . | 115·83 |

AGE-WISE ANALYSIS OF OUTSTANDINGS AS ON 31-3-1978

2.2. Following is the age-wise analysis of debts less than one year old, more than one year but less than three years old and more than three years old, as on 31st March, 1978:—

| S. No. | Considered Goods | As on 31-3-78 | 1-4-77 to 31-3-78 less than 1 year | 1-4-75 to 31-3-77 more than year and less than 3 years | Prior to 1-4-75 More than 3 years old |
|---|---|---|---|---|---|
| 1 | 2 | | 4 | 5 | 6 |
| | | | | | Rs. in lakh |
| A. | TRAFFIC DUE S : | | | | |
| 1 | Government Departments . . | 166·93 | 136·07 | 22·33 | 8·53 |
| 2 | Public Sector Undertakings . . | 87·88 | 79·42 | 6·93 | 1·53 |

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| 3. | General Sales Agents . . . . | 801·76 | 787·67 | 13·56 | 0·53 |
| 4. | Agents on Invoicing Basis . . . | 346·90 | 346·90 | — | — |
| 5. | Agents on Reporting Basis . . | 661·48 | 661·48 | — | — |
| 6. | Airlines . . . . . . . . | 359·32 | 280·72 | 78·45 | 0·15 |
| 7. | Charges Collect Shipments . . | 157·15 | 96·74 | 40·02 | 20·39 |
| 8. | Commercial Houses/Private Parties . | 760·80 | 583·86 | 115·07 | 61·78 |
| 9. | Revenue Pool Partners . . . | 242·91 | 242·91 | — | — |
| 10. | Dues from D.G..P.T. for Mail . . | 92·22 | 89·22 | — | — |
| B. | NON-TRAFFIC DUES : | | | | |
| 1. | Dues from Indian Customs for Foreign Travel Tax Refund and duty draw back on Engines spares and Fuel . | 61·71 | 39·61 | 9·54 | 12·56 |
| 2. | Dues from IAF/Indian Navy for repairs and for spares supplied. | 38·91 | 34·92 | 3·99 | — |
| 3. | Due from Deptt. of Tourism for operation Europe, UK and USA. | 50·65 | 45·90 | 4·85 | — |
| 4. | Dues from General Insurance Co. and New India Assurance Co. etc. for various claims | 133·65 | 124·32 | 8·14 | 4·19 |
| 5. | Due from IA for common welfare activities | 9·78 | 9·78 | — | — |
| 6. | Due from Airlines for Handling and other services | 211·00 | 104·88 | 67·90 | 38·22 |
| 7. | Due from various sundry parties for various jobs/Services | 103·61 | 103·61 | — | — |
| | Total considered Good . . . | 4,283·66 | 3,68·01 | 370·68 | 144·97 |
| | Considered Doubtful . . . | 273·70 | 48·90 | 111·40 | 113·40 |
| | Total Debts as on 31-3-78 . | 4557·36 | 3,816·91 | 482·08 | 258·37 |

2.3. Details of parties owing more than Rs. 10000 as on 31st March, 1978 are as under:—

| Period | Name of the Party | Place | Rs. in lakh |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| September, 1975 . . . | Wm. Backer Travel Agency | New York | 20·28 |
| September, 1972 . . . | V.I.P. Holidays | New York | 19·64 |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| August, 9172 . . . | ITA/Travel Stores | New York | 13·26 |
| February, 1978 . . . | Traveland Voyages | New York | 11·05 |
| December, 1974 . . . | Bharat Travel Service | New York | 8·21 |
| November, 1976 . . . | Hari Singh & Sons | Calcutta | 6·64 |
| September, 1975 . . . | Trinacria | New York | 3·74 |
| August, 1976 . . . . | Western India Services P.Ltd. | Bombay | 3·43 |
| Apr.70/April, 1972 . . . | Ramji Brothers & Co. | London | 2·96 |
| March, 1976 . . . | Peter Tours | Toronto | 2·62 |
| Apr.73/Mar.1974 . . . | Universal Trotters Travel Agency | New York | 2·31 |
| February, 1977 . . . | Sherry Tours and Travels P.Ltd | Rajkot | 2·09 |
| Jan. 78/March, 1978 . | Int'l Packers & Mover . | New Delhi | 1·94 |
| August, 1975 . . . | East-West Travel | Chicago | 1·74 |
| Jan. 75/October, 1975 . | M/s. Geita Travel Agency | Addis Ababa | 1·63 |
| June, 1976 . . | Hudsons Forwarding Co. Ltd. | London | 1·38 |
| September, 1975 . . . | Meteor Travel | New York | 1·25 |
| February, 1977 . . . | Nova World Travel . | London | 1·22 |
| March, 1977 . . . | Hindustan Travel | New York | 1·03 |
| January, 1978 . . . | Xenia Tours . | New York | 0·91 |
| May, 1974 . . | Agents T.V.F. | Paris | 0·91 |
| November, 1975 . . . | Jet Airfreight | New York | 0·79 |
| August, 1977 . . . | Kenmore Travel Centre . | New York | 04·74 |
| August, 1977 . . . | Sunworld Travel Service . | New York | 0·56 |
| October, 1977 . . . | Stratford Travel Service . | New York | 0·52 |
| April, 1975 . . | Rea Express | New York | 0·51 |
| November, 1975 . . . | Bombay Travel . | Chicago | 0·47 |
| February, 1972 . . . | India-Asia Assembly 1973 | New Delhi | 0·46 |
| May, 1975 . | Allied Airfreight Ltd. | London | 0·45 |
| February, 1974 . . . | Academy Travel . | London | 0·41 |
| January, 1967 . . . | Direct Airfreight | New York | 0·37 |
| September, 1975 . . . | Deutsche Ges Fur Int'l | Frankfurt | 0·32 |
| June, 1977 . . . . | Worldmark Travel Inc. | New York | 0·29 |

| Period | Name of the Party | Place | Rs. in Lakhs |
|---|---|---|---|
| March, 1977 . . . | Albani Int'l Travel Ltd. | London | 0·29 |
| May, 1972 . . . | Frokaloy Travel Ltd. | London | 0·28 |
| November, 1976 . . . | Plummer-Dery Travel Agency . | New York | 0·26 |
| Sept. 74/April, 1975 . | Manns Travel . | Frankfurt | 0·24 |
| August, 1977 . . . | Xavier Tours Inc. | New York | 0·21 |
| May, 1972 . . . | Bohne Luftfracht | Frankfurt | 0·16 |
| August, 1977 . . . | Vista Vacation | New York | 0·15 |
| August, 1970 . . . | All India Women Hockey Team . | New Delhi | 0·11 |
| | | | 115·83 |

2.4. In a subsequent note furnished to the Committee, the following break-up of outstanding dues as on 31-3-1978 (including those under dispute in U.S.A. & Canada Region) has been given:—

| S. No. | Category of Debtors | U.S.A. & Canada Region |
|---|---|---|
| | | (Rs. in lakh) |
| | *ffic Dues* : | |
| 1 | Government Departments . . . . . . | 8·19 |
| 2 | Public Sector Undertakings . . . . . . . | 3·89 |
| 3 | General Sales Agents . . . . . . . . . | .. |
| 4 | Agents on Invoicing Basis . . . . . . . | 92·07 |
| 5 | Agents on Reporting Basis . . . . . . . | 98·35 |
| 6 | Airlines . . . . . . . . . | 2·96 |
| 7 | Charges Collect Shipments . . . . . | 26·82 |
| 8 | Commercial Houses/Private Parties . . . . . | 197·41 |
| 9 | Revenue Pool Partners . . . . | |
| 10 | Due from D.G.P.T. for Mail . . . . | |
| | *B. Non Traffic Dues* : . . . . . . . | Nil |
| | TOTAL . . . . | 429·69 |

2.5. Details of debts under dispute in U.S.A. and Canada Region as on 31-3-1978 are as under :

| | (Rs. in lakhs) |
|---|---|
| 1. Agents in Default . . . . | 93·42 |
| 2. Defaults on account of Pay Later Plans . . . | 12·13 |
| 3. Charges Collect Shipments payment of charges | 0·97 |
| 4. Various individual parties. . . . . | 0·29 |
| 5. On account of Credit Cards . . . . . | 0·15 |
| 6. On account of Deportees . . . | 0·15 |
| TOTAL . . | 107·11 |

(includes items less than Rs. 10,000 under dispute).

