FOURTEENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1986-87)

(EIGHTH LOK SABHA)

AIR INDIA—WORKING RESULTS AND TRAFFIC GROWTH

(MINISTRY OF CIVIL AVIATION

Presented to Lok Sabha on . . 5 MAR 1987 . . . .

Laid in Rajya Sabha on . . 5 MAR 1987 . . . .

सत्यमेव जयते

LOK SABHA SECRETARIAT

NEW DELHI

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CORRIGENDA TO THE FOURTEENTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1986-87) ON AIR INDIA - WORKING RESULTS & TRAFFIC GROWTH

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(1986-87)

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3. Shri G. S. Bhasin—*Senior Financial Committee Officer.*

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*Elected w.e.f. 22-8-1986 in the vacancy caused by appointment of Miss Saroj Khaparde as Minister of State.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fourteenth Report on Air India—Working Results and Traffic Growth.

2. The Committee (1985-86) took evidence of the representatives of Air India on 12, 13 and 25 September, 1985, 20 and 21 November, 1985 and of the representatives of Ministry of Civil Aviation on 17 and 18 March, 1986.

3. The Committee on Public Undertakings (1986-87) considered and adopted the Report at their sitting held on 23 January, 1987.

4. The Committee wish to express their thanks to the Ministry of Civil Aviation and Air India for placing before them the material and information they wanted in connection with examination of Air India. They also wish to thank in particular the representatives of the Ministry of Civil Aviation and Air India who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
January 30, 1987
Magha 11, 1908 (*Saka*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

I. WORKING RESULTS

1.1 Air India is a Statutory Corporation which was set up under the Air Corporations Act, 1953. The general powers and functions of the Corporation are defined under Section 7 of the Air Corporations Act, which *inter-alia,* states that it shall be the function of the Corporation to provide safe, efficient, adequate, economical and properly co-ordinated air transport services, 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 these powers as to secure that the services are provided at reasonable charges.

Other objectives of the Corporation are:

(i) To provide services of a high standard to passengers and customers on ground and in the air.

(ii) To achieve, maintain and improve its rightful place in the international air transport industry.

(iii) To make an increasing contribution to the national economy, and maximise revenues with efficient fleet utilisation and route network.

(iv) To promote international tourism to India and to improve the nation's foreign exchange resources.

(v) To assist in the promotion of nation's export trade.

(vi) To improve the national economy by encouraging local skills and technology to get equipment and materials, other than aircraft, indigenously manufactured with the intention of curtailing imports steadily and save foreign exchange.

(vii) To promote healthy relations with the various employees' Unions for ensuring employees' co-operation in the performance of the Corporation's activities.

(viii) As an important purchaser of many services and goods in India, other than aircraft, Air-India contributes to expanding indirect employment opportunities. This in turn, generates considerable income through the multiplier effect in producing additional employment.

(ix) The Corporation (along with Indian Airlines) serves the country in emergencies as a second line of defence. Besides, the availability of aircraft for country's use, the highly trained Pilots and other technical staff are at the disposal of the Government for all eventualities.

1.2 Air India was last examined by the Committee on Public Undertakings (1978-79) and was reported upon in the 52nd and 53rd Reports (Sixth Lok Sabha).

(i) *Overall profit/loss*

1.3 The figures of original budget and actuals of total revenue, total expenditure and net profit during the period 1979-80 to 1984-85 as furnished by Air India are given below:—

(Rs. in crores)

	1979-80		1980-81		1981-82	
	Original Budget	Actuals	Original Budget	Actuals	Original Budget	Actuals
Total Revenue	445·66	402·06	607.40	514·93	635·77	621·64
Total expenditure	415·76	417·02	637·50	536·23	634·47	611·28
Net Profit/Loss .	(28·90)	(14·96)	(30·10)	(21·30)	1·30	10·36

(*Rs* in crores)

	1982-83		1983-84		1984-85	
	Original Budget	Actuals	Original Budget	Actuals	Original Budget	Actuals
Total Revenue	755·91	719·93	840·07	792·36	869·13	854·31
Total Expenditure	738.31	681·89	789·77	734·97	805·13	809·62
Net Profit/Loss	17·60	38·04	50·30	57·39	64·00	44·69

1.4 The Committee observed that there are differences in the figures of net profit and the figures of profit from scheduled services shown elsewhere in the report and enquired the reasons for the same. Air India clarified in a written reply that apart from operation on Scheduled Routes, the Corporation also generates revenue by way of handling other Carriers' aircraft, interest and other miscellaneous receipts. The Corporation also has to pay interest on its borrowings. Taking the above factors into account, the Corporation's Net Profit is arrived at.

1.5 Taking into account that the actual working results have been much below the budget targets particularly during 1979-80 and 1980-81, the Committee enquired whether the budget targets were properly assessed. The Managing Director, Air India, replied in evidence:

> "During the year 1979, there was the unexpected hike in the fuel prices. The OPEC countries formed a Cartel. There was, if I may point out, a big and massive increase in the total fuel prices. Earlier we paid 69 U.S. Cents per gallon. it went up to 129 U.S. Cents per gallon. The Corporation's fuel bill jumped up from Rs. 65.45 crores to Rs. 131.38 crores.
>
> All this happened without any notice, without any warning. Not only Air India but all international airlines were affected. All this affects profitability. The cost went up. There was some increase in fares. But it was not at all commensurate with the increase in the fuel price........ This kind of 'fuel price hike' brought in a recession in the western countries. Traffic was affected. In the next year also the same position existed."

1.6 Asked to furnish factor-wise break-up of shortfall of targets and state in respect of each factor how it was beyond the control of the Management, Air India, in a written reply, furnished the information year-wise as summarised below:

1979-80

Fall in revenue by Rs. 43.60 crores was due to 11.8 per cent reduction in capacity offered largely on account of non-availability of Indian Airlines' leased aircraft, and the non-operation of Cargo Freighter Service as planned. Besides, the other factors which influenced the Revenue were—

(a) Industrial unrest in London;

(b) Fire at Santa Cruz Airport (NTB) in September, 1979;

(c) Recessionary conditions in some markets.

At the same time, however, the reduction in total expenditure was more than compensated by a substantial rise in price of fuel in three instalments in April, June, 1979 and January 1980. For instance, as against the original budgeted figures of Rs. 91.50 crores for fuel, the actual expenditure was Rs. 131.38 crores.

1980-81

The actual revenue for the year was lower by Rs. 92.47 crores mainly on account of non-realisation of increase in yield and decline in load factors. Reduction in yield by 14.7 per cent attributable mainly to fuel related fare increases anticipated in the budget not materialising and 1.7 per cent drop in load factor due to recessionary market conditions combined with fuel based fare/rate increases.

Reduction of Rs. 101.27 crores in actual expenditure during the year was due to reduction in fuel cost by Rs. 46.36 crores on account of fuel price being lower than anticipated in the budget, reduction in interest on borrowings by Rs. 9.18 crores and reduction in expenditure on other elements of cost.

1981-82

The actual revenue for the year was lower by Rs. 14.13 crores on account of drop in load factor by 1.7 per cent and reduction in yield by Re. 0.09 per R.T.K.M. due to the reason that fare increase estimated in the budget did not materialise.

Reduction of Rs. 23.19 crores in actual expenditure was on account of reduction in fuel and oil cost (Rs. 12.47 crores) due to the oil price escalation being lower than anticipated in the budget and reduction in interest payment by Rs. 5.02 crores. The provision of Rs. 5.17 crores made for interest on other borrowings for working capital requirement was not required due to improved financial results and prudent fund management. The reduction in expenditure on other elements of cost was on account of price escalation being lower than anticipated in the budget.

1982-83

The drop in the revenue by Rs. 35.98 crores during the year was on account of drop in load factor by 7 per cent and reduction in operation/capacity.

The expenditure reduction of Rs. 56.42 crores was on account of lower fuel and oil cost by Rs. 16.4 crores and reduction in other heads of expenditure due to price increases being lower than anticipated in the budget and lower expenditure on interest by Rs. 13.80 crores on account of reduction in interest rate, change in drawal schedule, etc.

1983-84

Reduction of Rs. 47.71 crores in total revenue due to drop in yield by Rs. 0.40 per R.T.K.M. as the anticipated fare/rate increases not materialised.

Reduction of Rs. 54.80 crores in expenditure was attributed to reduction of Rs. 16.85 crores in fuel cost on account of fall in fuel prices, reduction of Rs. 14.94 crores on interest due to lower LIBOR rates and changes in drawal schedule and reduction in other expenditure due to price escalation anticipated in the original budget not materialising.

1984-85

The profit for the year 1984-85 was Rs. 44.69 crores as against Rs. 64.00 crores envisaged in the original budget. This was due to drop of Rs. 14.82 crores in revenue and increase of Rs. 4.49 crores in expenditure. The reduction in revenue was mainly on account of reduction in Scheduled Services Revenue which was mainly due to reduction in yield.

During the year, there were uncontrollable extraneous factors *viz.* bonus, variable D.A.; crew allowance and 707 depreciation amounting to Rs. 5.78 crores which reduced the profitability.

1.7 Referring to the loss of Rs. 36 crores incurred by Air India during 1979—81, the Committee wanted to know whether Air India sought funds from the Government to adjust the loss. In reply, a representative of Air India said:

"No, Sir. We have not received any help from the Centre. We have our general reserves to which the losses are adjusted."

1.8 Referring to the decline in the profits of Air India in 1984-85, the Committee wanted to know whether any review was undertaken at the Ministry level to analyse the reasons for the decline in the profits of Air India during 1984-85, the Department of Civil Aviation stated in a written reply:

> "A performance review meeting was held on 21-8-1984. Decisions taken in the earlier review meeting were discussed, with particular reference to improving the working of Air India."

1.9 When the Committee enquired, how the Department could hold a review in August 1984 for the period 1984-85, the Secretary, Department of Civil Aviation said during evidence:

> "We conducted a detailed review on 11-11-1985 also."

1.10 It was, however, observed that there was nothing in the minutes of the meeting held on 1-11-85 to show that there was any discussion about the performance of Air India during 1984-85. The meeting appeared to have reviewed only the performance relating to the first six months of 1985-86.

1.11 Asked what was the profit earned by the Corporation during the first three quarters of 1985-86, the Committee were informed that the net profit by Air India for the period 1-4-1985 to 31-12-1985 was estimated at Rs. 52.32 crores. Referring to the year 1985-86, the Secretary, Civil Aviation said:

> "I am happy to report to you that this year Air India will be ending up with a profit of almost Rs. 65 crores."

Return on capital employed

1.12 The figures of return on capital employed for the different airlines during 1979—84 as furnished by Air India are given below:

Return on capital employed (%)

	1979-80	1980-81	1981-82	1982-83	1983-84
Air India .	(3·1)	2·6	11·0	12·6	14·7
Singapore Airlines	5·2	N.A.	8·2	7·9	7·0
Qantas .	1·3	(2·1)	4·9	(11·7)	19·7
Japan Airlines .	4·1	5·6	6·4	4·0	5·6
TWA	6·4	6·0	4·5	5·1	7·4
Alitalia	2·8	7·2	10·4	10·3	N.A.
Swiss Air . .	5·7	6·0	5·7	6·2	6·0

1.13 Referring to the above figures, the Managing Director, Air India stated during evidence:

> "Well, we can give those figures. We have done much better better than other airlines."

1.14 When the Committee pointed out that the above list does not include many airlines such as British Airways, Lufthansa, SAS, KLM and Air France, the witness claimed during evidence (November, 1985) that:

> "Well, we can give those figures. We have done much better than those airlines. I can assure this."

1.15 It may, however, be seen from the figures given below, tnat contrary to the claim made by Air India, the British Airways and SAS have fared relatively much better than Air India during 1982—84. The figures of return on capital employed relating to these airlines as furnished by Air India (in December, 1985) after oral evidence are given below:

Return on capital employed (%)

	1979-80	1980-81	1981-82	1982-83	1983-84
British Airways .	3.3	(9.0)	N.A.	26.6	36.5
S.A.S. . . .	4.4	3.6	16.8	19.1	26·6

1.16 Enquired whether the basis of calculating the return on capital employed is the same in all the airlines, the witness said that "the same yardstick is used for all."

1.17 The Committee enquired whether it would be possible to mention the international airlines which made profits during the period 1979-80 to 1983-84 and to indicate how the average cost of operations of these airlines compared with that of Air India. Air India furnished the following figures:—

1.18 *Net profit/(Loss) of international airlines*

(Rs. crores)

	1979-80	1980-81	1981-82	1982-83	1983-84
Air India	(15.09)	(21·30)	10·36	38·04	57·39
Japan Airlines	0·56	12.03	20·46	(38.46)	(16·35)
Singapore Airlines	5·81	N.A.	9·77	23·30	35·56
Qantas	(18·69)	(34.89)	(9.49)	(61.36)	61·18
Malaysian Airline system	5.88	2·19	(15·57)	N.A.	N.A.
PANAM	65·42	(15.43)	(449.30)	(51·08)	(221·64)
TWA	17.84	(5·70)	(28·54)	(12.38)	32·02
Air Canada	39.39	27·63	(24.80)	3.11	22.69
ALITALIA	(7.15)	1.30	0.94	12·23	N.A.
SWISSAIR	20.39	23·54	18·93	27·45	30·21
British Airways	(13·79)	(300.25)	N.A.	143.18	365·34
Lufthansa	2·43	2.19	17.54	26.46	66·49
SAS	(10.04)	(19.58)	53·40	62.29	126·75

Average cost of operations (cost per ATKM) of some of the international airlines.

(in rupees)

	1979-80	1980-81	1981-82	1982-83	1983-84
Air India	3.01	3·27	3·47	3·57	3·60
Japan Airlines	2.84	3·55	3.52	4.04	4·45
Singapore Airlines	2·59	N.A.	3·10	3·42	3·39
Qantas	2·53	3·18	3·45	3·41	3·93
Malaysian Airline system	3·72	3·84	4·90	N.A.	N.A.
PANAM	N.A.	3.00	3.09	3.53	4·06
Air Canada	2.45	2·83	3·41	3·83	4·02

1.19 Asked what was the average fare charged by these airlines and how it compared with the average tariff of Air-India, it was stated in a written reply that the fares and rates which various airlines can charge in various markets in the world are established through consensus under the auspices of the International Air Transport Association. The agreements reached by the airlines are then ratified by the participating Government concerned. Technically, therefore, there is total uniformity in the fares or rates that any airline can charge to its passengers in any market.

1.20 Airlines, however, worldwide deviate from these approved fares and rates and tend to determine their own pricing, related more to demand and supply factors and their own capacity deployment in individual markets. As a policy, Air India reportedly endeavours to follow the pricing policies of the national carriers and other direct competitors in each market. Information on fares charged by other carriers is naturally unofficial, the source being market intelligence.

Aviation Fuel Price

1.21 The Aviation Fuel price in India is very high as compared to ATF prices prevailing abroad. For Air India the impact of this is very severe since almost 30 per cent of the total fuel uplift by Air-India is made within India. Because of this factor, Air-India had made representation to the Ministry of Petroleum through the Ministry of Tourism & Civil Aviation to grant either reduction in ATF price or give bulk discount to Air India. So far Air India has not been successful in getting either reduction in ATF price or bulk discount from the Government.

1.22 Given below is a tabulation showing the average price of ATF in India and abroad and also the effect of higher ATF price in India on the profitability of Air-India for the period 1979 to 1985:—

Period	ATF Price (USC/USG)		Difference in price	Uplift in India	Additional Impact on Fuel Cost		Conversion rate for US$ (Rs.)
	India	Abroad	USC/USG	(USG)	US$	Rs. lakhs	
1979-80 . .	113·24	94·06	19·18	53045608	10174148	837·54	8·232
1980-81 .	150·70	124·85	25·85	54742539	14150946	1153·30	8·150
1981-82 .	158·14	131·07	27·07	55738120	15088309	1299·86	8·615
1982-83 .	145·21	121·16	24·05	55205312	13276878	1254·66	9·450
1983-84 .	133.14	103·27	29·87	60265975	18001447	1821·39	10·118
1984-85 .	119·80	96·03	23·77	61838263	14698955	1662·45	11.310

*1.28 Routewise profit/(loss) during the period 1979-80 to 1983-84 as furnished by Air India is given below.

(II) ROUTEWISE OPERATING PROFIT/(LOSS)

Routewise Operating Profit/(Loss)

(Rs. in lakhs)

Route	1979-80	1980-81	1981-82	1982-83	1983-84	Total Profit/Loss
India—USA	(1403.03)	(741.69)	(532.14)	(52.04)	67.64	(2661.26)
India—Canada	..	..	..	(550.00)	(967.44)	(1517.44)
India—UK Term	(241.39)	(415.47)	(322.43)	(403.21)	(491.28)	(1873.78)
India—Continent	49.13	(365.03)	(440.26)	(909.11)	(1007.15)	(2672.42)
India—Japan	(698.68)	(1013.63)	(516.79)	(591.84)	(68.06)	(2889.00)
India—Australia	(250.32)	(372.46)	(563.72)	(758.65)	(728.00)	(2673.15)
India—Gulf	1746.88	2617.47	5330.26	9496.85	11967.85	31158.31
India—Singapore	(111.76)	(53.93)	(78.69)	(434.23)	(171.42)	(850.02)
India—E. Africa	24.18	(34.40)	(28.47)	(52.49)	(210.53)	(301.71)
India—W. Africa	(153.74)	30.16	159.99	38.07	(131.93)	(57.45)
India—Zambia	..	40.66	78.86	83.59	(98.06)	95.05
India—Zimbabwe	..	..	(215.22)	(168.72)	(81.65)	(465.59)
India—Mouritius	(100.37)	(143.96)	(34.34)	(49.98)	(73.15)	(401.80)
India—Bangladesh	..	(65.87)	(66.19)	(61.62)	(96.76)	(290.44)
India—USSR/UK	146.29	147.30	243.46	37.13	61.32	(635.50)
India—Thailand Term	..	..	(52.11)	..	..	(52.11)
India—USA (FRTR)	(81.60)	78.85	11.57	23.33	148.13	180.28
India—UK (FRTR)	(33.40)	..	..	(132.23)	5.49	(160.14)
India—Europe (FRTR)	6.09	(71.64)	(158.19)	(88.00)	(42.31)	(354.05)
India—Japan (FRTR)	230.66	..	13.61	111.32	173.13	528.72
India—ZRH (FRTR)	..	..	..	35.70	41.57	77.27
TOTAL SCH. SER.	(871.06)	(363.64)	2829.20	5572.87	8297.39	15464.76

1.24 The Committee observed that the only route which has been making substantial profits over the years is the India-Gulf route. It made a profit of Rs. 17 crores in 1979-80, Rs. 26 crores in 1980-81, Rs. 53 crores in 1981-82, Rs. 95 crores in 1982-83 and Rs. 120 crores in 1983-84. The only other route which has been making profits though marginally is India-USSR/UK route which earned a profit of Rs. 6.34 crores over the 5 year period 1979—84. But for the India-Gulf route, Air India would have been incurring heavy losses every year. If the profits earned by the India-Gulf route alone are excluded for the purpose of making evaluation, it can be observed that Air India would have incurred a staggering loss of Rs. 26 crores in 1979-80, Rs. 30 crores in 1980-81, Rs. 25 crores in 1981-82, Rs. 39 crores in 1982-83 and Rs. 37 crores in 1983-84. Considering these facts, the Committee enquired whether it can be said that the performance of Air India (excluding India-Gulf route) has been satisfactory. The Managing Director, Air India replied in evidence:

> "Sir, if I may mention here that when you look at the performance figures given out by other international airlines like ours, they never differentiate the performance of various routes. The performance is judged on the basis of the overall performance. To that extent it would be difficult to compare Air India's route-wise performance. We would also certainly like to concede that the growth in traffic in the Gulf areas provided an opportunity, but we must also accept that Air India has seized the opportunity and so far as the Gulf route is concerned, Air India is not alone on that route, it has to compete with at least eight other well established airlines.....We have successfully met the competition and generated profit.
>
> So far as other routes are concerned, the competition is more intense and we have not succeeded in achieving operating profit on many of the routes....But practically on all routes, we have met the cash cost of operating and we have generated surplus."

Air India, however, stated in a written reply:—

The figures quoted and the conclusions drawn viz. that "the only route which has been making substantial profits over the years is the India/Gulf route" is correct in relation to operating profits. However, before judging whether the performance of AI (excluding India/Gulf route) has been satisfactory, it would be appropriate to understand the state of the air transport industry during the period under review. It is common knowledge that the successive increases in fuel prices since 1973 were brought to a head in 1979/80, when the price of fuel, increased by almost 100 per cent—the increase in the price of fuel, though affecting the aviation industry directly, had its related impact on industrial and economic activity world-wide, resulting in inflation, recession, unemployment and consequently a squeeze on disposable incomes. In effect, while Airline operating costs shot up, air traffic growth rates fell, resulting in IATA scheduled airlines incurring an operating loss of USD 1200 million in 1980, USD 1300 million in 1981 and a USD 900 million loss in 1982. It was only in 1983 that the IATA scheduled airlines returned to profitability.

However, it is creditable that in the face of this depressed global aviation phenomenon, Air India was one of the few airlines that emerged with reasonable operating profits because it was quick to exploit the burgeoning Gulf market to its commercial advantage. After incurring an operating loss of Rs. 4.10 crores in 1979-80, Air India earned an operating profit of Rs. 0.33 crores in 1980-81, which increased to Rs. 34.52 crores in 1981-82 and Rs. 61.50 crores in 1982-83 and Rs. 87.12 crores in 1983-84. Viewed in the above context, the performance could be considered satisfactory, especially since airlines like British Airways, Saudia and Kuwait Airways, etc. incurring operating losses during some of these years, despite the fact that they had a reasonable spread of frequencies to the Gulf countries.

Air India determined the economic viability of each route in relation to cash costs, i.e. the actual expenditure incurred to operate a flight."

Air India stated that for any airline, it is important that:

(a) Each route meets its cash costs and makes a positive contribution towards overheads;

(b) Collectively, the contribution of all routes combined should fully cover fixed costs.

(a) *Passenger Services*

1.25 The Committee noticed that 11 out of 16 routes (excluding freighter services) operated by Air India have been incurring losses continuously for many years. These routes are: (1) India-UK Term. (2) India-Japan; (3) India-Australia; (4) India-Singapore; (5) India-W. Africa; (6) India-Mauritius; (7) India-Canada; (8) India-Zimbabwe; (9) India-Continent; (10) India-E. Africa and (11) India-Bangladesh, 9 out of 11 loss making routes have not earned profit even in a sinlge year during the 5 year period 1979-80 to 1983-84. Two routes which earned a marginal profit in 1979-80 have been incurring losses since 1980-81. The Committee wanted to know in this connection the number of routes which did not meet the cash costs, the deficits over cash costs in these routes each year and the exact reasons for cash costs of Air India being so high as to exceed the operating revenue of these routes. The Committee also wanted to know whether any review was made of routes which remained uneconomic even after a year or two of sustained promotional efforts in order to take view of their continuance and if so, with what results.

1.26 The M.D. Air India replied in evidence:

"Practically all the routes are meeting the cash cost and generating surplus......The only route which was consistently not meeting the cost was the route to Bangladesh and we have closed that down. We do not want to continue with the route which cannot make the cost and do not have the potential. There is one more route—route to Harare—which has been more frequently than not failed to meet the cash cost. We shall either close it down or continue it with another route."

1.27 In a written reply, Air India stated that all routes except the following have continuously generated surpluses over cash costs:

(i) India/Canada: On the India/Canada route, cash losses in 1982-83 and 1983-84 amounted to Rs. 80.59 lacs and Rs. 133.24 lacs respectively. However, with the cutback in frequency of operations to Canada effective February 1984, the route generated a marginal surplus over cash costs in 1984-85. Since July 1985, operations on this route have been temporarily suspended.

(ii) India/Australia: With the exception of 1980-81, when a cash loss of Rs. 72.26 lacs was experienced, the India/Aust. route, with the changes in the operating pattern and the increase/decrease in frequencies, has consistently generated a progressively increasing surplus over cash costs.

(iii) India/Singapore: The route incurred deficits over cash costs only in 1982-83 when it was serviced by leased Airbus capacity. With the introduction of our own aircraft on this route, and with changes in the operating pattern between Kuala Lumpur and Singapore since November 1983, the route has generated a cash surplus during 1984-85 of Rs. 9.25 crores and, in fact, an operating' profit of Rs. 2.48 crores

(iv) India/East Africa: This route incurred a cash loss of Rs. 60.75 lacs in 1984-85. Accordingly, capacity into Nairobi has been realigned effective November 1984 through reduction of frequency from 4 to 3 flights weekly the route is projected to generate a cash surplus of Rs. 20.24 lacs in 1985-86.

(v) India/Mauritius: 1980-81 was the only year in which this route recorded a cash loss. With the adjustment of capacity into Mauritius since 1981-82, through reduction of frequency from two to one, the route has generated cash surpluses.

(vi) India/Zimbabwe: The India/Zimbabwe route has incurred cash losses since inception in 1981, except during 1983-84. The route suffers from inadequate traffic flows both on account of the economic conditions in Zimbabwe and Tanjania—Dar-es-Salaam is an intermediate point on this route—and on account of our inability to effectively exploit the Indian ethnic market in South Africa. Given the inadequacy of traffic both on the India/Harare and the Nairobi terminator services, it has been planned to combine these two services into one on the routing BOM/NBO/HRE and vice verca effective Summer 1986, subject to necessary clearances from the Governments concerned.

(vii) India/Bangladesh: While the route has incurred cash losses over the years this operation has made substantial revenue contribution to the Gulf routes (Rs. 165.0 lacs in 1983-84). However, with progressive increases in the frequency of direct services between Dhaka and Gulf countries by the respective national carriers in recent years, our share of this market has declined. It was accordingly decided to withdraw operations from Dhaka effective November 1984.

1.28 Apart from adjustments to capacity deployment on various routes, various other measures introduced as an on-going process to improve route profitability profiles are:

(i) Improvement in yields through:

a. support of systematic fares increases wherever possible;

b. support of IATA sponsored yield improvement programmes;

c. reduction in discounts particularly on routes/sectors where high load factors were being achieved;

d. an improved faremix of carriage.

(ii) Improved loads and load factors and in consequence, revenues through fares related inducements on sectors, where low load factors were being experienced:

(iii) provisions of slumberettes;

(iv) provision of more Executive Class seats;

(v) opening of separate check-in counters for Executive Class pasengers;

(vi) improvement in the quality of the meals served;

(vii) introduction of Computerised Reservations System.

1.29 Asked as to what are the prospects of making the loss-making routes break-even and how soon is it expected to achieve it, the M.D. Air India held out hope that:

"We expect that some of the routes would become profitable by 1987-88. The main routes are India-USA, India-UK, India-Continent and India-Japan."

1.30 Air India in a written reply stated that "with the restructuring of operations with capacity being periodically adjusted to traffic flows and to various other marketing strategy initiatives by 1986-87 no single route is expected to incur cash losses subject, of course, to political and economic stability in the various markets served by Air India."