2.6. At the instance of the Committee, Air India have furnished the following statement showing the details of outstanding dues from each of the Indian Travel Agencies abroad who have gone out of business together with the information whether any of the Air-India employees were connected with any of them:

*Details of Outstanding dues*

| Name of Agent | Outstanding Amount | Period of Default | Whether any of the Air-India Employees were connected with the loss |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. M/s. ITA Travel Store, Kenmore, USA. . | US $ 1,50,277·62 | 1972 | Not connected. |
| 2. VIP Holidays Inc. 500 Fifth Avenue, New York . | US $ 2,23,205·38 | 1972 | Not connected. |
| 3. William Becker Travel Bureau, INC. New York . . . | US $ 2,30,451·67 | 1975 | Not connected. |
| 4. UTTA Tours Chicago, USA . | US $ 26,204·13 | 1973 | Not Connected |
| 5. Bharat Travel Service, New York . . . . . | US $ 99,335·72 | 1974 | Not connected. |

| 1 | 2 | | 3 | 4 |
|---|---|---|---|---|
| 6. East-West Travels, Chicago, U.S.A. | US $ | 19,713.63 | 1975 | Staff Margaret Shin who did not follow up on the invoice was severely reprimanded by our New York office. Staff no longer in our employment. |
| 7. AD Travel Service Philadelphia | US $ | 4,341·04 | 1976 | Not connected. |
| 8. Bombay Travel Inc. Chicago . | US $ | 5,360·49 | 1977 | Not connected. |
| 9. Hindustan Travel Toronto . | Can. $ | 12,079·93 | 1977 | Not connected. |
| 10. Meteor Travel Service Philadelphia . | US $ | 14,161·80 | 1975 | Not connected. |
| 11. Delta Travel Corpn. New York | US $ | 1,694·00 | 1974 | Not connected. |
| 12. Princeton Travel Service New Jersey . . . | US $ | 1,442·20 | 1975 | Not connected. |
| 13. Peters Tours Toronto . | Can. $ | 29,756·22 | 1975 | Not connected. |
| 14. Playa Travel Centre, New York | US $ | 87,505·00 | | Not connected. |
| 15. Ramji Bros. . | UK £ | 19,535·00 (equiv. to INR 307,480) | | Not connected. |
| 16. All World Travel Toronto | Can. $ | 23,440·80 | | Not connected. |
| 17. Golden Mile Travel Toronto . | Can. $ | 23,203·44 | | Not connected. |
| 18. Travel and Voyages Montreal | Can $ | 1,44,470.50 | | Not connected. |
| 19. Safeways Travel Port Alberni British Columbia . | Can $ | 15,326·43 | | Not connected. |
| 20. Commonwealth Economy Tours, Toronto · | Can $ | 3,328·00 | | Not connected. |
| 21. Gaylord Travel Inc. Chicago . | US $ | 23,203·44 | | Not connected. |
| 22. Escorts Travel Service, Chicago | US $ | 1,645·00 | | Not connected. |
| 23. Universal Trotters Travel Agency, Chicago . | US $ | 26,204·00 | | Not connected. |
| 24. Intravel Washington D.C. . | US $ | 26·55 | | Not connected. |
| 25. Valiant Travel & Tours Hazel Park Michigan . . . | US $ | 2,132·31 | | Not connected. |

2.7. The Committee called for details of business given to 'Distinctive Travel Concept' and 'Tours of Distinction' during each of the last five years as well as the details of ownership of these firms. Air India have furnished the following information:—

*Distinctive Travel Concept:*

This Non-IATA agency is owned by Mr. and Mrs. Kewal Ramani of New Delhi, their son and daughter in India and Mr. Sunil Poddar.

Air India has not given any business to Distinctive Travel Concept in Delhi and|or Bombay. As stated, they are non-IATA tour operators making ground arrangements for Travel Agents from abroad.

*Tours of Distinction:—*

This Agency is owned by Mr. Man Singh Panwar and Mr. Lal Waney. It is a Non-IATA wholesale tour operator specialising in packaging tour programmes to India and other destinations. Air India has not given any business to Tours of Distinction.

2.8. In a written reply to the Committee's query whether Shri Andy Ramani, Air India's Sales Development Manager was connected either directly or through his family members, with 'Tours of Distinction' and 'Zodiac Travel' and if so the details thereof as well as the business given by Air India to these concerns, Mr. I.F. Kewalramani (Andy Ramani) has in his sworn Affidavit stated the following:

"Both Zodiac Travel (IATA appointed retail agent) and Tours of Distinction are owned by Mr. Man Singh Panwar and Mr. Lal Waney, who is my cousin. I do not have and have never had any financial interest in Zodiac Travel and Tours of Distinction. I have official dealings with Zodian Travel in my capacity as Sales Development Manager (Indian Ethnic Market). As per the industry practice for the process of establishing a closer relationship with the agents and enhancing the airline's share of the business, travel agents are customarily entertained. Both the individuals have been entertained on half of Air India in the normal course of establishing such a business relationship. Such expenses are noted and approved by the Sales Manager USA and Canada."

*Amounts written off as bad debts.**

2.9. At the instance of the Committee, Air India have furnished the following details of outstanding dues written off as bad debts during each of the last 10 years and the reasons therefor :

| Year | Rs. in lakhs |
|---|---|
| 1968-69 | 14·72 |
| 1969-70 | 24·26 |
| 1970-71 | 3·78 |
| 1971-72 | 2·83 |
| 1972-73 | 0·76 |
| 1973-74 | 0·85 |
| 1974-75 | 5·41 |
| 1975-76 | 5·41 |
| 1976-77 | 39·66 |
| 1977-78 | 13·97 |

(*NOTE : Amounts above Rs. 5000 are written off with the approval of the Board).

2.10. Every effort is made to realise debts of doubtful nature and only when the efforts are not fruitful, recourse to write off action is taken. It has been found from experience that in the following types of cases write off action is resorted to after efforts to realise them are not successful:—

(a) Agents defaulting payments due to financial difficulties and going out of business.

(b) Defaults under Pay Later Plans—namely in USA & Canada, Germany.

(c) Dues from Passengers deported to the country of origin due immigration problems in other countries.

(d) Bankruptcy or closure of certain airlines from whom amounts were due to Air-India for carrying passengers on documents issued by these airlines.

(e) Refusal to take delivery of charges collect shipments by consignees and resultant non-payment of freight charges by them.

(f) Non payment of Casual Credits extended to passengers/firms for their transportation on Air-India.

(g) Fraudulent use of Credit Cards for transportation on Air India.

(h) Fraudulent use of stolen tickets.

2.11. During evidence the Committee drew the attention of the representatives of Air India to the heavy out-standings of the order of Rs. 45.57 crores as on 31st March 1978 and pointed out that this appeared to be very high compared to the total capital employed of the order of Rs. 66.82 crores. The Deputy Managing Director (HQ) stated:

"Outstanding of an airline would depend on its turn-over and in our case at the current level of operations, it represents about six weeks. The point is that such of the sales takes place through general sales agents and other agents and they do not pay us on 31st March whatever sale they do. They would be giving it after a month or so. In fact, after the hon. Chairman had raised the point in the last meeting, I was going through the figures of other carriers and I found that ours was about 15 per cent of the sundry debtors at the end of the year. I found that the British Airways outstanding was also 15 per cent. I found two or three other airlines outstandings as 12 per cent, 11.8 per cent and 13 per cent. I think as we grow bigger, the percentage comes down".

2.12. The Committee pointed out during that a good deal of the outstandings under dispute related to U.S.A., Canada region and enquired about the reasons for the same. The Regional Director, U.S.A. & Canada (Shri P. F. Mehta) stated:

"We have had same very heavy defaults made by our Indian travel agents... We have one large outstanding debt upto 215 billions still owed to us by an agent... The total doubtful debt is about Rs. 86 lakhs in my area."

2.13. Asked how many of the travel agents mentioned in the list, had since gone out of business, and the amounts due from them, the witness furnished the following information:—

V.I.P. Holidays—Rs. 19.24 lakhs

ITA Travel—Rs. 13.26 lakhs

Bharat Travel Services—Rs. 8.21 lakhs

2.14. Asked if there were any other agencies about to shut down. The witnesses stated:

> "They are Gopal Rajus*. I am sure it will become a bad debt. To the best of my knowledge, that completes the list, although I would like to check that hundred per cent when I get back to New York".

(*Owner of William Becker Travel Agency)

2.15. Asked if the bad debts and doubtful debts had been prepared reflected in the profit and loss account, the Deputy Managing Director (HQ) stated that whenever a debt became doubtful it was shown as such in the profit and loss account. When it became a bad debt, it was written off with necessary approval and adjusted against the profit.

2.16. The Committee enquired if it was a fact that several other agencies like Globe Travels, Skylab Travels, Universal Travels, Commonwealth Travels, V.I.P. Travels, T.A.S. Travels, Bharat Travels etc. had also closed down and if so, how much they owed to Air India. The witness stated:

> "The Commonwealth Travel can be added to the list... They owed us about 150 thousand dollars of which 130 thousand dollars have been paid by his brother in London. 200 thousand dollars remained as bad debt."

2.17. Asked if Air India demanded any caution/earnest money from the travel agents as one of the conditions of appointment, the witness stated:

> "We have looked into this and we have not done this... In the market conditions existing in the United States there is no way, in my opinion, to prevent agent from taking an airline for a ride, as we have been taken on occasions, although I would say it is in no greater percentage than the other international airlines in the United States, perhaps much less".

2.18. The Committee desired to know if there were any travel agencies with which Air India had business dealings and which had connections with any of the officials of Air India. The Regional Director USA & Canada stated:

> "I will tell you everything I know of that. There has been one suspected instance and that was in the case of an agency called Tours of Distinction, where we were inform-

ed by some people that one of our officers had an interest in it. When it came to my attention, immediately an investigation was launched by our Lawyers in Washington and after looking into the organisation and interrogating the individual concerned, be informed me that there was no reasons to believe that this official of ours was connected with that agency. Apart from this, as far as I know, there is no single connection with any travel agency of any one of our officials".

2.19. Asked if Tours of distinction had close relations with Shri Andy Ramani, Air India's Sales Development Manager, the Regional Director, USA & Canada stated:

> "This was the official that was investigated by me through my lawyer and he himself assured me that he has no such interests other than his causin having an interest in it....".