India-Gulf Route

1.31 Although India-Gulf route has been the revenue spinner for Air India, the Committee observed from the information furnished to them that the passenger load factor and overall load factor in the route has declined from 69.7 per cent and 61.8 per cent respectively in 1982-83 to 65.8 per cent and 60.8 per cent in 1983-84. The Committtee wanted to know what exactly were the reasons for decline in traffic in this route during 1983-84 and how it is proposed to meet the situation created by continuous fall in the traffic in that route. In a written reply Air India stated as folows:—

"The India-Gulf route, in the wake of tremendous boom following the oil price increases, witnessed a tremendous increase in air traffic, as a result of which, double digit growth rates were experienced by Air India on the route during the last 70's and early 80's. However, the recent world glut in crude oil, the reduction in oil prices and the voluntary cutbacks in oil production has led to a sharp decline in revenues for the oil rich Gulf states. This has resulted in a deferment or even abandonment of certain construction and other development projects. Moreover, declining oil revenues, combined with the growing feeling that expatriates are inhibiting the growth of an indigenous work force, have prompted the Gulf states to drastically cut back on foreign workers. The number of foreign workers in the Gulf countries reduced from 7.5 million in 1981 to 5.8 million in 1984 and are expected to go down further to 5 million by 1985. The Iran-Iraq war and the Lebanon crisis has also been responsible for holding back economic development in the Region. The above mentioned factors, therefore, have resulted in a decline in the growth rates experienced in Air traffic flows by Air India between India and the Gulf countries. This is reflected below:

Growth Rates in Passenger Numbers on the India/Gulf Routes

Year	%
1979-80	+17·3
1980-81	+28·8
1981-82	+34·4
1982-83	+9·8
1983-84	Nil
1984-85	+0.2

1.32 The M.D. Air India stated in evidence in this connection:

"In our estimate the growth will probably continue to be more or less at the same level of traffic during 1985-86 or there will be a slight decline and for the next few years it will continue to remain a very good sector. But certainly there will be no growth, rather a negative growth in the foreseeable future."

The witness added:

"So far as the Arabia main route is concerned, that has not been affected so badly. The rest of the Gulf area *i.e.* UAE, Kuwait and Iraq—have been badly affected. As and when there is a decline in traffic we shall be redefining our capacity deployed in these sectors and they will be deployed elsewhere. The stations where we wish growth, it will probably be West India primarily. So we ensure that we do not have idle capacity on this sector. Apart from that to improve our market share we have proposed that during this year we shall introduce a flight to Goa connecting it with Kuwait. Goa has not been declared an international airfield as yet by the Government of India. Air India will be the first to operate from there and we shall improve our market share. We have also proposed to connect Hyderabad with Saudi Arabia. That will improve our market share. In other words, strategically we would be trying our best to improve our market share in the face of decline of traffic in the Gulf area and so far as the capacity is concerned, as and when we find the capacity is not well utilised, we will utilise that in the rest of India."

1.33 Enquired whether commencing operations by Air India from Goa and Hyderabad will not affect the services of Indian Airlines, the witness admitted: —

"Yes, that is a point that it perhaps will affect the Indian Airlines. But then there is an overall consumer interest. So far as consumers are concerned, they will benefit. Today's passengers from Hyderabad have to come first to Bombay just to get the connection of the Air India flight. Indian Airlines flights are not, to that extent, geared up to connect their flights to the Gulf. There has been a persistent consumer demand from Andhra saying that they would like an Air India flight from Hyderabad to certain destination in the Gulf and so it will meet the consumer demand. Secondly, the Indian Airlines just now are going through a capacity shortage. In other words, if Indian Airlines operates Hyderabad-Bombay flights with one flight less, it will not hurt them, they will put the capacity elsewhere."

1.34 When the Committee asked who determines the capacity deployment when there is conflict of interest betwen two Airlines, the witness said:

"So far as the capacity requirement is concerned, a Committee has been constituted under the Chairmanship of Capt. A. M. Kapur to examine and ensure satisfactory capacity deployment between Air India and Indian Airlines. In other words, that machinery takes care of this kind of situation as to whether Air India should operate from Hyderabad or not and how to utilise the capacity of Indian Airlines."

1.35 Asked whether any market survey was conducted to assess the traffic potential from Hyderabad, the witness said:

"I won't be able to give the entire answer immediately off-hand. But the figure I remember is, our market research has shown that from Hyderabad to Saudi Arabia we would be able to get 100 passengers per week ,roughly about 5000 passengers a year. 100 passengers per flight is not sufficient to a flight of Airbus which has the capacity of 230 or for Boeing 747. So, we are not prepared to operate flight from Hyderabad-Bombay-Jeddah. We have to see break-even load factor also.

(b) *Freighter Services*

1.36. Air India operates freighter services on five routes viz. (1) India-USA(2) India-UK (3) India-Europe (4) India-Japan and (5) India-Zurich (from 1982-83 onwards). It made an aggregate profit of Rs. 1.22 crores in 1979-80 on these services but incurred a total loss of Rs. 1.76 crores in the succeeding three years (1980-81 to 1982-83). In 1983-84, the Corporation could, however; earn a profit of Rs. 3.26 crores on freighter services. The Committee observed that India-Europe route has been continuously incurring losses year after year from 1980-81 till 1983-84. The Committee enquired the specific reasons for this route being in the red successively for the last four years and wanted to know how and how soon is it expected to make this route viable. The M.D. Air India stated in evidence:—

"About the freighter services to Europe, one of the problems which we faced mainly in the earlier years was that whereas we were exporting a fair amount out of India, of course most of the exports were under the Government controlled mandatory rate, there was very little of import into India and there was a certain level of imbalance in the load. That had affected the profitability to some extent. During 1984-85, of course, we have earned a satisfactory level of profit on the India-Europe route. Rs. 1.54 crores has been made as profit. During the last five years, except during 1982-83, in all the years we have made our operating cost and generated surplus."

1.37. Asked what was the difference between Government controlled mandatory rate and commercial rate and how the Government determines the mandatory rate, the witness informed:—

> "Sir, the general rate is around Rs. 40 per kg. whereas Government controlled rate is Rs. 26 kg. We are not consulted in determining the rate. We have been protesting that the Government controlled rate is totally not in tune with the present market rate. Last year when we were given 10 per cent hike at that time we were consulted."

1.38 When the Committee enquired about the purpose of introducing the mandatory rate and whether Air India is provided any compensation by Government, the witness said:

> "The purpose is to help promote Indian goods abroad. These goods have to be competitive. It is a support to the exporter. In fact, we have been saying that at the cost of airlines the exporters are becoming rich."

1.39. The Committee wanted to know the total financial implication on this score. Further, the Committee enquired whether it is a fact that Air India is not in a position to carry all the freight offered and Government have to negotiate with the foreign airways. In reply, the witness said:

> "Basically there are certain periods during the course of a year, viz., January; February and March when the US Government releases its quota and there is a tremendous rush. At that time all the capacity is used and there is demand for extra capacity. We can mount extra capacity if we get return load. Similarly, during the mango season there is a tremendous rush to export mangoes to Gulf countries. We can take it but if we do not have anything to bring back there is difficulty. So, complaints arise during these periods against Air India."

1.40. From the information furnished to the Committee, it was noted that one of the profit earning routes viz. India-Japan freight services was not operated in 1980-81. India-UK route was also not operated during 1980-81 and 1981-82. The Committee enquired about the reasons for suspending the operation of these freight services particularly the profit making India-Japan route, the M.D. Air India stated in evidence:

"Earlier we were operating 707 aircrafts into Japan we had 6 flights a week. The average cargo capacity varies from 2 to 3 tonnes after allowing the passenger package. In January 1980, we had reduced some of the 707 flights and introduced 747 flights instead. The average cargo capacity was 15 tonnes per flight. In other words, for a given month we had put in some 120 tonnes of cargo capacity to Japan as against 1|6th of their capacity which was available earlier. At that time it was felt that with the introduction of so much capacity, our freighter should be curtailed. Later on after some experience on the route, we know that we could operate 747 in addition to freighter operation. So, freighter operation was again introduced."

1.41 As regards the India/UK/India route, Air India stated in a written reply that the freighter service was withdrawn during the years 1980-81 and 1981-82 due to additional cargo capacity provided with 747 scheduled flights on this route. The designated UK freighter service continues to operate as European terminators.

(iii) *Working of on-line Stations/of-line Offices*

1.42 The Corporation has a net work of on-line stations. off-line offices and Sales Representatives in India and Overseas. The position during the years 1979-84 was as follows:—

	1979-80	1980-81	1981-82	1982-83	1983-84
(a) On line stations .	41	46	48	48	50
(b) Off-line offices . .	78	68	67	67	68
(c) Sales representatives . .	27	26	24	24	22

1.43 Asked about the present position in regard to on line stations, off-line offices and Sales representatives, Air India furnished the following figures:

On-line .	45
Off-Line . .	71
Sales Representatives	22

1.44 Stating that all the on-line stations are fully justified, Air India furnished in a written reply the figures of direct cost and revenue in respect of all the on-line stations for the period from 1979-80 to 1984-85. It is noticed from the information that the direct cost incurred by the staton at Rome has always exceeded the Revenue earned by it. The figures relating to the on-line station at Rome are given below:—

	1979-80	1980-81	1981-82	1982-83	1983-84
				(Rs. in lakhs)	
Revenue .	367	322	361	363	507
Direct Cost	499	493	434	509	598

1.45 Asked whether the cost/revenue ratio of every station is monitored regularly and systematically, Air India replied in a written note that the cost/revenue ratio every station is monitored on six monthly and annually on the basis of data published by the Finance & Accounts Department and decisions regarding their continuation and|or staff reductions are taken on the basis of such reviews.

1.46 The Managing Director, Air India confirmed in the performance review meeting held by the Ministry on 11-11-85 that "there is no off-line station of Air India whose expenditure is more than the revenue earned by it."

1.47 Asked what was the justification for Sales Representatives stationed at various places in India and abroad, when Air India has engaged Sales Agents, Air India stated in a written reply that the justification for Sales Representatives stationed at various places in India and abroad is to oversee the performance of the Sales Agents and also service them, whenever additions and changes are brought in from time to time in our schedules, product and also to ensure that the agents give their due share of business to us, as we are competing for the same business as other airlines from the same sources. Sales Representatives are also required to call on business houses to solicit their patronage.

(iv) *Foreign exchange*

1.48 The Committee were informed in a note that Air India does not compute the foreign exchange earnings at the time of Annual

Plan submissions. The projections for foreign exchange earnings made at the time of formulation of Five Year Plans are reported to be not comparable with actuals as they were based on certain hypothetical considerations|propositions and assumed characteristics. The Committee wondered why Air India, one of the important sources of foreign exchange earnings of our country, did not compute the foreign exchange earnings at the time of Annual Plan submissions and enquired whether proper assessment of actual foreign exchange earnings and outflows was not possible for being reflected in accounts. The Committee also wanted to know what were the difficulties in this regard Air India stated in written reply as follows:—

> "The Foreign Exchange earnings are not calculated at the time of annual plan since the format prescribed does not envisage such calculation. However, the foreign exchange earnings are forecast at the time of preparing the Five Year Plan.
>
> Air-India calculates the actual foreign exchange earnings and proper assessment is made. These calculations are based on the formulae prescribed by the Reserve Bank of India. The projections are not based on this formulae since the RBI formulae is based on cash basis while the accounts are prepared on the merchantile system. When projections are prepared for the Five Year Plan, the profitability is calculated based on certain norms. However, there are number of items in RBI formulae which have no bearing on the profitability of the Corporation and as such, those items are not taken into account. Hence the projections have to be based on different footing as compared with the actual calculations of foreign exchange which is based on RBI formulae.
>
> For the reasons stated above, it is not possible to lay down the targets in respect of foreign exchange earnings as per the RBI formulae."

1.49 The Committee noted from information furnished by Air India that the total foreign exchange earnings of the Corporation during 1980-84 were to the extent of Rs. 482 crores. The Committee wanted to know the total outflow of foreign exchange attributable to Air India's operations during this period, Air India stated:

> "Air India remitted from India to foreign stations total amount of Rs. 119.52 crores during 1980 to 1984. This however,

does not take into account the disbursements at foreign stations out of the collections made by the stations. The disbursements also do not take into account the amounts from other carriers in respect of settlements through IATA Clearning House and from non-IATA foreign airlines."

1.50 A representative of Department of Civil Aviation informed the Committee during evidence that the foreign exchange earnings for the year 1984-85 were Rs. 177.15 crores as against Rs. 180.54 crores in 1983-84 thereby registering a decline. The Secretary, however, mentioned that there will be a slight increase in the earnings in 1985-86. The Committee on Public Undertakings (1980-81) had made the following recommendation in their Eleventh Report (Seventh Lok Sabha):

"The Committee feel that the amount of net foreign exchange earned is an important criterion for evaluating the performance of an undertaking like Air India.

Therefore, just as in the case of economic cost benefit analysis even indirect costs and benefits are taken into account, the indirect foreign exchange expenditure and earnings should be capable of being computed in the case of Air India to arrive at the net foreign exchange earnings. The Committee accordingly suggest that the matter should be referred to the Reserve Bank of India for an examination as to how best the computation in this regard could be refined in order to come to a proper appreciation of the working of the undertaking."

1.51 Enquired whether the computation of foreign exchange has been refined to take into account the indirect earnings and expenditure as recommended by the Committee, Air India stated as below:—

"The foreign exchange earned|saved is computed in accordance with the formula approved by the Reserve Bank of India. Pursuant to the further observations of the Committee on Public Undertakings communicated to us by the Administrative Ministry, the matter is under correspondence with the Reserve Bank of India of which the Ministry has been informed."