2.20. In reply to a question if Zodiac Travel was a part of Tours of Distinction and whether Shri Andy Ramani had controlling interest in both, the witness stated:

2.21. "Zodiac Travel is a part of Tours of Distinction." Further asked if the shares of these companies were held in another family member's name, not his own, the witness replied:

> "I can honestly and truthfully tell you that as far as I am concerned, I am totally unaware of that being so... I investigated it to the best of my ability....".

2.22. In reply to a further question, the witness stated that the matter was reported neither to the Managing Director nor to the Chairman, Air India. It was also not brought to the notice of the Chief Vigilance and Security Officer.

2.23. The Committee further enquired if Bharat Travel Service went out of business in January 1975 after being in business for about a year. The witness stated:

> "I would say, to the best of my memory, they dealt with us for about four years perhaps... I may have to go back and check this, but I think it was for more than a year".

2.24. In reply to a question whether it was a fact that the Government of India Tourist Office in Geneva transferred on 30th December 74 an amount of $11,107 to the personal account of

Mr. Khoradia who was the owner of Bharat Travel Service and $28,000 made to the account of Bharat Travel Service and if so, why it was done. The witness stated that at that time the commissions were governed by IATA regulations and the mode of payment was from Geneva to the agents. All the agents doing business were paid at the same percentage which was dependent on the business. The payment made at that time (30th Dec. 74) obviously was for a payment due to them on business which they had given to Air India.

2.25. Asked how much Bharat Travel Services owed to Air India at that point of time, the Regional Director, USA & Canada replied:

> "They could only be owing us the the amount for the current sales period".

2.26. When asked to affirm that Bharat Travel Services owed Air India $100,000 (Rs. 21 lakhs) before they went out of business in January 1975, the witness stated:

> "That could be the amount for one period......They said they will pay their dues....".

2.27. Asked if the sales agents maintained accounts in coded numbers in Swiss Banks, the witness replied:

> "At that time the payment of commission was legal and at that time that was made in Geneva in some cases and in other cases. they were given cheques directly, where they wanted like that".

2.28. The Committee pointed out that in the circumstances it would be correct to infer that because of close involvement of officials including Air India's Sales Development Manager Shri Andy Ramani, the travel agents were able to shut down and get away with Air India's money. The Regional Director, USA & Canada replied:

> "I would say that it is totally untrue......If I may go back to the Bharat Travel Services, when you say he owned us hundred thousand dollars and we on the other hand, paid him the Commission due to him, there was no reason to withhold the Commission. Certainly, it was not that he turned bankrupt or had gone into default. It was a normal transaction".

2.29. The Committee pointed out that Mrs. Andy Ramani was the Associate Editor of the firm magazine "Star and Style" to which advertisements were issued by Air India. The witness replied:

"....we deal with all the Indian publications on an even handed basis".

2.30. Asked about the advertisement on the bank page of 'Star and Style' the witness stated:

"I will confirm it, but I think the back page was given to us free".

*No denial has come so far.

2.31. Asked if the Distinctive Travel concept had an office in a hotel now taken over by the Taj Group, namely President Hotel, Bombay besides the one in Delhi, the Regional Director USA & Canada stated:

"I do not know they have an office in Bombay. The impression I have is that they have an agent in Delhi and in Bombay. I do not know the office address".

2.32. Asked how much business had been given by Air India to Distinctive Travel concept during the last 5 years, the witness stated that he would telex the information after obtaining the same from Tours of distinction in New York*.

**2.33. The total outstandings due to Air India stood at a fantastic figure of Rs. 4557 lakhs as on 31st March, 1978 of which an amount of Rs. 3.817 lakhs was less than one year old, Rs. 482 lakhs more than one year but less than three years old and Rs. 258 lakhs more than three years old. The amount considered doubtful was of the order of Rs. 273.70 lakhs while the amount under dispute from parties owing more than Rs. 10,000/- each was Rs. 115.83 lakhs as on that date. Amounts totalling Rs. 64.45 lakhs were written off as bad debts during the years 1974-75 to 1977-78 of which as much as Rs 39.66 lakhs was written off in 1976-77 and Rs. 13.97 lakhs in 1977-78.**

**2.34. The Committee are deeply concerned to note that of the total outstanding dues amounting to Rs. 4557.36 lakhs the outstandings in USA and Canada Region also amounted to Rs. 429.69 lakhs as on 31st March, 1978 of which an amount of Rs. 115.83 lakhs was disputed. From the figures of break-up of this amount furnished to the Committee, it is seen that traffic dues to the tune of Rs. 190.42 lakhs were outstanding against agents on invoicing/reporting basis, Rs. 197.41 lakhs were outstanding from Commercial houses/private**

(*Information not received so far.)

parties and Rs. 26.82 lakhs as 'charges collect shipments' in USA/Canada Region. Of the total outstanding dues under dispute of the order of Rs. 115.83 lakhs in USA/Canada region, the agents in default accounted for as much as Rs. 93.42 lakhs.

2.35. The Committee further observe that out of the 25 Indian Travel Agencies abroad which have now gone out of business, all except one were operating in USA/Canada Region. Some of these parties from whom heavy amounts were due in the USA/Canada Region and which have since closed down are—William Becker Travel Agency (Rs. 19.24 lakhs) ITA/Travel Stores (Rs. 13.26 lakhs). Travel and Voyages (Rs. 11.05 lakhs) and Bharat Travel Service (Rs. 8.21 lakhs).

2.36. The Committee note that no caution/earnest money is demanded from the travel agencies before entrusting business. The deposition of the Regional Director, USA and Canada that "in the market conditions existing in the United States there is no way, in my opinion, to prevent an agent from taking an airline for a ride, as we have been taken on occasions ...." may appear to be on the surface a pathetic admission of their helplessness in the matter but there seems to be more than meets the eye. The Committee suspect that the conduct of some of Air India's officials vis-a-vis these agencies has not been above board.

2.37. The evidence tendered by Air India's representatives in USA/Canada region and their superiors in Headquarters has not allayed these suspicious. It has revealed tie-ups of one agency with another links of certain officers with some of these agencies through their relations or friends, and commissions having been paid to certain agents in circumstances that have cost serious doubts in their mind. The Committee, therefore. require that a full scale enquiry should be conducted by the Central Vigilance Commission into the affairs of William Becker Travel Agency, Bharat Travel Service, V.I.P. Holidays, ITA Travel Store, Travel and Voyages and Commonwealth Economy Tours to ascertain in what circumstances these were closed down and whether any of the officials of Air India were in any way responsible for the lesses incurred by Air India as a result of their closure. The initial investigations in this regard may be entrusted to a senior official capable of doing investigation work in the embassy of the country concerned. The Committee would like to be apprised of the results of this enquiry at the soonest.

2.38. The Committee would also like to be apprised immediately of the efforts made by Air India to recover the amount of Rs. 197.41

lakhs due from commercial houses/private parties in USA/Canada region and the results thereof.

2.39. The Committee would further like the Ministry of Tourism and Civil Aviation to examine how best the interests of the national carrier could be secured from unscrupulous travel agencies and the colluding officials of Air India having their links both in India and abroad.

# CHAPTER III

## AIR INDIA'S FARE STRUCTURE

3.1. Air-India's fares structure consists of first and economy class normal fares and promotional fares.

The normal fares structure is one that has evolved out of the structure developed by members of the International Air Transport Association which goes back several years. It is difficult to put this structure in the from of a specific formula but one can say that when it was conceived, it was "distance related", in that fares to more distant points were proportionately higher in relation to the distance flown. Over the years, however, this relationship has undergone a change. Some of the increases taken in these fares have not always been taken on the basis of percentages. In many instances flat increases have been taken which have distorted the relationships somewhat. The following table gives details of directional imbalance and disparity in normal fares between India and U.K./ Europe:—

*Directional Imbalance in Fares between India and UK/Europe*

| Sector | Type of Fare | Fares in INR | | Difference |
|---|---|---|---|---|
| | | To India | From India | |
| 1 | 2 | 3 | 4 | 5 |
| London-Delhi | 1. Normal Economy RT (1967) | 9664 | 11260 | —1596 |
| | 2. Lowest Inclusive Tour Fare | 4159 | 7417 | —3258 |
| | 3. Lowest Excursion Fare | 4816 | 6650 | —1834 |
| Rome—Delhi | 1. Normal Economy RT | 9664 | 9750 | —86 |
| | 2. Lowest Inclusive Tour Fare | 4295 | 6424 | —2129 |
| | 3. Lowest Excursion Fare | 5799 | 5850 | —51 |
| Frankfurt—Delhi | 1. Normal Economy RT | 11862 | 11094 | +768 |
| | 2. Lowest Inclusive Tour Fare | 6772 | 7308 | —536 |
| | 3. Lowest Excursion Fare | .. | .. | .. |
| GENEVA—Delhi | 1. Normal Economy RT | 11354 | 10938 | +416 |
| | 2. Lowest Inclusive Tour Fare | 6421 | 7206 | —785 |
| | 3. Lowest Excursion Fare | 69900* | 65900* | +310 |
| Brussels—Delhi | 1. Normal Economy RT | 11960 | 11094 | +866 |
| | 2. Lowest Inclusive Tour Fare | 5315 | 7308 | —1993 |
| | 3. Lowest Excursion Fare | 6700 | 6600 | +100 |

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Paris—Delhi | 1. Normal Economy RT | 11325 | 11094 | +231 |
| | 2. Lowest Inclusive Tour Fare | 5037 | 7308 | —2271 |
| | 3. Lowest Excursion Fare | 6810 | 6600 | +210 |
| Prauge—Delhi | 1. Normal Economy RT | 12417 | 11094 | +1323 |
| | 2. Lowest Inclusive Tour Fare | 5519 | 7308 | —1789 |
| | 3. Lowest Excursion Fare | 7451 | 6600 | +851 |
| Warsa—Delhi | 1. Normal Economy RT | 11218 | 11094 | +184 |
| | 2. Lowest Inclusive Tour Fare. | 5013 | 7308 | —2295 |
| | 3. Lowest Excursion Fare | 6485 | 6600 | —115 |

NOTE :—*Effective September 1, 1978 subject to Government approvals.

**The contracts in Rupees are on the basis of exchange rates prevailing in August, 1978.

3.3. During evidence, the Committee desired to know the reasons for the disparity in fares particularly between India and U.K. despite the fact that the Indian Rupee as a currency enjoyed a better stature in the international monetary market compared to pound sterling. The witness stated that it was fact that the fare ex-India to U.K. was higher than from U.K. to India. It was an anomaly which they were trying to remove.

3.4. The Committee desired to know why it had not been possible to rationalise the fare structure on the basis of a specific formula. The witness stated that originally the fare did have relation to the distance but over the years this relationship had undergone considerable changes. While there had been increases in the fare due to rise in the fuel and general costs, there had been reductions also as a result of which the fare versus distance ratio had got mutilated so much so that now there was no relationship at all between the two.

3.5. Asked if the matter had been raised in the IATA meetings at any time, the witness stated that in the conference held in Honolulu some years back, the TWA had submitted a distance related formula for establishing the fare structure between New York and all points in Europe and East thereof. It was proposed that the longer the distance, the lesser will be the fare upto a point in terms of percentage. Beyond that point, the sector fares would be added. However, the proposal was not accepted by the other carriers.

3.6. In reply to a question if the attention of the DGCA had been drawn to the various malpractices indulged in by various airlines operating in India, the witness stated:

> "The DG of Civil Aviation has been approached both verbally and in writing but with no effect."

3.7. In this connection, Chairman, Air India drew the attention of the Committee to the 69th Report of the Committee on Public Undertakings (Fourth Lok Sabha) where they had expressed concern about the heavy loss of revenue being sustained by Air India due to under-cutting in fares by some airlines. The Committee had recognised the need for setting up of a Government machinery as in the U.S.A. to keep a watch on the observance of the rules and regulations by foreign airlines to check this malpractice.

3.8. Asked if any action had ever been taken against any foreign airline for under-cutting Air India, the witness stated:

> "There has been no prosecution by the Indian authority.... Subsequently the DGCA has ruled that in any instance where a tariff is violated there will be a fine of Rs. 1000/- per instance plus three months jail sentence. But the machinery to enforce this rule is not there."

3.9. Asked how many cases had been booked under this rule, the witness stated:—

> "I do not think any case has been prosecuted at all."

3.10. In reply to a further question how the fare increases had affected the commercial interests of Air India, the witness stated:—

> "Fare increase as also fare decreases have been agreed from year to year and each time we take increase or decrease in fares, it is after a study is made on its impact on the market....I would like to say that the fare increase that we have taken in our view, is not detrimental to the commercial interests of Air India."

3.11. The Committee desired to know if any efforts had been made to point up a joint stand with other developing countries in this matter. The witness stated that they had unsuccessfully attemped to join hands with PIA to keep or establish certain low fares.

3.12. The Committee desired to know in how many cases such fares were established by IATA agreement. The witness replied:—

> "A number of fares have been established by IATA agreement. For example, between Europe and India, the fares are established by IATA agreement; the fares between Japan and India are established by IATA agreement. To digress slightly, we are at the moment negotiating with the Japan airlines for lower fares than what we have established by IATA agreement. But we have difficulty in convincing the Japanese that we need a lower fare. Once we are able to do that, we will establish that fare too."

3.13. The Committee desired to know the reasons for the refusal on the part of several airlines to effect consequential changes in the fare structure after devaluation/revaluation of their currencies. The witness stated:—

> "There are two results of change in the currency regulation. One is the revaluation and the other is the devaluation. If

the correct course is to be followed, if the currency is devalued, there should be a proportionate increase in the fare and, if the currency is revalued, there should be a proportionate decrease in the fare. In the case of countries where the currencies are devalued, quite a few carriers have felt, due to commercial reasons, that if the full effect of devaluation was taken, it will result in an abnormal increase in the fares and the traffic would suffer. On the contrary, the countries like Germany, Switzerland, whose currency had been revalued, they felt that nothing had changed in their countries, the income of the Government and of the people was still the same and, if they are to reduce the fares to the extent of revaluation, their revenues would suffer. In the first category, where there was devaluation, I would include British Airways, Air India and Egypt Air. To give you examples of cases where they refused to take the full extent of evaluation in account, Lufthansa, KLM, Air France. Some also did not take the full increase due to devaluation of the dollar."

** ** **

We have been taking the SDR for judging the standard of devaluation and re-valuation. In the case of the UK pound, the full effect of devaluation would be covered by the 68 per cent. increase in the local fare and, nearer home, in India, for example, the full effect of devaluation would be compensated by the increase in fares by 45 per cent."

3.14. Asked about the reasons why Air India could not being about reciprocity in the matter, the witness stated that the disparity was not only in the case of U.K. India fares but also between U.K. on the one hand and other European countries on the other. Asked if in that case it would be correct to say that many Airlines, although Members of the IATA did not go by IATA stipulations, the witness agreed that it was so. Chairman, Air India added:

"There have been some dramatic developments in aviation. The IATA has now liberalised. For instance, it is not essential for a member of the IATA to be a member of the Traffic Conferences where fares and freight rates are decided. But if you are a member of that group, then they do allow for innovative fares. They allow much more freedom to a carrier to set its own fare than they did previously. They have recognised the necessity for such flexibility."

3.15. Asked if he would agree that the IATA served the purpose of a few countries only and had outlived its utility, the Chairman Air India replied:

"On the trade side, it does take care of a number of activities in which all airlines are interested, even though they have nothing to do with fares and freight rates. Things like the Technical Committee, defining standards for safety operations, the Medical Committee, the Legal Committee, the clearing House where at one point the bills of scores of airlines are settled, inter-line agreement, the format of tickets, the format of cargo documents—all these things will continue to change; some central body is needed to coordinate all these. To that extent, the IATA continues to be a useful organization. In the matter of setting fares, it does serve a useful purpose. Of course, the Americans, the American Justice Department especially, are going all out to see that de-regulation is applied in the international field as they have already applied in their domestic field. But it does serve one useful purpose, and that is, it enables the airlines of several countries, many carriers, to sit together and discuss their problems. Previously they had a rule which required a unanimous agreement between the carriers to implement the fares and freight rates they may decide. But now that unanimity-rule has been relaxed. An individual airline can use its own judgment and determine its fares, under the provision of innovative fares, and yet have the benefit of consultation with a number of people. If we were to do all that by ourselves, we would find ourselves in the position of having to negotiate a hundred agreements with a hundred different governments and airlines and the staff here would have to be multiplied ten times to cope with the work. It would be difficult to coordinate the fares to the extent that we are able to do today."

"There is a feeling amongst many developing countries and their carriers that the IATA has served the purpose mainly of the large airlines of the Western world. But things are changing. America has now pulled out of IATA. To that extent the IATA has lost a certain amount of force in compelling the developing countries and their carriers to fix the rates as they wanted. There is a change coming about. It is, perhaps, too early to say whether we will lose by this or benefit. Personally I think that we will benefit from staying in such an organization which enable us to meet representatives from a number of countries having problems similar to ours. The developing countries out number the developed countries in IATA, and I think, in course of time, we should be able to make our presence felt."

3.16. The Committee pointed out that certain countries like the U.K. had not paid any heed to the IATA agreement of February 1973 freezing the exchange rates and this had led to directional imbalance in the normal fares. The witness stated:—

"The situation is like this. Whereas the UK pound sterling has been progressively devalued more and more, the currency surcharge out of UK has increased somewhat but not increased with the pace of devaluation."

"If you look at documentation, it will show you that in the case of London—Amsterdam the fares out of Amsterdam are 39% more than the fares out of U.K. The third from top—the fares out of Switzerland are 42% more than the corresponding fares out of U.K. The second line which is Frankfurt, you will find the fares out of Frankfurt are something like 52.84% higher than the corresponding fares out of U.K. Even in our neighbouring countries like Pakistan the situation is the same."

"So far as devaluation is concerned, you have Egypt, where the charge is not at all compensatory. You have Japanese Airlines, Swissair, Lufthansa, KLM and so on. They have not taken reduction in fares which they would have been justified, due to the devaluation of currency."

3.17. Asked about the extent of disparity and the routes on which it prevailed, the witness stated that this phenomenon prevailed everywhere. In some case Air India had an edge while in some other cases, others had an edge over us.

3.18. Asked about the position on India-Japan route, the witness stated :

"India-Japan fare would be lower. Japan having re-valued currency this has not depreciated to the extent that should have been."

3.19. The Deputy Managing Director (Commercial) added :

"Even the sky train fare between London and New York has this directional imbalance. Those fares are directionally unequal. The fare out of U.K. is lower than the fare out of the U.S.A. London—New York is 59 sterling. New York—London is 135 U.S.-Dollar. It is 120 Dollars for West bound direction and 175 Dollars for East bound direction. There would be 12 per cent imbalance."