1.52 When the question was put to the Ministry as to why there is undue delay in arriving at a convenient method of computation

In this regard, the Civil Aviation Secretary explained during evidence:

"On the basis of the recommendations of the Committee we have taken up the matter with Finance Ministry, Department of Economic Affairs and Reserve Bank of India. Action was taken at both ends, Action was taken at the Administrative level also and directly with Reserve Bank of India. Discussions were held with the RBI officials. Information was asked for by the RBI—it was supplied. We have written to them a number of letters, apart from discussions held."

1.53 Informing that the present system of computation is not favourable to Air India, the witness added:

"They apparently have their reservations because they feel that if they allow this dispensation, then it will have repercussions in other cases. The next stage left for me is that I take it up directly with the Reserve Bank of India."

1.54 Air India was set up under the Air Corporations Act, 1953. The Committee on Public Undertakings had earlier examined the working of this Corporation in the year 1978-79. The Corporation has been making profits since 1981-82 after incurring a loss of over Rs. 36 crores during 1979-81. The profits made by the Corporation were Rs. 10 crores in 1981-82, Rs. 38 crores in 1982-83, Rs. 57 crores in 1983-84 and Rs. 44 crores in 1984-85. The Committee have been informed that the Corporation was expected to make a profit of Rs. 65 crores in 1985-86. The Committee are not much impressed by the profits made by Air India. Their examination of the route profitability profiles of passenger services during the period 1979-80 to 1983-84 reveals that all but three routes operated by Air India have incurred heavy operating losses during the period. The one route which made huge profits of the order of Rs. 310 crores during the period was India-Gulf route. If the profits of this route alone are excluded for the purpose of evaluation, the resulting picture would present a very dismal situation in as much as the Corporation's net loss would work out to be a staggering figure of Rs. 240 crores during 1979-84. This could in no way be considered to be a satisfactory position as claimed by the Corporation. No organisation can survive for long on the success of only one of its segments of operations as has been the case with Air India which has relied

only on India-Gulf route. The Committee find that the growth rate of India-Gulf route has already slumped from 34.4 per cent to Zero growth in the recent past with no signs of improvement in the fore-seeable future. This is bound to have its impact on profits of Air India in the coming years. Another point of grave concern that came to the notice of the Committee during their examination is that Air India's share in international traffic has been showing a down-ward trend in the past few years. These and other findings of the Committee will clearly show that all is not well with the Corporation. The Committee would recommend that an expert committee should be appointed to undertake a thorough critical examination of the Affairs of Air India in all its spheres and go into the problems faced by Air India in competing with foreign airlines and suggest measures to achieve its rightful place in the international air transport industry.

1.55 The Committee find that 13 out of 16 routes of passenger ser-vices operated by Air India have incurred operating losses during 1979-84. These are: (1) India-Canada (Rs. 15.2 crores); (2) India-Australia (Rs. 26.7 crores); (3) India-Singapore (Rs. 8.5 crores); (4) India-E. Africa (Rs. 3.0 crores) (5) India-Mauritius (Rs. 4.0 crores); (6) India-Zimbabwe (Rs. 4.7 crores); (7 India-Bangladesh (Rs. 2.9 crores); (8) India-USA (Rs. 26.6 crores; (9) India-UK Term. (Rs. 18.8 crores); (10) India-Continent (Rs. 26.8 crores); (11) India-Japan (Rs. 28.9 crores); (12) India-W. Africa (Rs. 0.6 crores); (13) India-Thailand Term. (Rs. 0.5 crores). Two routes viz. India-USSR/UK and India-Zambia made a combined marginal profit of Rs. 7 crores during the period. This state of affairs is stated to be due to intense competition faced by Air India from other airlines. The Committee wonder what inhibits the Corporation from launching an aggressive marketing strategy to face the competition. Air India expects only four routes viz. India-USA, India-UK, India-Continent and India-Japan routes to become profitable by 1987-88. This shows that there will be only a slight improvement in the next year. The Committee recommend that concerted and result oriented efforts should be made to make all the routes viable and self-sustaining.

1.56 The first seven loss-making routes mentioned in the previous paragraph also incurred cash losses in one year or other during the period. India-Bangladesh route which had been incurring cash losses over the years has since been closed down. India-Zimbabwe route has incurred cash losses since inception in 1981 except during 1983-84.

Air India has planned to restructure this route by combining India/Harare and the Narobi terminator services in order to improve the performance in this route. The operations on India-Canada route have been suspended since July, 1984. The other four routes are stated to be presently making surplus over cash costs. The Committee feel that there is no case for operating any route without recovering even the direct cost except for a brief period as a promotional venture, unless Government in public interest direct the Corporation otherwise. After a year or two of sustained efforts, the matter should be reviewed in order to take a view on its continuance. The Committee hope in this connection that the assurance of Air India that by 1986-87 no single route is expected to incur cash losses is not belied.

1.57 India-Gulf route has been the revenue spinner for Air India in as much as the airlines earned a profit of Rs. 53 crores in 1981-82, Rs. 95 crores in 1982-83 and Rs. 120 crores in 1983-84. The Committee, however, find that the growth rate in number of passengers on this route which registered an increase from 17.3 per cent in 1979-80 to 34.4 per cent in 1981-82 has fallen sharply to 9.8 per cent in 1982-83 and recorded a nil growth rate in 1983-84 and 1984-85. According to the Managing Director of Air India there will be no further growth. Rather a negative growth on this route may be expected in the forseeable future. Thus the only major source of revenue for Air India is tapering off. The reason for this phenomenon is attributed to the cut back on foreign workers employed in Gulf countries following reduction in oil prices and resultant fall in the economic activities in these countries during the last few years. The Committee cannot but emphasise the need for aggressive sales strategy by the Corporation to ensure that Air India at least retains its share of the traffic on this lucrative route.

1.58 Air India's performance on its freighter services operations was no better. Of the five routes of freighter services operated by Air India, two routes incurred operating losses and three routes made profits during the 5 year period 1979-84. These are India-UK (Rs. 1.60 crores loss), India-Europe (Rs. 3.54 crores loss), India-USA (Rs. 1.80 crores profit), India-Japan (Rs. 3.54 crores profit) and India-Zurich (Rs. 0.77 crore profit). The India-Europe route was in the red successively for four years during 1980-84 reportedly due to directional imbalances in the load and due to most of the exports being under the Government controlled mandatory rate. The route, however, has earned a profit of Rs. 1.54 crores in 1984-85. The Committee suggest that the Corporation should examine whether the directional imbalances in freighter services could be removed or lessened by entering into agreements with the other airlines on the question of transport of cargo or by taking alternative steps in this regard.

1.59 The overall losses incurred by Air India during 1979—81 were reportedly due to increase in cost of operations as a result of unexpected hike in oil prices in 1979 followed by recessionary market conditions and decline in traffic. The other factors responsible for the losses were stated to be industrial unrest in London and Fire at Santa Cruz Airport in September, 1979. The Committee wonder whether some of these factors were not within the control of the management. Air Indias claim that other airlines also incurred losses during this period falls through on a closer scrutiny. While some airlines like British Airways, Saudia and Kuwait Airways incurred losses, a number of other airlines like Air Canada, Swiss Air, Lufthansa, Malaysian Airline system and Singapore Airlines did make profits during this period.

1.60 The Committee find that the return on capital employed by Air India was 12.6 per cent in 1982-83 and 14.7 per cent in 1983-84. Though Air India's achievement in this regard was better than a number of other airlines, its achievement was no where near comparison with British Airways or SAS whose return on capital employed was 36.5 per cent and 26.6 per cent respectively in 1983-84 (In terms of profit Rs. 365 crores and Rs. 127 crores respectively). The Committee recommend that the strategy adopted by these airlines should be gone into by Air India with a views to improving its profitability.

1.61 The Committee note in this connection that one of the factors affecting the profitability of Air India is the price of Aviation Fuel which is very high in India compared to ATF price prevailing abroad. Its impact on Air India was in the range of Rs. 13 crores to Rs. 18 crores during 1982-83 to 1984-85. The Committee note that Air India's cost of operations was higher than many airlines like PANAM. Qantas and Singapore airlines during 1979—83. The Committee recommend that in order to bring down the cost of Air India's operation and considering the need for generation of more internal resources, Air India's plea for reduction in ATF prices or grant of bulk discount should be considered afresh by the Ministry of Petroleum.

1.62 The Corporation is at present having a net work of 45 on-line stations, 71 off-line offices and 22 Sales Representatives in India and overseas. Air India claims that all on-line stations are fully justified. The Committee, however, find from the information furnished by the Corporation that the revenue earned by the station at Rome has always been far less than the direct cost incurred by it during the 5 year period 1979-84. The Committee are of the view that prima facie there is no justification for continuing the station at Rome when its revenue could not meet even the direct cost of its operation even in a single year during the 5 year period 1979-84. The Committee would like to be apprised of the commercial justification for operating this station. The Committee would also like that the working of on-line stations and off-line offices be continuously monitored and periodically reviewed.

1.63 The foreign exchange earning is one of the important indices of efficiency of an organisation like Air-India. The Committee were anxious to know Air India's achievements as against the targets in this regard. They were, however, surprised to learn from the Corporation that Air India did not compute the foreign exchange earnings at the time of Annual Plan submission. The reason advanced for this serious lacuna interestingly was that the format prescribed (for annual plan) did not envisage such a calculation. While the Reserve Bank of India formulae for foreign exchange calculations is based on cash basis, the accounts are prepared on the mercantile system The Committee wonder why this matter could not be sorted out with the Reserve Bank of India with a view to work out a uniform method for making projections as well as calculating the actuals regarding foreign exchange earnings. The Committee desire that this should be done immediately and the outcome reported to the Committee within six months of presentation of the Report.

1.64 The total foreign exchange earnings of the Corporation were stated to be Rs. 482 crores during 1980-84 and Rs. 177 crores in 1984-85. The Corporation, however, could not furnish the exact outflow of foreign exchange attributable to its operations. Air India informed that the total remittances from India to foreign stations were Rs. 120 crores during 1980-84 which did not take into account the disbursements on various other accounts. The Committee on Public Undertakings (1980-81) had suggested that Government should refer to the Reserve Bank of India the matter regarding computation of net foreign exchange earnings with a view to refining the method by taking into account the indirect foreign exchange expenditure and earnings. The Committee are surprised to note that nothing concrete has been done in this regard even after a lapse of nearly 5 years, especially when the present system of computation is reported to be not favourable to Air India. The Committee expect that their recommendations are given a serious consideration and in future there should be no delay in taking action on their recommendations. They would like the Civil Aviation Secretary to take up the matter directly with the Reserve Bank of India in order to arrive at an early date a convenient method of computation regarding foreign exchange earnings.

II. FARES AND AGREEMENTS

(i) *Promotional and Mandatory Fares*

The Committee wanted to know whether there is any route operated by Air India on considerations other than commercial and if so, whether there is any Government directive for operation of such routes. The M.D. Air India said in evidence:—

> "There is Government's view that where there are some large ethnic Indian population or where we have got some very special relationship we can operate. Take Mauritius for example. Our country have some very special relationship; although we are not earning we are not losing either. So, we have to meet national objective. Harare route is not doing well; but the Government of Zimbabwe is involved; they are Chairman of NAM now.........India was initially unknown and operation by an Indian Airlines did such to project India. There are 200,000 Indians in Canada; they want to come to India; they have been sending various applications. So, apart from only and purely commercial, there are national considerations also."

2.2 As per Section 9 of the Air Corporations Act, the Corporation is expected to function as far as may be on business principles. Section 34 of the Act provides for reimbursement of loss on the operation of any uneconomic service or other activity established, altered or continued on the directions of the Government provided there was overall loss. The Committee enquired whether there were any routes operated by Air India on the directive of the Central Government under Section 34 of the Air Corporations Act since 1979-80. The Department of Civil Aviation stated in a written reply that no directives have been given by the Government under Section 34 of the Air Corporations Act, since 1979-80.

2.3 While discussing about the route-wise performance of Air India, the Civil Aviation Secretary stated during the course of the oral evidence:

> "African routes are not profit making because the overall economy in Africa is passing through a very difficult

stage because it is practically passing through famine conditions. But we have to keep our presence there because we cannot afford to keep away, even if we run into cash losses."

2.4 The Committee enquired whether any directive was given by Government as far as African routes are concerned, the Civil Aviation Secretary said:

"No. Sir, I think the companies are fairly autonomous in their functioning and taking the overall position. No company really makes profits on all routes."

2.5 Asked to furnish a list of different routes which were incurring losses but were continued for political reasons, the witness said:

"There is no such thing at the moment."

2.6 When the Committee drew the attention of the witness to the India-Zimbabwe route which has been incurring cash losses since inception in 1981 except during 1983-84, the witness said:—

"In Zimbabwe we lose nominally. In a year, the entire loss was Rs. 55 lakhs. One could consider that if the losses continued, we could consider doing something. India is the leader of NAM. The next Conference of NAM is to be held there. If the losses continue after that conference, that route may be closed down."

2.7 Pointing out that the route is operated on political considerations, the Committee enquired why Government should not reimburse the loss incurred in the route. The witness however, replied:

"Air India has already got a huge margin of Rs. 65 crores."

2.8 Air India has established promotional fares mandatory fares/rates in order to generate tourist traffic and taking into account factors like capacity deployed by carriers on the sector, competition and resultant market practices followed by the other carriers, and develop newly established routes etc. Asked how many of the total number of promotional fares were established on the directive of Central Government and what was the loss of revenue suffered by Air India on account of these promotional fares, the Department of Civil Aviation stated in a written reply:

> "Government has not established any promotional fares on its own. All the promotional fares which have been established by means of Government directives, are at the specific instances/recommendations of Air India. Air India recommend the establishment of promotional fares only when there is a justification that it would generate tourist and other traffic and thereby increase the earnings. In view of this, the question of loss of revenue does not arise."