3.20. Asked if any study had been made of the impact of these disparities on the revenues of Air India, the witness replied:

"In answer your question, Mr. Chairman, we have made a very rough study. I would not say that this is a very scientific one. It is done like that because we did not have the pleasure travel of India in the past. Therefore, the study would have been meaningless. The study that has been done proved or rather showed if we were to eliminate directional imbalance in favour of the lower level, then we stand to lose approximately 2½ crores a year."

"We have only taken the action in so far as the India—UK excursion fares are concerned and that is to equate the two directions. In this regard we had one meeting with them and we will have another meeting next week. Our aim is to equalise the two fares."

3.21. Asked why the Japan Airlines were opposed to the idea of introducing excursion fares between India and Japan, the witness stated :

"Traffic with Japan is largely moving in groups. It is easier to control groups, particularly if they come from a country where the language of the visiting country is alien to them. But most of the countries they visit we found from experience that Japan Airlines feel that traffic within Japan moves only in groups. They have resisted the introduction individual fares, general excursion fares to the public or youth fares and we have, in our negotiations with them, found reluctance on their part. Even for excursions from India to Japan, they feel there will be fresh similar fare within Japan. We are still negotiating with them and we have not given up hope. The idea behind them is that they can control groups rather than individuals."

3.22. Asked about the efforts made to establish low fares to/from India on the one hand and the socialist and third world countries on the other, the witness informed the Committee that they had an excursion fare between India on the one hand and Czechoslovakia and Poland on the other. They had no response from the Soviet Union for establishing such fares between India and Moscow.

3.23. The Committee desired to know from the Ministry if they had reviewed the fare structure of Air-India *vis-a-vis* other foreign airlines operating in our country and if so, what were the reasons for the fare from India being more than in the reverse direction. The Ministry have stated that no specific review of the fare structure of Air-India *vis-a-vis* other foreign airlines operating in this country has been conducted. However, the fare structure of Air-India and other foreign airlines consists of normal fares and promotional fares. The normal fare structure is one that is evolved out by members of the IATA, it is normally "distance related" in that fares to more distant points were proportionately higher in relation to the distance flown. Over the years, however, this relationship has undergone a change. Firstly, some of the increases taken in these fares due to various factors have not always been taken on basis of percentages. In many instances flat increases have been taken by some and as percentages by others which have distorted the relationship. Secondly, fares having taken unequal currency surcharges, has also contributed to the imbalance.

3.24. In regard to directional imbalance in fares, this is engaging the attention of the Government and efforts are being made to narrow down/eliminate the differences.

3.25. The Committee desired to know from the Ministry if any penalties had been imposed on various Airlines for violation of regulations/agreements. In a note, the Ministry have stated that violation of regulations/agreements can be dealt with in two different methods, *i.e.*, by resort to the relevant article in the air services agreement and call for consultations between the aeronautical authorities; or by resort to the relevant provisions in the Aircraft Rules which specify the penalty to be imposed for infringement/violation of the rules. No penalty has so far been imposed on any foreign airline by resort to the above mentioned methods. The practical difficulties in taking such action are that by consultation between the aeronautical authorities it would be an uphill task to agree on the penalty to be imposed and if we are to impose penalty for violation of Aircraft Rules, the matter will have to be taken through a competent court of law by way of prosecution.

3.26. Asked how many cases of violation of IATA rules or other conditions by foreign airlines had come to the notice of the Ministry during each of the last 3 years and the action taken against the defaulting airlines, the Ministry have informed the Committee that Government have not received any report from IATA Enforcement Officer for the region, stationed in Bombay, or any other authentic information regarding unethical trade practices of international airline. The existing legislation in this regard provides for punitive fines/imprisonment of carriers found indulging in unethical trade practices.

**3.27. The Committee are distressed that there is tremendous directional imbalance in the fare structure. A person travelling to other countries has to generally pay much higher fare in rupee than what a person will pay in convertible currency, for his travel from other countries to India however shaky that currency may be. The Committee are led to believe that a passenger from a poor country like India is indirectly being made to subsidise a passenger originating from an affluent country.**

**3.28. There is massive under-cutting of fares and it has become an open secret to all intending travellers that many airlines carry passengers at a fraction of the fare Air-India charges its passengers from India. The Committee are unable to find any justification for maintaining a provision in the Statute Book to penalise these. They would strongly recommend that Government should do away with it immediately. The fare structure should be thrown open to be decided by market forces.**

**3.29. The Committee are unhappy to find that Government have not taken interest in setting right the imbalances that have come about in Air-India's fare structure to safeguard the interests of passengers who are mostly Indians. In fact no specific review of the fare structure of Air-India vis-a-vis other foreign airlines operating in this country has been conducted. The Committee see no reason why the fare structure should not be distance related and uniform.**

**3.30. The Membership of IATA of an international carrier seems to have inhibited the rationalisation of fare structure. The Committee are not convinced about the specific and real benefits that Air-India (As well as IAC) are deriving from IATA. Our air carriers are old enough and no doubt have developed expertise to stand on their own if there is no lack of will. The Committee therefore feel that no useful purpose would be served for the two airlines to continue as members of IATA. In this connection it is worth noting that the American Civil Aviation Board have reportedly decided to come out of IATA.**

# CHAPTER IV

## PURCHASE AND UTILISATION OF B.747 AIRCRAFT

### FLEET COMPOSITION

4.1. The present strength of various types of aircraft, together with dates of acquisition by Air India are given below:

| Type of aircraft | Registration | Date of acquisition | Total No. of hours completed |
|---|---|---|---|
| Boeing 707-437 . . . | VT-DJR | February, 1960 | 54765 |
| | VT-DJK | March, 1960 | 55515 |
| | VT-DNY | March, 1962 | 51862 |
| | VT-DNZ | April, 1962 | 48930 |
| Boeing 707-337B . | VT-DAM | May, 1964 | 40241 |
| | VT-DSI | March, 1965 | 38545 |
| | VT-DVA | October, 1966 | 35931 |
| Boeing 707-337C . | VT-DVB | February, 1967 | 33841 |
| | VT-DXT | August, 1968 | 29501 |
| Boeing 747-237B . . . | | | |
| | VT-EBE | May, 1971 | 20999 |
| | VT-EBN | April, 1972 | 18596 |
| | VT-EBO | June, 1972 | 18354 |
| | VT-EDU | December, 1975 | 6894 |
| | VT-EFJ | February, 1978 | — |
| | VT-EFO | June, 1978 | — |

4.2. Thus, Air-India have at present 15 aircraft in their fleet—9 Boeing 707 and 6 Boeing 747s.

## B. PURCHASE OF B-747 AIRCRAFT

4.3. The Committee called for a detailed note on the actual purchases made by Air-India during each of the last five years giving *inter alia* the method followed for selecting foreign parties and reasons for selecting a particular aircraft/aircraft manufacturer together with the comparative operational economies over the other aircraft available at that particular time. Air-India have accordingly furnished the following note:

> "A decision was taken to go in for a fleet of Boeing-747 aircraft and a Purchase Agreement was signed in July, 1967 for delivery in January/March, 1971 of the first two such aircrafts and they were put into service from May, 1971.
>
> At the time of going in for 747 wide bodied aircraft, there was no other comparable aircraft in size manufactured by any other manufacturer other than Boeing Airplane Company. The 747 programme was firmed up by Boeing based upon Pan Am's initial order for 25 aircraft, Lufthansa's 3, JAL's 3, and TWA's expected order for 15."

The then estimated cost per seat mile and ton-mile in respect of B-707 and 747 airplanes were as follows:—

| | B-707 | B-747 |
|---|---|---|
| TOC/Seat Mile (US) | 3·0 | 2·36 |
| TOC/ATM (US) | 25·9 | 13·3 |
| Breakeven Load Factor | 52·5 | 3.22* |

The selection of the aircraft for meeting route expansion requirements and also the fleet replacement programme will depend upon the results of the Systems Study covering a longer period of 1978/79 to 1987/88, which is currently in progress.

4.4. As regards future purchases, the Committee desired to know if any systems study had since been undertaken and if so, what the findings in this regard were. They have been informed that a Systems Study and a technical evaluation of different types of wide-bodied aircraft including the B-747 aircraft was carried out in 1977. Management's recommendations, based on the conclusions of the Study, that the immediate aircraft acquisition policy of the Corporation including that arising out of the replacement of B-707

NOTE :—*The actual break even load factor turned out to be as high as 59·2 in 1977-78.

aircraft, should centre round the acquisition of additional B-747, aircraft, was approved by the Air India Board at its 132 meeting held on 29th December, 1977. The Board also authorised the Management to submit proposals for acquiring three B-747 aircraft as the first step towards implementing the re-equipment/ expansion plan. A Project Report covering Air India's proposal to acquire the 8th, 9th and 10th B-747 aircraft including the justification and economic viability of the proposal was accordingly submitted to Government in May, 1978 and approved by it in November, 1978.

A separate Project Report including a full economic justification in respect of the proposal for acquiring a B747 aircraft in replacement of 'Emperor Ashoka' lost in the accident in January 1978, was submitted to Government in March 1978 and approved by it in June 1978. The aircraft is due for delivery in August 1979. Three other B747 aircraft are due to be delivered between December 1979 and March 1980.