2.9 Air India have intimated that promotional fares have generative effect as they stimulate growth in traffic and enhance revenue earning capability of the airline e.g. the promotional fares accounted for huge percentages of Air India total sales of passenger traffic on different sectors as per details given below:—

Sector	Percentage share of the promotional fare
India/USA/India	91·2%
India/UK/India	62·5%
India/Europe/India .	54·5%
India/South-east Asia/India	36·4%

2.10 Air India informed in a note furnished in October, 1985 that the existing cargo rates from India to various international points fall in the below mentioned categories:

(i) General Cargo Rates
(ii) Specific Commodity Rates
(iii) Class Rates
(iv) Minimum Rates
(v) Government of India Directed Rates

The first four categories are established by IATA and ratified by Government of India, while the Government of India Directed Rates are filed directly with the Government of the destination countries and made applicable after receiving their approval.

(i) *General Cargo Rates* which are broken down into two categories:

(a) *Normal Cargo Rates* which are applicable to shipments weighing under 45 kilos which are established taking into consideration the distance involved in transporting the cargo as also the earlier established rates to the neighbouring cities.

(b) The + 45 kg. rates offer a discount of 25 per cent on the normal cargo rates.

(ii) *Specific Commodity Rates* which are for carriage of specific items of export to specified points and offer a discount ranging from 50 to 65 per cent of the Normal Rates and presently cover 99 commodity groups.

(iii) *Class Rates* which are established for items like newspapers, magazines, human remains, etc., The discount levels vary from point to point.

(iv) *Minimum Charges* which are established for carriage of valuable items with negligible weight *e.g.* gold, precious stones, life saving medicines, etc.

(v) *Government Directed Rates* which are mandatory rates offering discounts as high as 72 per cent or more in some cases of the Normal Cargo Rates and established for carriage of perishables to the Gulf area and leather items to New York, Montreal, London and most European Stations.

2.11 The GOI Rates are fixed by the Ministry of Civil Aviation based on recommendations of the Commerce Ministry and in consultation with Air India. Air India stated in a written reply as follows:—

'GOI Mandatory Rates were fixed in early 1970s at a time when Indian goods such as leather and perishables were finding overseas markets. However, the items are now well established ana the promotional aspect does not exist any more. Therefore, continuance of these low rates even now is not justified particularly with the tremendous increase in the cost of airline operations.

Since no increase have been given on these rates for over a decade a cases has been presented to our Ministry requesting for a "distance oriented" rate structure to the various Gulf points. The matter has been referred by them to the Commerce Ministry and awaiting their clearance.

Air India carried a total of 5500 tonnes of leather-leather items during 1984/85 and the commodity has moved on Commodity Rates as well as on GOI Directed Rates.

Air India also carried a total of 20,000 tonnes of perishables during 1984/85, most of which is meant for the Gulf Area. If the requested increase in the vicinity of 14 to 20 per cent is granted in the existing GOI Rates for carriage of such items to the Gulf Area, our Revenue would show a sizeable increase in the vicinity of at least Rs. 2.00 crores."

2.12 The Civil Aviation Secretary stated in evidence:—

"The Government issued directions in some cases, with regard to perishable goods like vegetables, and certain other leather items and so on, which have to go within a limited time. That is done with a view to promote exports and to earn foreign exchange, in consultation with the Ministry of Commerce. Then only such steps are taken. And, Air India has been representing of late, about the losses."

2.13 Enquired whether the losses on this account are reimbursed, the witness said:—

"We do not reimburse...I think, to my mind, the main reason why we do not do so is that because, Air India is on the average making a profit."

2.14 A representative of the Department of Civil Aviation said in this connection:

"If we do not issue this directive, then they (Air India) will be bound under IATA regulations to carry cargo at IATA rates which are higher. So, they require a protection to carry cargo at a lower rate. Otherwise, they will be penalised under IATA regulations if they carry them at a lesser rate."

The witness also added:

"If Air India accepts the normal IATA rates and secure business, it will not get business in respect of these commodities."

2.15 Not satisfied with the explanation, the Committee put forward a view that the burden of loss should not be put only on Air India and that the burden could be shared by Government as the intention is to promote exports. To this, the Secretary, Department of Civil Aviation said:

"I accept this point. Our Ministry has so many tasks."

II. *Bilateral Agreements*

2.16 Air India's share of the total number of international passengers travelling from and to India during 1980-84 was stated to be as follows:—

	AI share of passenger Nos (%)		
	Ex India	Into India	Combined
1980	38·6	39·5	39·0
1981	41·3	43·1	42·1
1982	40·5	43·7	42·0
1983	36·9	39·0	37·9
1984	35·1	36·9	35·9

2.17 The Committee on Public Undertakings (1980-81) had made the following recommendation in their 12th Report (Seventh Lok Sabha):

"The Committee had pointed out that the Bilateral Air services Agreements entered into with foreign airlines were weighted against our national interest. In this context it is amazing that the government have derived a satisfaction that the Air India could get 42.8 per cent of the international traffic in India as against the 35 foreign airlines operating in India getting the balance. If some such comparison is made on the basis of the total world air traffic it would have been logically sound. The agreements with foreign countries and foreign airlines are based on the principle of reciprocity and ideally the international traffic in India should be equally shared between the national carriers and foreign airlines. In fact, this position was admitted by the Managing Director, Air India, in his evidence before the Committee. The Committee note the commitment of the Government that every agreement would be reviewed and revision/termination examined. They trust that the present imbalance would be corrected before long."

2.18 Referring to the above recommendation, and taking note of the decline in AI's share of international traffic the Committee wanted to know what steps have been taken to correct imbalance after review of bilateral agreements. Air India stated in a written reply that a report in this regard was submitted to the Ministry in August 1980 wherein AI recommended a review of various bilateral agreements with a view to restricting capacities, curtailing rights and frequencies and, in some cases, termination of some of the existing agreements. AI had also recommended that "future bilateral negotiations should aim to regulate capacities and rights exchanged more closely to the estimated traffic potentials so as to ensure that both Air India and the national carriers concerned derive equitable opportunities and benefits." In particular, Air India had recommended that—

—the bilateral agreements with Poland, Czechoslovakia, Scandinavia and Lebanon be terminated (so that LOT, CSA, SAS and TWA respectively cease to operate air services to/from India), since the current volume of 3rd/4th freedom traffic was inadequate to justify operation of direct air services and since AI had no interest in operating services to/from these countries in the foreseeable future;

—the termination of the bilaterals with Belgium and Ethiopia with a simultaneous cessation of the existing operations of AI to/from these countries;

—the termination of the bilateral with Syria, or, if this was not possible due to non-aviation considerations or to protect Air India's overflying rights, a curtailment of Syrian Arab's rights on 5th freedom sectors and a revision of its entitlements and opportunities;

—a substantial curtailment of the rights and entitlements of carriers such as Swissair and Iraqi Airways.

2.19 Air India informed that the attempts to revise the agreements at airline level were unsuccessful except in the case of:—

(i) Swissair, where after protracted negotiations, the applicable commercial arrangements were revised for effectiveness from April 1984 substantially increasing the level of AI's receipts.

(b) LOT—Polish Airlines, where a revised commercial agreement involving a higher level of compensation payment had been negotiated in July 1985 (and is awaiting Government approval) for effectiveness as and when LOT recommence operations to/from India (LOT suspended operations in December 1981 due to internal difficulties).

2.20 Asked about the response of the Ministry in regard to Air India's recommendations on other bilaterals, the Managing Director Air India said in evidence:—

"So far as the Ministry is concerned, there has been no discussion, the Ministry has not reviewed the matter and they have not come back to us."

2.21 When the witness was asked to give a specific reply, the witness said:—

"So far as Air India's recommendation is concerned, SAS is a unilateral operation in the country. They should be terminated and they should pay some royalty to Air India. On that there has not been anything from the Government. Similarly, with regard to CSA as also TWA, there was a large imbalance in regard to the flights to be operated by them and we have recommended that they should be reviewed and it should be reduced. We have not heard anything from the Government."

2.22 Asked whether the matter was pursued with the Government, the witness said:—

"...............I have not only written but on various visits to the Ministry I impress upon them. So far as the Government is concerned there is a certain view that more and more foreign airlines if they come to India it would be better for tourism.

I would also like to bring on record my letters to the Ministry pointing out that if they continue to grant more and more rights to the foreign airlines it will be detrimental to Air India."

2.23. When the Committee pointed out that Air India's proposals for termination of some of the bilateral agreements had been rejected by the Government and in regard to some proposals the Government's decision was awaited, the Secretary, Civil Aviation said:

> "I will have to look at the file."

2.24 A representative of the Ministry said in this connection:

> "Air service agreements are between two countries and we are in that guided by certain practices and by the Chicago Convention. Sometimes it happens that at a particular point of time, a bilateral agreement is arrived at with a particular airlines, but in the changed market situation, the agreement requires an amendment. The process of review of bilateral agreements is a continuous process. This review is done at the instance of Air India and sometimes at the instance of the foreign airlines. Whenever these agreements are reviewed, Air India is invariably consulted."

2.25 The Committee pointed out that when the Corporation's proposals for termination of an agreement is rejected, it amounts to a directive. The witness then said:—

> "It may be that in certain cases, the Air India wants this operation to be terminated. In such cases, we invite foreign companies to renegotiate with us and we try to see that the agreement is terminated to the advantage of Air India, but there has to be consultation according to the procedure. It is true that Air India has to run on business principles and whenever there is a deviation, a directive should be given. We give our views at the Board level. I do not think, we have given suggestions which have been taken by the company as directives."

2.26 Referring to the bilateral agreements, the Civil Aviation Secretary said during evidence:—

> "Now Sir, for the first time we have prepared a chart indicating what we intend to get from the other countries in the next 3-4 years."

2.27 Referring to the deterioration in the Air India's share of the total number of international passengers travelling ex/into India from 42.1 per cent in 1981 to 35.9 per cent in 1985, the Committee wanted to know what concrete steps did the Ministry take to improve the position in favour of national carriers. The Department of Civil Aviation stated in a written reply as follows:—

"The Ministry's view point in this regard is that as long as Air India retains its right to operate to countries, where it has not been able to operate at present, due to capacity constraints, a temporary imbalance in the carriage of passengers is permissible. The idea is that if Air India has a right to operate due to justifiable reasons, at a future date, Air India can penetrate that market and carry passengers on its schedule services. With this in view a case by case evaluation of the bilateral agreements is being conducted to correct the imbalances, in the bilateral agreements with various countries. Recently, bilateral talks have been concluded with KLM and Singapore Airlines, obtaining more favourable terms for Air India than before.

Moreover, where Air India is not operating, Air India receives compensation from foreign airlines. Therefore, Air India is not incurring any monetary loss, even in these cases, it does not operate to certain points and the airlines of that country operates scheduled flights to India.

With the fleet augmentation of Air India in 1986-87, it is expected that the position will improve."

2.28 Air India stopped its operations to Canada after the Kanishka disaster on 23-6-1985. Enquired whether Air India is getting any compensation from Air Canada after the stoppage of Air India's operations, the Civil Aviation Secretary said in evidence held on 18-3-1986:—

"Previously India was operating to Canada. Air Canada was not operating. We were operating because there is lot of ethnic population in Canada. So it suited us to operate to Canada. For some years, Canada used to charge them some compensation for not operating. But when Air Canada started operating. The compensation was stopped. But now after Kanishka disaster, we have not been operating. We have asked for compensation. It may take some time for us to operate."

The witness, however, added:—

"We want to renegotiate the existing agreement to get some compensation against them. We have given notice to

> Canada. That requires 60 days' time. The notice was issued some time in January. They have responded.... We are going to have negotiations by the end of next month."

2.29 Enquired whether the payment of compensation will have retrospective effect, the witness said, "No".

2.30 Asked for the reasons for delay in the negotiations, the witness said: —

> "In dealing with such matter, we do not straightaway jump into negotiations. Certain time has to lapse. During the first one or two months, Air India was taken aback by this tragedy. It takes certain amount of time to sort out all these issues especially when we are dealing with a friendly country. We have to move through the Ministry of External Affairs in these matters."

2.31 There are some routes for instance India-Zimbabwe, India-Canada and India-Mauritious routes which are not recovering even the direct operating cost but are continued to be operated on national considerations. There are also Government directed mandatory fares which are less than normal rates applicable to export of cargo keeping export promotion in view which eventually lead Air India's Freighter operations into a loss. As per section 9 of the Air Corporations Act, Air India is expected to function as far as may be on commercial principles. Section 34 of the Act provides for reimbursement of loss on the operation of any uneconomic service or other activity established or altered or continued on the directions of Government provided there was overall loss. The Committee, however find that no directions have been given by the Government under Section 34 of the Act so far, but informally Government want some routes to continue. Directions have also been issued by Government regarding mandatory rates on cargo but apparently not under Section 34 of the Act. The Committee are of the view that the services and activities which cannot be justified on commercial considerations but are desired by Government on national considerations should be covered by directions under Section 34 of the Act. The direction given by the Government under the Section 34 of the Act and the effect thereof should be published in the Annual Reports of Air India in future for information of Parliament and the Public.

2.32 Regarding the question of reimbursement of loss incurred on the routes continued on the desire of Government and loss on account

of mandatory fares, Government has taken a plea that Air India has been making an overall profit. In this connection, the Committee recall their recommendation in 42nd Report (1981-82) on "Indian Airlines" to the effect that the desirability of amending Section 34 of the Air Corporations Act to make provision for payment of subsidy without regard to the overall working results may be considered. Government has not furnished any final reply on this recommendation. The Committee cannot but deplore the slackness on the part of Government in considering their recommendation made as long back as in 1981-82. The Committee desire that this should be considered without any further delay keeping in view the need of the Corporation to generate internal resources.