## C. BREAK-EVEN LOAD FACTOR

4.5. During evidence of the representatives of Air India, the Committee pointed out that according to the information furnished to them in November, 1977, the estimated break-even load factor for B 7.7 aircraft was 52.05 and for B 747 it was 32.2.They desired to know what the actual break-even load factor was at present for both these types of aircraft. The witness stated that the figures furnished to the Committee were the estimates as available in 1967 or even earlier. The break-even load factor was 52.5 and 58.2 for B. 707 and B. 747 respectively during 1977-78. As against this, the load factor actually achieved during that year was 61.87 in case of B. 707 aircraft and 63.87 in case of B. 747 aircraft.

4.6. The Committee enquired why the actual break-even load factor in case of B. 747 aircraft was as high as 59.2 in 1977-78 as against only 32.2 estimated at the time orders were first placed for acquisition of such aircraft. The witness stated that at the time decision was taken to purchase B. 747 aircraft, the break-even load factor was compiled on the basis of the then existing fuel and operating costs as also the yields *i.e.* the fare structure then prevailing. Since then costs had gone up tremendously in every sphere *i.e.* in respect of fuel, navigational costs, landing fees, handling fee etc. On the other hand, fares had come down considerably in many of the sectors where Air India was operating. Thus the high Break-even load factor was the result of increase in costs on the one hand and reduction in the yields on the other.

4.7. The Committee pointed out that in case of B. 707 aircraft the break-even load factor had remained constant at 52.5 during this period even though other factors were equally applicable in this case. The representative of Air India stated that so far as B. 707 aircraft were concerned, there were two very favourable factors for keeping the stated even load factor about the same as was anticipated at that time. One was the depreciation element which had brought down the book value of these aircraft almost to nil. To that extent the cost of operation of these aircraft was considerably less. Secondly, B. 707 aircraft were being operated on routes e.g. to the Gulf countries, India—Nairobi etc. where the yields were considerably higher than the yields in the Western sector. In fact the fares between India and Europe—UK and USA had come down considerably in recent years.

4.8. The Committee further pointed out that Air India had been obliged to withdraw some operations from Europe because they could not have too many with the huge B. 747 aircraft and enquired what the position would have been if the break even load factor had remained constant in this case also. The witness stated:

"Even then I think some stations would have become uncompetitive on our routes because that would have slowed down the service. Lastly, since we purchased these aircraft more and more services are being operated point-to-point with less number of stops. With slowing down our services, we would have become uncompetitive with other who are operating direct services. We necessarily had to curtail some of the points to make the service faster".

4.9. In reply a further question if in that case it would not have been better for Air India to continue with B. 707 aircraft and retain the rights that had to be given up in exchange for the facility of operating bigger aircraft, the witness stated:

> "......we would have been losing very heavily on these operations on the Western route because of the fare structure."

4.10. Asked why Air India had entered into an inter line agreement with Lufthansa permitting the latter to operate one additional air service apart from the 7 services per week specified in the bilateral agreement on the India-Continent route where Air India was losing, the witness stated that as against a loss of Rs. 3 lakhs incurred on this route during 1977-78, they had made a profit of Rs. 84.86 lakhs during April-December, 1978.

4.11. Asked how the yields on the routes operated with B. 797 aircraft compared with those obtained on routes operated with B. 747 aircraft, the witness stated that on the India-Gulf route, the yield was Rs. 7.82 per revenue tonne Km whereas on the India—US route which was much longer, the yield from B. 747 aircraft was only Rs. 3.30 per revenue tonne Km. These were, however, two extremes and in between there were routes such as India-South Africa-Mauritius-West Africa etc. which fetched in yield of between Rs. 5.28 to 5.71 per revenue tonne Km. He added that the fares would determine the yields and the yields would determine the break-even load factor.

Asked if it did not amount to the poor countries paying for the travel of the people richer countries, the Chairman, Air India stated:

> "These fares are set on the principle of what the traffic will bear on the operating costs...... 747 Jumbo has made it possible for the fares to go down and there is surely a competitive situation which has compelled the Airlines to reduce the fares across the Atlantic namely because of the load cost per seat per Km so that the Air lines are able to reduce the fare across the Atlantic but still keep steady their overhead costs".

4.13. To a question if it was true that the German airlines were making profits on account of increased frequency mostly with smaller aircraft whereas India were not able to utilise the rights fully, the Chairman Air India replied:

> "Mr. Chairman, on that I would like to say that it is not because of uneconomic operation of 747 but it is mainly because of non-utilisation of frequencies".

4.14. In a further note on the subject Air India have stated that the breakeven load factor of 32.2 on the B. 747 aircraft was worked out while preparing the Long Term Plan of Air India in 1966 with reference to the Bombay|London route. The B. 747 aircraft was the earliest wide-bodied aircraft that was under development at their stage. In estimating the operating costs the technical and operating characteristics as then known were utilised and indirect operating costs were assumed at 100 per cent of Direct Operating Costs exclusive of fuel and oil which worked out to 75 per cent of the Direct Operating Costs. The yield assumptions were based on the normal fares that were then prevalent. For comparative purposes, the 707-320B break-even load factor of 2.5 per cent was also calculated for the same route having regard to the relevant characterists of the latter aircraft.

1971-72 was the first year of the introduction of B. 747s on Air India's services and the aircraft were exclusively used on the India|U.K.|USA route. In 1971|72, it was observed that the Indirect Operating Cost amounted to 140 per cent of Direct Operating Cost as compared to 75 per cent assumed in the study. This increase is the result of combined effect of escalation in cost during the intervening years as well as some under-estimation in the Indirect Operating Costs. Further in that year the yields on the 747 route turned out to be lower compared to the normal fare assumption utilised in the study by approximately 22 per cent. This is mainly on account of the introduction of several excursion and discounted fares. This has become necessary due to introduction of wide-bodied aircraft by several Carriers on this high density and highly competitive market resulting in dilution of yields. These two factors contributed to the increase in the breakeven load factor.

4.16. The breakeven load factor (Operating) in the first year (1971-72) for 747s was 54.6 per cent. Taking this as the base, the breakeven load factor in 1977-78 underwent an increases of 2.9 points raising it to 57.5 per cent. The average annual increase in the yields for 1971-72 to 1977-78 is of the order of 8.7 per cent per annum whereas the Operating Cost has gone up at an average annual rate of 9.7 per cent. The gap between the rate of increase in costs and rate of increase in yields has contributed this increase in breakeven load factor. The fuel cost per km during this period has gone up at an average rate of 25 per cent.

4.17. The breakeven load factor (Operating) of 51.5 per cent (total : 52.5 per cent) on 707s in 1977-78 as compared to the 52.5 per cent mentioned in the 1966 study not undergoing any significant variation is purely coincidental as the former is the System breakeven load factor while the latter represented the breakeven load factor on the Bombay|London route used in the study. Also, during this period while our costs like fuel and oil, landing fees, handling fees etc. has gone up, the 707s have had relief by being free of depreciation and interest and financing charges progressively.

4.18. The 707s were and are being largely deployed on several routes where yields are comparatively higher *i.e.* India|East Africa, India|Gulf, India|Singapore.

4.19. In 1977-78, the breakeven load factor for the 707 operations on certain routes (*i.e.* India|Japan) was as high as 60.6 per cent whereas the breakeven load factor on the India|East Africa was low at 46.1 per cent and the aggregate for the system as a whole came to 51.5 per cent (Operating) and 52.5 per cent (total). Similarly, the breakeven load factor for 747 will also vary from route to route depending on the yields. It may be mentioned that as a consequence of 747 operations being barely on low yield routes, the 747 breakeven load factor shows an adverse position. In 1977-78 the system-wise yield on 707 routes was Rs. 4.469 per RTKM as against Rs. 3.298 per RTKM for 747s. *i.e.* the 707 yield was higher by 35.5 per cent. If the yield position were to be reversed, the break even load factor for Rs. 747 will be 42.4 per cent and for B. 707 will be 69.8 per cent.

4.20. The Committee enquired about the present ratio of indirect operating costs to the direct operating costs of B. 747 aircraft, the reasons for the high indirect costs and the steps taken to effect reduction in the same. In a note; Air India have stated that the Committee which made the study followed a certain methodology for identifying direct and indirect costs. If the same methodology were to be followed today, our current (1977-78) level of indirect operating costs would be 99 per cent of the direct operating costs. However, while the methodology adopted by the Committee at that time was for the specific purpose of estimating the projected operating costs of an aircraft type which was still under development and which required making of certain assumptions in regard to its likely indirect costs as a proportion of the direct operating costs, for our day-today analysis of expenditure, we have been following a more refined methodology for the last several years under which the operating costs are split not between direct and indirect costs but are in fact segregated into 3 divisions *viz.* cash costs (which in any case would be direct cost,) fixed direct costs and other indirect costs. The elements of costs which go into each division and the total hourly costs against the 3 divisions for the year 1977-78 are as follows:

| | Hourly cost for 1977-78 |
|---|---|
| 1 | 2 |
| (a) Cash Cost—Aircraft Fuel & Oil, Material Consumption including outside repairs, Landing & Navigation charges for Handling, operating crew Expenses and Insurance, Cabin Crew Expenses & Insurance, Legal Liability Insurance, Booking Agency Commission, and Food and Cabin Service Amenities. | 43.241 |

| 1 | 2 |
|---|---|
| (b) Fixed costs (Direct-operating Crew Salaries, allowances, & P.F. including Training, Cabin Crew Salaries & Allowances. Engineering staff Salaries incl. Stores, Engineering Department staff costs and Expenses, Aircraft Insurance, Depreciation—Aircraft Insurance, Depreciation—Aircraft and Obsolescence on Spares | 9,204 |
| (c) Fixed costs (Indirect)—Publicity, Sales & Tourist Promotion, Salaries other than Crew & Engineering Depreciation—other assets and other fixed costs. | 16,281 |
| Total Operating costs . | 68,726 |

4.2. From the figures given above, it will be seen that the percentage of fixed direct plus fixed indirect costs together to the cash costs for 1977-78, is 59 per cent while the percentage of indirect costs to the direct cash costs is 38 per cent.