2.33 Air India's share of international traffic from and to India has gradually declined from 42.1 per cent in 1981 to touch a new low of 35.9 per cent in 1984. Thus the imbalance has accentuated over the years instead of being rectified in favour of Air India as recommended by the Committee on Public Undertakings (1980-81) in their 12th Action Taken Report (Seventh Lok Sabha). Air India submitted a report to the Ministry in August 1980 regarding nine bilateral agreements wherein Air India proposed restriction of capacities, curtailment of rights and frequencies and in some cases termination of the existing agreements. The Committee are disappointed to know that Air India's attempts to get the imbalances in bilaterals redressed have not been successful due to lack of proper response from the Administrative Ministry. Of the 9 bilaterals, Air India could revise only two agreements in its favour, the rest have been either turned down by the Ministry or awaiting Government's review/approval, inspite of Air India's continued persistence in the matter over the last 5 years. The Ministry's contention that as long as Air India retains its right to operate to countries where it has not been able to operate at present due to capacity constraints is only being oblivious of the fact that Air India's overall share has greatly deteriorated over the years. The Committee desire that the Ministry should undertake immediate evaluation of all the bilaterals to correct the imbalances keeping in view Air India's capacity expansion programmes for the near future. The Committee in this connection note that there has been considerable delay in renegotiating the agreement with Air Canada with a view to claiming compensation after the stoppage of Air India's operations after Kanishka disaster on 23-6-1985. The Committee would like to be apprised of the result of the negotiations with Air Canada.

III. TRAFFIC GROWTH

(i) *Rate of growth*

The Corporation's rate of growth in international air traffic during 1980/85 compared with the growth rate achieved in the 1960s and 1970s in comparison with the industry's average as furnished by Air India is given below:—

	Average Annual Growth %			
	Pax KMS		Total RTKMS	
	AI	Industry	AI	Industry
1960-1970	13·1	17·3	13·5	17·2
1970-1980	13.3	11·0	13·6	9·5
1980-1984	4·6	4·2	6·0	6·0

3.2 Air India stated in this connection as follows:—

(a) The double-digit growth rates achieved by Air-India and the industry—in the sixties was accounted for by the fact that the traffic base was small and that air transport was in an expansionary stage of development.

(b) During the 1970s. the major impetus of traffic growth was the advent of wide-bodied aircraft and the quantum jump in capacity that resulted from their introduction. The higher productivity and lower unit operating costs of these aircraft—together with the need to generate traffic—led to the introduction of a variety of promotional fares which stimulated traffic growth in the early 1970s. In fact, traffic growth would have been higher still were it not for the fuel crisis of 1973/74 and 1979/80

(c) The slow down in traffic growth in the early 1980s—experienced both by Air-India and the Industry—was attributable to the world recession and the generally

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adverse economic conditions which prevailed during these years."

3.3 Asked whether there were no other airlines particularly in the Asia-Pacific region which achieved a higher growth rate than Air India during 1980—85 and if so what were their growth rates, Air India furnished the following information relating to IATA airlines:

	Average Annual Growth (%) 1980-1984	
	In passenger KMS	In Total RTKMS
Air India	4.6	6.0
Air New Zealand	6.4	7.6
Qantas	0.5	2.9
Pakistan International	4.0	3.5

3.4 Air India stated that certain non-IATA airlines—particularly Singapore Airlines and Thai International—have expanded far more rapidly. For example, (according to an article published in Airline Executive, February 1984) "for the first six years of its life, SIA's ton kilometers performed increased each year by 29 per cent. Growth is currently running at 7 per cent and future traffic growth is forecast between 6 per cent to 8 per cent.

3.5 When the Committee wanted to know what exactly were the reasons other than economic recession, for Air India's growth rate being lower than these airlines, it was explained in a written reply as below:—

"The tourism industry is highly developed in Thailand and Singapore and is accorded a high priority by the Governments of these countries. As a result their tourism base is very large: as against 0.8 million tourist arrivals by air into India in 1983, there were 2.34 million in 1984 into a small country like Thailand. As for Singapore, tourist arrivals—at 3 million in 1982—exceed the local population of 2.5 million of this island state.

In this context, the role of SIA or Thai International transcends that of a mere airline and assumes that of a vehicle of Governmental action to promote tourism—the mainstay of their economies. The special relationship between the Government and the airlines of these countries—which often expresses itself in massive aircraft acquisition programmes (probably underwritten by the Government); the highly developed state of their tourism industry and the rapid rate of GNP growth achieved by these countries in recent years—together offer these airlines an edge over most other airlines."

3.6 Air India informed in a note that the Draft Seventh Five Year Plan of the Corporation was submitted to the Ministry of Tourism and Civil Aviation on the basis of 8 per cent growth in traffic. The Ministry, however, asked Air India to work out a revised proposal taking into account anticipated growth of 6 per cent instead of 8 per cent as envisaged by the Corporation.

3.7 Asked for the reasons for scaling down the projected growth rate by Government, the M. D. Air India deposed in evidence (November, 1985):—

"Basically we had looked at Air India's growth rate and not so much on the average of the industry. We had also looked at the anticipated growth in our various major sectors and then we had worked out that 8 per cent growth rate would allow us sufficient scope for expansion. But when we started talking about the Seventh Plan, we thought that the airlines industry was still suffering from the effects of recession in United States. Of course, Air India's growth rate of 8 per cent also envisaged certain budgetary support from the Government which the Government was not willing to allocate. So, keeping all these factors in mind, the Government felt that it should not be in excess of 6 per cent....We have not yet received the Government approval of the Seventh Plan, as I do not know what will be the growth rate that they will approve."

3.8 When the Seventh Plan came up for review by the Government agencies involved, Air India's projected growth rate of 8 per cent was questioned as being too high in comparison with the Industry's *then* projected growth of 4 per cent for the worldwide scheduled operations of IATA airlines.

3.9 In Air-India's opinion, its projected traffic growth of 8 per cent is supportable because:

(a) Air-India has for the last 15 years growth at a higher average annual growth rate than the Industry;

(b) The Industry forecast of 4 per cent related to the worldwide scheduled operations of IATA airlines and includes in its base several large markets which are reaching maturity and which are, therefore, growing very slowly. It would, therefore, have been preferable to compare Air-India's projections with the Industry to/from India rather than the worldwide Industry. In this context, it may be noted that as against a worldwide forecast of 4 per cent for all IATA carriers, IATA had projected a 6.3 per cent average annual growth rate increase for its member airlines' traffic to/from India in the period 1984—86.

(c) IATA itself is taking a more optimistic view about Industry traffic growth and now predicts an average annual increase of 6 per cent in worldwide traffic (1983—86) instead of the 4 per cent growth rate forecast earlier. There is therefore reason to believe that the 6.3 per cent growth rate forecast by IATA for Industry traffic to/from India in the period 1984—86 may, therefore, be much closer to the 8 per cent projection made by Air India.

3.10 The 6 per cent growth in Seventh Five Year Plan was reportedly submitted to the Government indicating an outlay of Rs. 1137.50 crores and budgetary support of Rs. 199 crores excluding Equity contribution to Vayudoot.

3.11 Asked whether with the additions to capacity, Air India could get more return on capital employed, the M.D., Air India submitted in evidence:—

"There has to be a relationship with the yield. Yield is the earning per tonne kilogramme. It will depend on the traffic density; it will also depend on the competitive activity. It cannot be merely injection of capacity, but it has to be related to the actual market conditions."

The witness added further in this connection:

"Up to a certain point we can utilise the additional capacity.

The IATA had predicted in 1984 that all the Airlines will have a profit margin in 1984, which has come true. They have now predicted that 1985 will be worse than 1986. They said that in 1986 the industry will again go into the red because there will be capacity injection. Capacity injection is going at a faster rate than it is possible. But the actual revenues do not tally with it. The IATA has predicted that the airlines are heading for heavy losses."

3.12 Air India informed in a written reply that the Corporation's actual internal resources were better than projected due to increase in profitability. The internal resources position during the Sixth Plan period 1980-81 to 1984-85 is summarised below:—

	1980—85			
	Original Plan Submission	Approved Plan	Mid-Term Review	Actual
			(Rs. in crores)	
Net Surplus (Loss) . .	60·48	25·00	76·88	129·8
Depreciation & Obsolescence	222·90	165·00	190·38	201·61
Development Expenses .			(3·85)	3·85
	283·38	190·00	263·41	326·94
Less:Dividend .	—	—	—	7·24
	283.38	190·00	263·41	319·70

3.13 Enquired whether the Air India's proposal for an outlay of Rs. 1137.50 crores for the Seventh Five Year Plan has been approved, the Secretary, Department of Civil Aviation said (17-3-1986)

> "The 7th Plan has not been finalized; but they have indicated that for all the sectors of that plan, it would be Rs. 730 crores. In the first year of the Plan we have spent almost Rs. 340 crores. So, we naturally went to the Planning Commission and said that our minimum requirement was about Rs. 2480 crores. We have been saying that we are not depending for a single penny on budgetary support. The entire Plan of Civil Aviation is self-generated. Even for this year's Plan, the entire money is founded by Air India, Indian Airlines and the Airports Authority. We said Planning Commission could not limit us to Rs. 730 crores. Our projections are Rs. 2400 crores. Planning Commission has agreed midway, and said it would review the position year after year. If the Report of this Committee supports us, we will get further strength."

3.14 On being asked whether any market surveys have been conducted to explore the possibility of expanding the Air-India's network to the areas hitherto not covered and where there is sizeable Indian ethnic population and if so, when these surveys were conducted and with what result, Air India stated in a written reply as follows:

"As part of its normal marketing activity, Air-India conducts market surveys of various markets from time to time to determine the traffic potential from these markets and to evaluate the economic viability of serving such markets through direct operations. Amongst countries surveyed in the recent past are Jordan, Libya and Spain. The findings of each of these surveys are summarised below:—

Jordan: *July* 1984:

The 3rd/4th freedom traffic potential between Jordan and India was estimated at only 9653 passengers per annum or 93 passengers per week in each direction, which was found to be inadequate to justify operation of direct air service between India and Jordan. Estimated Indian population is 6500.

Libya: *December* 1983:

The study evaluated the traffic between India and Libya at 50,200 on-way passengers per annum or 483 passengers per week in each direction. The study, therefore, recommended commencement of direct air services between India and Libya. A series of discussions were thereafter held with the national carrier of Libya namely, Libyan Arab Airlines, to facilitate commencement of direct air services between India and Libya. However, as Libyan Arab Airlines were not in a position to commence operations to India, they demanded on excessive royalty from Air-India. The amount of royalty required by the Libyan Arab Airlines, would have rendered Air-India's operation uneconomic. Accordingly, operations have not yet been commenced and the matter is under review, should the Libyan Arab Airlines be now prepared to operate to India. Estimated Indian population is 40,000.

Spain: *December* 1983:

The traffic potential between Spain and India was estimated at 25,600 passengers per annum or 246 passengers per week in each direction. Though the traffic potential is sizeable, the India-destined traffic is highly seasonal with the passenger movement concentrated in India's winter months with limited movements during the other periods. The surveys also determined that the traffic between Spain and India moves at highly discounted group fares offered by a number of European carriers who are active in the carriage of this traffic apart from Air-India itself. Coupled with the above facts, it was also recognised that given the financial results of Air-India's operations into Europe, it would be inopportune at this time to introduce another online point in Europe. The estimated Indian population is 8,000.

3.15 Enquired whether Air India envisages any expansion into new routes/areas in the Seventh Plan projections it was stated in written reply:

"No new routes have been included in these projection because Air India's immediate objective is to review its present route mix; to withdraw from fundamentally uneconomic routes/stations; and to *consolidate* its position on its profitable routes. Moreover, in the context of the constraint resources, a 6 per cent rate of expansion will barely cater to foreseable growth on present routes leaving no capacity available for expansion into new routes/areas."

(ii) *Share in the international air traffic*

3.16 Air India currently ranks as the sixteenth largest carrier amongst IATA airlines in terms of schedule international tonne-kilometres performed. Air India's share of the worldwide Industry's Scheduled International traffic in the past five years as furnished by Air India is given below:—

	AI Share of IATA Scheduled International RTKMs
1980	2·03%
1981	2·01%
1982	2·00%
1983	2·04%
1984	1·92%

3.17 Explaining the reasons for sudden drop in AI share in 1984 Air India stated in a written reply that whereas 1984 was a "good" year for the Industry as a whole Air India's traffic was adversely affected by political disturbances in North India during most of 1984.

3.18 Outlining the reasons for decline in the share of international traffic, the M.D. Air India said during evidence:

"In 60s there were very few international airlines. Then during the 60s and 70s many of the African countries got independence and each and every country practically started its own airlines. Similarly countries like Singapore and Malaysia also got their own airlines. For instance in certain regions of the world the air traffic increased faster. So, it is not a matter where the Air India can influence. Therefore, in spite of the growth that Air India could sustain, our share in the world market declined."

3.19 In a written reply Air India stated in this connection as follows:—

"The slide in Air India's market share is largely connected with its lower rate of capacity expansion in recent years—particularly the absence of any additions to the fleet throughout 1983 and 1984.

Whereas the planned acquisition of six A-310/300s in 1986/87 can be expected to marginally improve Air India's share, a long term improvement will be possible only if Air India expands capacity at a faster rate than its competitors. On this, Air India is somewhat constrained by the fact that its aircraft acquisition programme has to fit within the resources allocated to it in the Seventh Plan period."