4.22. The proportion of indirect costs to the direct costs would, to a great extent, depend on the fleet size and with the progressive increase in our 747 fleet size, the percentage has been gradually coming down. The principal step to be taken to reduce the incidence of indirect costs, thus has to be to increase the fleet size and increase the operations without a proportionate increase in the indirect costs so that their spread is reduced. With the additions to the fleet planned in 1979-80, the indirect costs would come down further. However, the control over expenditure under all categories is exercised through a strict budgetary control system and budgetary allocations are given to stations based on detailed examination of their requirements. There is a reporting system by means of which control is sought to be exercised on the expenditure.

4.23. Internal Audit also scrutinises the expenditure of stations and the system from the various expenses reports, documents etc. as well as by periodical visits to keep a check on the costs.

2.24. On their attention being drawn to the wide variation in the estimated and actual break even load factor of B.747 aircraft, the Ministry of Tourism and Civil Aviation have stated:

> "This does not appear to have come to the notice of Government. However, this is being looked into".

4.25. In reply to a further question whether the proposal to go in for more B. 747 aircraft during the Sixth Plan did not call for rethinking in the light of actual results of operation of these aircraft and whether it would not be desirable for Air India to go in for smaller aircraft to replace its ageing B 707 fleet, Government have stated that the economic viability of the addition of 3 Boeings 747 to the fleet of Air India for which orders have been placed, had been examined by the Government in consultation with all the appraisal agencies with reference to the routes on which these aircraft were intended to be deployed. Government sanction was communicated after the proposal had been examined by the Public Investment Board and approval of the Cabinet obtained. Since the economic viability of the aircraft as also their actual operating results had been taken into account and Government approval was only accounted after consultation with appraisal agencies including Ministry of Finance and the Project appraisal Division of the Planning Commission. It is not considered necessary to have second look regarding the decision to purchase additional Boeing 747s.

4.26. After the acquisition of these B. 747 aircraft, Air India intends to go in for smaller aircraft and desirability of smaller wide-bodied aircraft as replacement aircraft for ageing B. 707 fleet is engaging attention. This matter is already being considered in a Joint fleet study for meeting the requirements of Air India and Indian Airlines in future. The choice of aircraft relating to further addition to the fleet would, no doubt, be decided after the results of joint fleet study are available.

*Route-wise profit|loss and the break-even load factor*

4 27. The Committee called for details of profit and loss incurred by Air India on each of the routes where Boeing 747 aircraft has been deployed with breakeven load factors and actual load factors achieved on each rote. Air India have accordingly furnished the following information:

(Rs. in lakhs)

| A. India/U.S.A. | 1975-76 | 1976-77 | 1977-78 | 1978-79 (Apr./Dec.) |
|---|---|---|---|---|
| Revenue (after Pool) | 8833·00 | 10201·00 | 1025·4 | 7701·00 |
| Expenditure | 8612·00 | 9033·00 | 9504·00 | 07·0003 |
| Operating Profit (loss) | 221·00 | 1168·00 | 750·00 | 080.Lz9 |
| Breakeven Load Factors | 60·07 | 59·00 | 62·70 | 66·4 |
| Achieved Load Factor | 62·6 | 66·9 | 67·9 | 67·3 |

(Rs. in lakhs)

| B. India/UK | 1975-76 | 1976-77 | 1977-78 | 1978-79 (Apr./Dec.) |
|---|---|---|---|---|
| Revenue (after Pool) | 1275·75 | 1592·44 | 1739·68 | 1756·18 |
| Expenditure . | 1194·30 | 1438·69 | 1488·27 | 1686·49 |
| Operating Profit/Loss . | 81·45 | 153·75 | 51·41 | 69·69 |
| Breakeven Load Factors | 56·7 | 56·8 | 53·5 | 53·2 |
| Achieved Load Factors | 60·6 | 62·8 | 62·5 | 55·2 |
| C. *India/Australia* | | | | |
| Revenue (after Pool) . | | 1897·00 | 1297·00 | 710·71 |
| Expenditure | | 1649·54 | 1547·10 | 783·61 |
| Operating Profit/Loss | .. | (252·54) | (250·10) | (72·90) |
| Breakeven Load Factors . . | .. | 52·6 | 54·7 | 59·4 |
| Achieved Load Facotrs . . | .. | 44·5 | 45·9 | 53·8 |
| *D. India/Gulf* | | | | |
| Revenue (After Pool) . | | 606·00 | 959·41 | 253·27 |
| Expenditure . . . | | 312·10 | 571·30 | 806·31 |
| Operating Profit (Loss) . | | 293·90 | 388·11 | 147·41 |
| Breakeven Load Factors | | 28·8 | 28·5 | 44·9 |
| Achieved Load Factors | | 55·9 | 47·8 | 53·1 |
| *E. India Continent* | | | | |
| Revenue (after Pool) . . | | | | 1120·64 |
| Expenditure . . | | | .. | 1044·97 |
| Operating profit/Loss | | | | 75·67 |
| Breakeven Load Factor | .. | | | 46·1 |
| Achieved Load Factor | | | | 49·5 |

**4.28. The break-even load factor in respect of B.747 aircraft was estimated to be 32.2 at the time decision was taken to purchase these**

aircraft (July 1967). The actual break-even load factor of these aircraft was, however, as high as 59.2 in 1977-78.

4.29. In 1971-72 which was the first year of introduction of B.747 aircraft, it was observed that the indirect operating cost amounted to 140 per cent of the direct operating cost as compared to 75 per cent assumed in the feasibility study. This increase is stated to be "the result of combined effect of escalation in costs during the intervening years as well as some under-estimation in the indirect operating costs." It has been further mentioned that another factor why the break-even load factor has shown adverse position is that 747 operations are largely on low yield routes. However, the fact remains that the basis for justifying the purchase of the aircraft has been materially altered.

4.30. The Committee find it hard to believe that this wide variation in the estimated and actual break-even load factor caused by under-estimation of expenditure and over-estimation of revenue in respect of B.774 aircraft has not come to the notice of Government and the matter is only now being looked into. If true, it would among to a callous disregard of the country's interests in such vital a field as purchase of passenger aircraft from foreign firms which would always be waiting in the wings to take the Airlines and the Government for a ride. This gives rise to serious suspicion about the bonafides of the purchase.

4.31. The Committee note with concern that the systemwise yield on the routes on which B.747 aircraft are operating was Rs. 3.298 per RTKM in 1977-78 as against Rs. 4.469 per RTKM on routes on which B.707 aircraft are operating. For instance, on the India-Australia route where B.747 has been employed the break-even load factor was 52.6 in 1976-77, 54.7 in 1977-78 and 59.4 in 1978-79. Air India sustained losses on this route to the tune of Rs. 2.53 crores in 1976-77, Rs. 2.50 crores in 1977-78 and Rs. 0.73 crores in 1977-78.

4.32. The Committee note that the desirability of smaller wide bodied aircraft as replacement aircraft for the ageing B.707 fleet is engaging Government's attention. **The Committee required that further deals with the Boeing Company should be stopped immediately till a study is made in depth honestly and dispassionately of the ecnomics of various proposals already pending with Government.**

**4.33. The Committee find that with the same methodology as was followed in the earlier study, the current level of indirect operating costs would be 99 per cent of the direct operating costs (as against 75 per cent then estimated). These are expected to come down gradually with the increase in the fleet size and increased operations. The Committee urge that speedy and effective steps should be taken forthwith to bring down the incidence of indirect costs through stricter supervision and control over expenditure.**

NEW DELHI;
*April* 29, 1978.
*Vaisakha* 9, 1901 (*S*).