3.20 When the Committee pointed out during evidence that Air India has not utilised even the allotted fund (a shortfall of Rs. 53.10 crores in the utilisation of plan outlay during the sixth plan 1980—85) the M.D. Air India said in evidence:

"A 310-300 project we wanted to have in 1984-85. But that did not come through in that year. The approval from the Government came only during 1985-86. We would have preferred to purchase the aeroplanes earlier. But this was not done in the Sixth Plan period. Had it been sanctioned in the Sixth Plan period, we would have made an advance payment."

3.21 Asked whether there was any decline in the capacity during 1982—84, the Civil Aviation Secretary said during evidence:

> "The capacity has declined. It is not the physical number of aircraft, but the old aircrafts. For instance, 707 aircrafts, their life has finished because we were not able to get additional capacity. So, we will have to prolong it."

3.22 The Committee wanted to know to what extent the augmentation of fleet in 1986-87 will improve Air India's share in international traffic. The witness said in reply:

> "It would be very difficult to say, but percentage will certainly improve."

(iii) *Tourist Traffic*

3.23 One of the objectives of the Corporation is to promote international tourism in India and to improve the nation's foreign exchange resources. The Committee were informed in a note that a target of 2.5 million has been set for tourist arrivals into India by 1990. The region-wise projections of foreign tourist arrivals by the year 1990 were indicated as follows:—

(a) North America	388,700
(b) Central & South America	17,200
(c) Western Europe	889,400
(d) Eastern Europe	72,000
(e) Africa	144,000
(f) West Africa	330,500
(g) South Asia	349,200
(h) South East Asia	147,100
(i) East Asia	70,600
(j) Australasia	91,200
(k) Stateless	100

3.24 Asked what specific role has been assigned to Air-India in achieving the objective of the Corporation to promote international tourism in India and the targets, it was stated in a written reply that:—

"Air India plays a major role in the promotion of tourism in coordination with the Department of Tourism. To achieve the objectives and increase the tourist arrivals into India, Operation Schemes exist in all the regions except in Africa, and we work in close coordination with the offices of the Govt. of India Tourism Department. Air-India shares approximately 20 per cent of the budget under the Operation Schemes. Air—India contributed Rs. 107.76 lakhs as its share under the Operation Schemes during 1984-85. The working of the Tourism Division in Air India was streamlined and activity expanded to develop traffic in the following categories, namely, Stopover Tourist, Incentive Travels. Business Travel, Himalayan Tourism, Youth Travel, Congresses & Conventions, etc. In addition, they have been supplementing the efforts of our regions overseas to coordinate with the Department of Tourism. Additionally, regular Seminars are held at various stations in coordination with the Department of Tourism, and Agents Familiarisation Tours, Press and Advertising Media are invited to visit India."

3.25 Asked whether any comparative study has been made regarding the various facilities which are available, say, in Singapore, Thailand and all other countries, and India by the Tourist Department or by Air India jointly, the M.D. Air India said in evidence:—

"It would be incorrect for me to answer for the Tourism Department, I shall not try to do it, if I do so, I might give a wrong or incomplete information. So far as Air India is concerned, primarily we have tried to give them an attractive fare to come into this country—an excursion fare. By this, the foreigners and tourists are attracted to visit this country. We work hand in hand with the Government of India Tourist offices wherever they are there in the world."

The witness, however, added:

"But apart from that, it is really the environment in the country that matters."

3.26 Asked what concrete steps have been taken by Air India in meetings the expected tourist traffic by 1990, the M.D. said:—

"So far as Air India is concerned the additional capacity available will naturally improve the inflow of traffic into India and the Government of India's strategy is that more and more airlines be encouraged to come to India provided it is not detrimental to our interest. In Bombay our Juhu Beach hotel is coming up. So far as Delhi is concerned there is lot of unutilized accommodation.

The witness added in a reply to a further query;

"Recently Goa has been opened as tourist destination. We have also agreed that Chandigarh and Hyderabad will also be international airports and Goa also will be an international airport. These are some of the concrete steps and this is where the question of Air India support will come."

3.27 Asked what percentage of tourist arrivals into India in 1983-84 and 1984-85 could be said to be due to the efforts made by Air India, Air India stated in a written reply that as Air India is not in a position to maintain records on the basis of purpose of visit of foreigners to India, it is not possible to quantify the tourists brought into India by Air-India. However, Air-India reportedly conducts a quarterly nationality sample survey, during one week of each quarter, to determine the nationality of the passengers carried on Air-India services worldwide. Based on this sample survey, it is estimated that the number of foreign nationals brought into India by Air-India in 1983 and 1984 is as given below:

Sectorwise carriage of foreigners on Air India Services

Sector	1984			1983		
	Foreigners	Total	%age to total	Foreiginers	Total	%age to total
1	2	3	4	5	6	7
India-UK-India .	52397	113659	46·1	52394	111954	46·8
India-USA-India .	77471	152502	50.8	78207	156414	50·0
India-Europe-India .	89305	148348	60·2	104883	151784	69·1
India-Gulf-India .	63493	783866	08.1	73338	805916	09·1
India-Africa-India .	29688	67626	43.9	36564	68471	53·4

1	2	3	4	5	6	7
India-South East Asia-India	34285	77394	44·3	28789	62046	46·4
India-Australia-India	29113	39556	73·6	36228	40569	89·3
India-East Asia-India	46690	d6144	54·2	46848	91679	51·1
India-USSR-India	9364	15152	61·8	7896	14125	55·9
TOTAL	431806	1484247	29·1	465147	1502958	30·9

3.28 Referring to the above, statement when the Committee pointed out that the percentage of foreigners has fallen in the year 1984 as compared to 1983 in almost all the cases and asked for the reasons the M.D. Air India said:—

"During 1984 for that matter even during 1985 we did not have a positive image abroad.... If you keep getting newspaper reports that two die in Delhi etc. etc. The tourists are not likely to transit in India. So, this sort of negative publicity will not help tourism in India."

3.29 The Committee pointed out that political situation could not be a sole factor for the decline in foreign traffic and illustrated in this connection the case of Bangkok where the situation was not that favourable politically in the background of Vietnam War and subsequent developments. The witness then said:—

"I am not trying to say that the political situation is inhibiting the growth during 1984 and, to some extent, during 1985. That has nothing to do with 1983, 1982 or 1981. I would be the first to accept that. In India, the emphasis has been broad-based. In the past, we depended entirely on cultural tourism. They will come and go and see Agra, Fatehpur Sikri and Jaipur. But Singapore is not dependent on historical places of interest for promoting international tourism. Shopping is an interest. Tourists must have some attraction. The recent political upheaval in Bangkok would have affected tourism. There is no doubt about it. In India, we are trying to be more broad-based. Apart from cultural tourism, we want to popularise our beach resorts in Goa. That is how we have built our hotels in Srinagar, popularised mountainous resorts, trekking, games and Pushkar Mela. The young foreigners can come to India and play golf. All this will show results in the next two years."

3.30 Not satisfied with the reply, the Committee wanted to know the specific reasons for the decline in traffic of foreigners and enquired whether could it be due to poor quality of service in Air India or due to Kanishka disaster or due to some other reasons.

The witness then deposed:

"The situation in 1984 has an effect on the foreigners coming to India. The State Department of USA had issued a notification that Americans should not visit India...... Once the US State Department issues a notification, the condition will come into force that if any US national visits India, his life insurance will not be valid. That has affected the traffic last year.... We had taken it up with the Ministry of External Affairs. Later on towards early 1985 that was withdrawn."

3.31 Expressing surprise at the statement, the Committee pointed out that the percentage of foreigners carried by Air India in India-USA-India Sector has in fact, improved from 50.0 per cent in 1983 to 50.8 per cent in 1984 and enquired whether Air India has really gone into the problem and made any in-depth study in the matter as to why foreigners do not prefer to travel by Air India and as to what steps should be taken to attract the foreigners, the witness said:—

"This is probably a matter which depends on what capacity the other airlines are using and to what extent that affects us."

3.32 A written reply furnished by Air India after oral evidence proved that the decline in the carriage of foreigners in Air India is not the phenomenon of the year 1984 alone but in fact the trend had started in 1983 itself. The percentage of foreigners in the total number of foreigners carried by Air India was 33.1 per cent in 1981 and 35.9 per cent in 1982. This percentage has declined to 30.9 per cent in 1983 a further declined to 29.1 per cent in 1984.

3.33 Asked what was the extent of coordination between Air India and the Deptt. of Tourism, the M.D. Air India replied in evidence (September, 1985):

"After all, the Tourism Department is a part of the Ministry where Air India reports, the DG (Tourism) is on Air India's Board. We both report to the same Secretary and to the same Minister off and on; there are important meetings of Tourism Department where Air India is invited to participate. To that extent there is sufficient interection at the highest level."

3.34 The Committee on Public Undertakings (1981-82) had observed in their 42nd report that it would be advantageous to have the Chairman of ITDC on the Board of Indian Airlines and Air India notwithstanding the fact that the Director General, Tourism is associated with these Boards. Enquired whether Air India is having the ITDC Chairman on its Board, Air India stated in a written reply as follows:—

"The Board of Directors are appointed by the Central Government in accordance with Section 4(i) (a) of the Air Corporations Act, 1953. However, the Chairman of ITDC (Mr. M. S. Sundara) was the member of the Air India Board during August 1971 to August 1976. Presently, the Chairman of ITDC is not a member of the Air India Board."

Tourist Charters

3.35 Air India informed in a written note: that to help achieve the ambitious target of 2.5 million set for tourist arrivals into India by 1990 a decision was taken by the Ministry and supported by the Air India Board to promote tourist charters to India. As a result of efforts on the part of Air India, the first ever series of 14 charters to India operated from Zurich and Munich to India, on a once weekly basis between October 1982 and February 1983. No tourist Charters were operated by Air India in 1983-84 due to lack of aircraft capacity. The Ministry's recent decision to allow point to point charter operations to Goa and Trivandrum has reportedly been welcomed by the Industry. A study was reportedly done to look into the possibility of tourist charter operations by Air India in 1984-85.

3.36 The Committee wanted to know what was the experience of Air India in operating charter flights and package tours and whether it was saleable in the Western Countries and Japan, the M.D. Air India, said in evidence:

"In general, the charter flight was a concept introduced several years ago when this excursion fare was not formulated. At that time, the fares were very high. Only the charters were allowed to charge a low fare. We developed an excursion which was meant for tourists because it was difficult for a businessman to accept that. Charter flights were tied up with the package tour to India. However, if anybody wants to bring Charter flight to India, Air India will have no objection. This is the positive decision taken by us."

3.37 Asked what were the results of operation of Charters, Air India stated in a written reply that during 1982-83, 14 Charters were operated by Air India Charters Limited (AICL) with Boeing 707 aircraft leased from Air India. Air India recovered from the AICL Rs. 102.74 lakhs towards the cost of operation of the Charters. Asked how many tourist charters have been operated by Air India since February 1983, Air India stated in a written reply:

"Since February 1983, Air India has not operated any Charters. During 1983-84, Air India did not have spare capacity to operate Charter flights. During 1984-85, the capacity which was available, did not meet with the requirements of the Charterers from Italy, who intended to operate to Goa, commencing in December 1984. Studies for availability of capacity for the years to ensue can only be carried out as and when the new aircraft are delivered and operation of scheduled services finalised."

3.38 Enquired why alternative arrangements could not be made to secure capacity for operating tourist charters it was stated that as Air India did not have capacity available, M/s. Atash Charters negotiated with M/s. Hapagglloyed Flug, Germany, for the capacity to operate tourist charters for 1983-84 and 1984-85 to extend their Sharjah operations on a once-weekly basis to India. They operated 28 charters and carried a total of 2290 passengers.

3.39 The Committee wanted to know what were the operation economics of Air India Charter flights as compared to those of other foreign charters. Air India stated in a written reply that:

"The data regarding the operation economics of charter flights of other foreign charterers is not readily available."

3.40 Air India is currently far behind a number of other airlines and ranks as the sixteenth largest carrier amongst IATA airlines in terms of scheduled international tonne kilometres performed. Air India's share of the world-wide Industry's scheduled International traffic has come down from 2.03 per cent in 1980 to 1.92 per cent in 1984. Thus the Air India's achievement in regard to its objective of maintaining and improving its rightful place in the international air transport industry is to say the least dismal. The average annual growth of total RTKMs which was over 13 per cent in 1960s and 1970s has also fallen to 6 per cent during 1980-84. However, certain non-IATA airlines particularly Singapore Airlines and Thai International expanded far more rapidly during 1980-84 primarily due to vast growth of tourist traffic. The slow down in Air India's traffic growth in the early 1980s is stated to be due to the world recession and generally adverse economic conditions which affected both Air India and the Industry. As a result, Air India's forecast for rate of capacity expansion in the Sixth Five Year Plan was scaled down from 10.5 per cent to 6 per cent. Even this modest target of capacity expansion during 1980-85 was not achieved by Air India reportedly due to delay in according approval by Government for purchase of aircraft.

3.41 For the Seventh Five Year Plan, Air India projected a traffic growth of 8 per cent which has now been revised to 6 per cent at the instance of Government as the projected rate was considered too high in comparison with Industry's then projected growth of 4 per cent. In Air India's opinion its projected traffic growth of 8 per cent is supportable as the corporation has for the last 15 years achieved a higher average annual growth rate than the Industry. Further, the Industry itself has now revised its projections upward and expects a 6 per cent growth in worldwide traffic. What concerns the Committee more is that the 6 per cent rate of expansion would barely cater to foreseeable growth on present routes leaving no capacity available for expansion into new routes/areas. The Committee recommend that the Corporation's proposal for 8 per cent growth rate should be considered by the Planning Commission keeping in view the need to improve Air India's share in international traffic and to gear up Air India's capacity in the face of expected tourist arrivals by 1990 provided Air India could meet its requirements without any budgetary support from the Government. The Committee are glad to observe in this connection that Air India has generated Rs. 320 crores from internal resources during the Sixth Plan period as against the target of Rs. 283 crores.