JYOTIRMOY BOSU,
*Chairman,*
*Committee on Public Undertakings.*

## APPENDIX

*Summary of Conclusions|Recommendations of the Committee on Public Undertakings contained in the Report*

| S. No | Reference to para in the Report | Summary of Conclusions\| Recommendations |
|---|---|---|
| (1) | (2) | (3) |
| 1 | 1.31 and 1.32 | The Committee find that Air India have not paid any income tax during the year 1975-76, 1976-77 and 1977-78, although they have been showing some profits during these years. Air India enjoyed exemptions from payment of customs duty on aircraft\|aircraft spares and sales tax on fuel (in three States, *viz.*, Maharashtra, West Bengal and Tamilnadu) of the order of Rs. 8.31 crores and Rs. 6.95 crores respectively in 1977-78. The Committee thus find that but for the substantial reliefs in customs duty and sales tax enjoyed by Air India, the financial position of the Corporation would not at all be gratifying.<br><br>The net foreign exchange earnings of Air India are stated to have increased from Rs. 8.17 crores in 1975-76 to Rs. 8.49 crores in 1976-77 and to Rs. 30.31 crores in 1977-78. If the expenditure on fuel in India (ranging between Rs. 15.81 crores and Rs. 21.91 crores) which is substantially imported, is taken into account there would be virtually no net foreign exchange earnings during this period. The Committee are of the firm view that there is immense scope to augment foreign exchange earnings by cutting down foreign office expenses and foreign travel expenses as well as rationalising the sales |

| (1) | (2) | (3) |
|---|---|---|
| | | agency arrangements and restricting them to the minimum. |
| | | In this connection, the Committee wish to point out that the expenses abroad were as high as Rs. 182.29 crores in 1977-78 as against the total operating expenses of Rs. 270.85 crores. |
| 2 | 1.33 | The Committee find that the average yield per revenue tonne kilometre achieved by Air India was very low compared to a number of foreign airlines. During 1977-78 the average yield for Air India was 46.9 only in terms of U.S. cents whereas it was 57 in case of KLM, 69.3 in case of Swiss air, 57.7 in case of Air France, 61.1 in case of Lufthansa, 59.0 in case of Alitalia and 55.0 in case of British Airways. This is attributable to the fact that the operations of Air India are in a very large measure on low yield routes where promotional fares have been established. The Committee fail to understand as to why Air India should continue to operate on routes on which it is losing year after year. |
| | | 1.34 The Committee consider that for the efficient functioning of Air India, it is necessary to have a separate wholetime Chairman stationed at Bombay. He should preferably have a good background of air transport management and its economy. |
| 3 | 2.33 and 2.34 | The total outstandings due to Air India stood at a fantastic figure of Rs. 4,557 lakhs as on 31st March, 1978 of which an amount of Rs. 3.817 lakhs was less than one year old, Rs. 482 lakhs more than one year but less than three years old and Rs. 258 lakhs more than three years old. The amount considered doubtful was of the order of Rs. 273.70 lakhs while the amount under dispute from parties owing more than Rs. 10,000 |

| (1) | (2) | (3) |
|---|---|---|
| | | each was Rs. 115.83 lakhs as on that date. Amounts totalling Rs 64.45 lakhs were written off as bad debts during the years 1974-75 to 1977-78 of which as much as Rs. 39.66 lakhs was written off in 1976-77 and Rs. 13.97 lakhs in 1977-78. |
| | | The Committee are deeply concerned to note that of the total outstanding dues amounting to Rs. 4557.36 lakhs the outstandings in U.S.A. and Canada Region also amounted to Rs 429.69 lakhs as on 31st March, 1978 of which an amount of Rs. 115.83 lakhs was disputed. From the figures of break-up of this amount furnished to the Committee, it is seen that traffic dues to the tune of Rs. 190.42 lakhs were outstanding against agents on invoicing\|reporting basis, Rs. 197.41 lakhs were outstanding from Commercial houses\|private parties and Rs. 26.82 lakhs as 'charges collect shipments' in U.S A.\|Canada Region. Of the total outstanding dues under dispute of the order of Rs. 115.83 lakhs in U S.A.\| Canada region, the agents in default accounted for as much as Rs. 93.42 lakhs. |
| 4 | 2.35 to 2.37 | The Committee further observe that out of the 25 Indian Travel Agencies abroad which have now gone out of business, all except one were operating in U.S.A.\|Canada Region. Some of these parties from whom heavy amounts were due in the U.S.A.\|Canada Region and which have since closed down are—William Becker Travel Agency (Rs. 19.24 lakhs) ITA\|Travel Stores (Rs. 13.26 lakhs). Travel and Voyages (Rs. 11.05 lakhs) and Bharat Travel Service (Rs. 8.21 lakhs) |
| | | The Committee note that no caution\|earnest money is demanded from the travel agencies before entrusting business. The deposition of the Regional Director, U S.A. and Canada that |

| (1) | (2) | (3) |
|---|---|---|
| | | "in the market conditions existing in the United States there is no way, in my opinion, to prevent an agent from taking an airline for a ride, as we have been taken on occasion...." may appear to be on the surface a pathetic admission of their helplessness in the matter but there seems to be more than meets the eye. The Committee suspect that the conduct of some of Air India's officials *viz-a-viz* these agencies has not been above board. |
| | | The evidence tendered by Air India's representatives in U.S.A.\|Canada region and their superiors in Headquarters has not allayed these suspicions. It has revealed tie-ups of one agency with another links of certain officers with some of these agencies through their relations or friends and commissions having been paid to cerain agents in circumstances that have cast serious doubts in their mind. The Committee, therefore, require that a full scale enquiry should be conducted by the Central Vigilance Commission into the affairs of William Becker Travel Agency, Bharat Travel Service, V.I.P. Holidays, ITA Travel Stores, Travel and Voyages and Commonwealth Economy Tours to ascertain in what circumstances these were closed down and whether any of the officials of Air India were in any way responsible for the lesses incurred by All India as a result of their closure. The initial investigations in this regard may be entrusted to a senior official capable of doing investigation work in the embassy of the country concerned. The Committee would like to be apprised of the results of this enquiry at the soonest. |
| 5 | 2.58 | The Committee would also like to be apprised immediately of the efforts made by Air India to recover the amount of Rs. 197.41 lakhs due |

| (1) | (2) | (3) |
|---|---|---|
| | | from commercial houses/private parties in U.S.A./ Canada region and the results thereof. |
| 6 | 2.39 | The Committee would further like the Ministry of Tourism and Civil Aviation to examine how best the interests of the national carrier could be secured from unscrupulous travel agencies and the colluding officials of Air India having their links both in India and abroad. |
| 7 | 3.27 and 3.28 | The Committee are distressed that there is tremendous directional imbalance in the fare structure. A person travelling to other countries has to generally pay much higher fare in rupee than what a person will pay in convertible currency, for his travel from other countries to India however shaky that currency may be. The Committee are led to believe that a passenger from a poor country like India is indirectly being made to subsidise a passenger originating from an affluent country.<br><br>There is massive under-cutting of fares and it has become an open secret to all intending travellers that many airlines carry passengers at a fraction of the fare Air India charges its passengers from India. The Committee are unable to find any justification for maintaining a provision in the Statute Book to penalise these. They would strongly recommend that Government should do away with it immediately. The fare structure should be thrown open to be decided by market forces. |
| 8 | 3.29 | The Committee are unhappy to find that Government have not taken interest in setting right the imbalances that have come about in Air India's fare structure to safeguard the interests of passengers who are mostly Indians. In fact no specific review of the fare structure of Air |

| (1) | (2) | (3) |
|---|---|---|
| | | India *vis-a-vis* other foreign airlines operating in this country has been conducted. The Committee see no reason why the fare structure should not be distance related and uniform. |
| 9 | 3.30 | The Membership of IATA of an international carrier seems to have inhibited the rationalisation of fare structure. The Committee are not convinced about the specific and real benefits that Air India (As well as IAC) are driving from IATA. Our air carriers are old enough and no doubt have developed expertise to stand on their own if there is no lack of will. The Committee therefore feel that no useful purpose would be served for the two airlines to continue as members of IATA. In this connection it is worth noting that the American Civil Aviation Board have reportedly decided to come out of IATA. |
| 10 | 4.28 to 4.30 | The break-even load factor in respect of B. 747 aircraft was estimated to be 32.2 at the time decision was taken to purchase these aircraft (July 1967). The actual break-even load factor of this aircraft was, however, as high as 59.2 in 1977-78.<br><br>In 1971-72 which was the first year of introduction of B.747 aircraft, it was observed that the indirect operating cost amounted to 140 per cent of the direct operating cost as compared to 75 per cent assumed in the feasibility study. This increase is stated to be "the result of combined effect of escalation in costs during the intervening years as well as some under-estimation in the indirect operating costs." It has been further mentioned that another factor why the break-even load factor has shown adverse position is that 747 operations are largely on low yield routes. However, the fact remains that the basis for justifying the purchase of the aircraft has been materially altered. |

| (1) | (2) | (3) |
|---|---|---|
| | | The Committee find it hard to believe that this wide variation in the estimated and actual break-even load factor caused by under-estimation of expenditure and over-estimation of revenue in respect of B. 774 aircraft has not come to the notice of Government and the matter is only now being looked into If true, it would among to a callous disregard of the country's interests in such vital a field as purchase of passenger aircraft from foreign firms which would always be waiting in the wings to take the Airlines and the Government for a ride. This gives rise to serious suspicion about the bonafides of the purchase. |
| 11 | 4.31 and 4.32 | The Committee note with concern that the system-wise yield on the routes on which B 747 Aircraft are operating was Rs. 3,298 per RTKM in 1977-78 as against Rs. 4.469 per RTKM on routes on which B. 707 aircraft are operating. For instance, on the India-Australia route where Rs. 747 has been employed the breakeven load factor was 52.6 in 1976-77, 54.7 in 1977-78 and 59.4 in 1978-79. Air India sustained losses on this route to the tune of Rs. 2.53 crores in 1976-77, Rs. 2.50 crores in 1977-78 and Rs. 0.78 crores in 1977-78. |
| | | The Committee note that the desirability of smaller wide bodied aircraft as replacement aircraft for the ageing B. 707 fleet is engaging Government's attention. The Committee require that further deals with the Boeing Company should be stopped immediately till a study is made in depth honestly and dispassionately of the economics of various proposals already pending with Government. |
| | | The Committee find that with the same methodology as was followed in the earlier study, the current level of indirect operating |

| (1) | (2) | (3) |
|---|---|---|
| | | costs would be 99 per cent of the direct operating costs as against 75 per cent. then estimated). These are expected to come down gradually with the increase in the fleet size and increased operations. The Committee urge that speedy and effective steps should be taken forthwith to bring down the incidence of indirect costs through stricter supervision and control over expenditure. |

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