3.42 The Committee observe from the statistics provided by Air India on the basis of the Quarterly Nationality Sample Survey that the percentage of foreign nationals carried by Air India sharply declined from 35.9 per cent in 1982 to 30.9 per cent in 1983 and further to 29.1 per cent in 1984. The Committee take a serious view of this phenomenon. The Managing Director's assertion that the decline in 1984 was on account of the negative publicity abroad on the political situation in northern India does not carry weight and it does not explain the fall in previous years. The Committee would like to draw the attention of the Corporation to the fact that as stated earlier, there was steady fall in Air India's share in international traffic from and to India while other Airlines improved their position during that period. This only points to the fact that it was not the case of decline in arrivals of foreigners into India but the decline in Air India's carriage of foreigners. The malady appears to be primarily in Air India's service and not so much in any external factor. It appears that Air India has not made any in-depth study of this serious malaise as to why foreigners do not prefer to travel by Air India and what best could be done to rectify the situation at the earliest. The Managing Director's attempt to simplify the position stating that "This is probably a matter which depends on what capacity the other airlines are using and to what extent that affects us" only shows that the problem is not seen in its proper perspective and with the urgency it deserves. The Committee desire that the Expert Committee recommended in para 1.54 earlier may pay special attention to this aspect of the problem while critically examining Air India. Incidentally, the Committee would suggest that instead of relying on Quarterly Sample Surveys to ascertain the nationality of passengers, Air India should adopt a regular practice of obtaining information from the passengers on their nationality when booking their seats which would enable an analysis of the tourist arrivals over a period and facilitate comparison for appropriate action.

3.43 One of the objectives of the Corporation is to promote international tourism in India and to improve the nation's foreign exchange resources. Air India's role in achieving this objective should be clearly spelt out with reference to targets in order to enable an objective appraisal of its performance in this regard. A target of 2.5 million has been set for tourist arrivals into India by 1990. It is not known what percentage of tourist arrivals is expected to be carried by Air India and whether the Air India's projected availability of capacity by 1990 would be adequate to carry this traffic. The Committee would like to be informed of this. In order to help achieve the target of 2.5 million tourist arrivals a decision was taken by the erstwhile Ministry of Tourism and Civil Aviation and supported by Air India Board to promote tourist charters to India. In pursuance of this decision, a series of 14 charters was operated from Zurich and Munich to India in 1982-83 by Air India Charters Ltd., a subsidiary of Air India. No tourist charters were, however, operated by Air India thereafter either due to lack of aircraft capacity or due to the fact that the available capacity did not meet with the requirements of charterers. The Committee cannot but point out how casually the decision has been taken without realistically assessing the likely availability of aircraft capacity. More care should be exercised in future before arriving at such a decision. Recognising the need for co-ordination at the highest level for promotion of tourism, the Committee on Public Undertakings (1981-82) had recommended appointment of the Chairman of ITDC as a member of Air India's Board. The Committee regret to note that this has not been attempted yet. The Committee hope that this recommendation will be considered afresh keeping in view the specific role to be played by Air India in tourism promotion and the need to dovetail its plan with the tourism plan.

IV. UTILISATION OF FACTORS

(i) *Capacity Utilisation*

4.1 On the demand side the efficiency of an airline is indicated by the load factor (percentage of the capacity utilized to the capacity provided). In the aviation industry, the airline's production is expressed in terms of Available Tonne Kilometres deployed as well as in terms of total number of revenue hours flown by the aircraft. Capacity utilisation is guaged by taking into account the Revenue Tonne Kilometres performed and determining its relationship with the available Tonne Kilometres. This is expressed as Load Factor (percentage) which indicates the utilisation factor of the airline's capacity. The performance of Air India in this regard vis-a-vis targets of sixth plan mid-term review is given in the enclosed statement.

4.2 It is observed that the achievement of Air India in regard to capacity utilisation has been far below the targets from 1982-83 onwards.

4.3 Air India informed in a written note that it experienced constraints in the improvement of the level of capacity utilisation as indicated below:—

(a) There exists marked patterns of seasonality on various routes with high peak and low seasons. This situation is combined with strong directional imbalances where high levels of utilisation of flights in one direction are accompanied by low load factors in the reverse direction,

	1980-81			1981-82			1982-83			1983-84			1984-85		
	Target	Actuals	%	Target	Actuals	%	Target	Actuals	%	Target	Actuals	%	Target	Actuals	%
Capacity provided ATKM (Scheduled Services) (Millions)	1665	1614	97	1724	1714	99	1892	1861	98	2032	2010	99	2032	1954	96
Capacity utilised-RTKM (Millions)	1035	977	94	1093	1086	99	1260	1114	88	1387	1237	89	1415	1238	87
Overall Load Factor (%)	62.2	60.5	97	63.4	63.4	100	66.6	59.9	90	68.3	61.5	90	69.6	63.4	91

(b) On certain routes, e.g. India/Continent and India/UK the necessity to serve 5 points in Europe with a spread of six frequencies has resulted in a considerable slowing down of flights and a consequent inferior product offered in the market by Air-India in comparison to that of our competitors.

(c) Commercial requirements, in terms of flight routings, days of operation, arrival/departure timings at individual stations etc., have been subject to various operational and engineering constraints as a result of which the product offered by Air-India has suffered, compared to what some other carriers have been in a position to offer.

4.4 Asked what were the Sixth plan projections and actuals of increase in capacity provision and rate of traffic growth, Air India informed in a written reply that the average annual increase in system-wise capacity was forecast at 10.5 per cent which was scaled down to 6 per cent during the mid-term review due to the following reasons:—

(a) the economic recession in the major traffic generating countries of the west was proving to be deeper and longer than it first appeared, and, as a result, traffic prospects were less bright than before.

(b) Added to this was the fact that Air India had seriously undertaken to improve its overall yield by vigorously pursuing a Yield Improvement Programme—which, expectedly, was a curb on traffic growth and load factors.

4.5 A representative of Air India stated during evidence that the actual annual increase in capacity provision was only 5 per cent. In a written reply it was stated that this shortfall was due to a mid-year route review which resulted in reduction in frequencies of unprofitable routes and the withdrawal of operations from uneconomic stations during 1984-85.

4.6 The average annual rate of traffic growth achieved by Air India between the Sixth Plan period 1980-81 to 1984-85 was only 6 per cent as against 9.8 per cent reflected in the Mid Term Review. This shortfall is attributed to traffic and load factors which were much below expectations in 1984-85 primarily on account of the political disturbances in India in the latter half of the year and the wide coverage accorded by the western media to these factors.

4.7 The Committee enquired on account of political situation in 1984-85, whether other international airlines also suffered a decline in their traffic into India. The Secretary, Civil Aviation said in reply:—

"About the question of other airlines I would like to say that when we judge the profitability of Air India, we compare favourably with others."

4.8 Pointing out that there appears to be clear surplus capacity, the Committee enquired whether larger profits could not be generated through more efficient and gainful conversion of the available capacity into output of goods and services. The M.D. Air India said in oral evidence:—

"In utilisation of the capacity we have achieved a load factor which compares reasonably well in industry. If the traffic is low on one day, we cannot say that our flight will be cancelled; we have to operate, even if the load figure is very low. If the flight is Bombay-Delhi-London, the Bombay-Delhi sector load factor might be somewhat low, but in the Delhi-London sector the load factor could be high; but the overall load factor might come down. There is also the point of seasonality. In summer the outflow from India to the West is good, but in winter it drops. The return load to India in summer is poor, but going-out is good. During winter there is a high load coming into India. That is the time when tourists come; that is the time when businessmen come to India because the climate is conducive to their visit, but at that time the traffic out of India is poor. Because of these reasons we have not achieved a greater load factor. We are trying to improve it. Nowadays there is also the holiday traffic we get. So, the lean periods are less nowadays."

4.9. When the Committee wanted to know how Air India's capacity utilisation compared with that of comparable foreign airlines, the M.D. Air India explained in evidence:—

"We have not been able to make a correct comparison because Air India is purely an international carrier, we have no domestic traffic in Air India. The European airlines have their domestic net work also. Air France, Lufthansa, British Airways, they all have their domestic routes, and what they publish is the combination of domestic and international. It is not a very true comparison, and we do not come out on equal terms in these comparisons."

4.10. The comparative information relating to European Airlines as furnished by Air India (Source—IATA Publication and 1984 World Air Transport Statistics) is given below:—

Overall Load Factor (%) on Scheduled International Services

Airline	1980	1981	1982	1983	1984
Air India	63·3	69·6	65·1	63·9	63·4 (1984-85)
Air France . .	60·2	63·4	61·8	65·5	67·4
Alitalia	60·6	59·7	61·3	62·8	65·4
British Airways . .	60·2	62.9	63·1	62·9	65·1
CSA-Czechoslovakia . .	67·6	69·3	67·6	68·0	..
Japan Airlines . . .	62·1	64·5	63·7	67·7	69·0
KLM	59·5	63·9	61·7	64·3	69·7
Lufthansa . . .	62·1	62·7	59·9	63·4	66.9
Scandinavian Airlines system	57·0	58·6	59·5	62·6	64·1
Swissair	57·2	60.4	58·6	64·2	64·3

4.11. Expressing disappointment at the deteriorating performance of Air India, the Committee pointed out the decline in the overall load factor during 1982—84 as compared to other airlines and also as compared to its own overall load factor achieved in 1981. The M.D., Air India said in oral evidence:—

> "Actually Air India's position is more or less maintained at the same level whereas most of the European Airlines have improved their capacity utilisation. The recession in Europe is definitely over. They have been able to improve their performance....In 1984, there were certain unfortunate circumstances which affected our performance....1982 and 1983 were the period we started injecting additional capacity. The three airbuses were introduced during that period only. There was also drop in the load factor."

(ii) *Aircraft Utilisation*

4.12. The aircraft fleet of the Air India and the total available capacity for carrying different types of traffic as furnished by Air

India in August 1984 are given below:—

Sr. No.	Type of aircraft	No. of aircraft	capacity No. of passengers				Payload Cargo/Mail Load (Tonnes)	Total Payload (Tonnes)
			First	Business	Economy	Total		
1.	B 707—337B	3	12	—	132	144	6·20	20·00
2.	B707—337C	2	12	—	132	144	5·70	19·50
3.	B747—237B	10	16	40	321	377	16·73	52·70
4.	A300—B4	3	22	—	216	238	9·47	32·30

4.13 On the supply side, the efficiency of an airline is indicated by the number of hours per day an aircraft is utilized on an average. The position in regard to air India during 1978—84 was as follows:—

Utilization in hours per day

Aircraft	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Boeing 707	8·91	7·32	6·09	6·41	5·63	5·82
Boeing 747	10·57	9·94	9·76	10·17	10·33	10·65
Airbus A300B4	—	—	—	—	7·81	7·93
Overall	9·55	8·46	8·18	8·54	8·41	8·78

4.14 Air India informed in a written note that Aircraft utilisation is related to the following factors:

(a) Commercial needs depending upon routes operated days and timing of operations:

(b) Operational constraints such as aircraft night landing restrictions short sector operations, etc.

(c) Traffic rights restrictions under bilateral agreements.

(d) Maintenance time/routine restrictions.

4.15. Hence the norms of utilisation are reportedly fixed considering these constraints at the time of formulating Annual Budget.

The norms fixed at the time of budgeting are stated to be normally achieved.

4.16. A comparison with industry average as per IATA reports for the period 1983-84 is shown in the table below:—

Year	Fleet Type	Air India	Industry Average	Number of Air-lines included
1983-84 . . .	B-707	5·82	4·73	9
	B-747	10·65	10·56	16
	A-300	7.94	6·43	12

4.17 The Committee wanted to know the reasons for lower utilisation of Airbus as compared to Boeing 747 and how the utilisation of Airbus compared with the utilisation of Indian Airlines and Foreign Airlines, the M.D., Air India said in oral evidence:—

> "Sir, the Airbus is not a long range aircraft. Its maximum range is 4 hours and it is used on shorter sectors. Therefore, after every 2-3 hours there is a stop. As such, you cannot achieve higher utilisation on Airbus but our utilisation viz-a-viz others is the second best. What we have achieved is very good. There is Eastern Airlines of America with 37 airbuses whose daily utilisation in May 1985 was 8.33 Flt. Hrs. and we compare well with them."

4.18 Air India added in a written reply that another factor which contributes to lower utilisation is the number of aircraft in the fleet. As Air India has only three Airbus A300 aircraft in its fleet, as against ten B747 aircraft, it is natural to expect lower utilisation on these aircrft. Average daily utilisation of A300 in Indian Airlines during May 1985 was 6.43 fleet hours as against 7.29 Flt. Hrs. of Air India.

4.19 Asked what was the anticipation at the time of taking decision on the induction of the Airbus aircraft regarding break even load factor and the element of indirect operating cost and how it compared with the actuals, Air India furnished the following figures in a written reply:—

	Operating Breakeven Load Factor		Total Breakeven Load Factor	
	Project Report	Actuals	Project Report	Actuals
	%	%	%	%
1982-83	45·33	36·1	60·40	42·5
1983-84	47 41	35·5	61·18	41·9
1984-85	49·65	40·4	59·96	47·7

4.20. Air India stated that the indirect operating cost was not specifically reckoned while compiling the Project Report while it forms a part of the total cost.

(iii) *Staff costs*

4.21. Asked to indicate the staff costs as percentage of total operating cost during the last 3 years and how it compared with that of other carriers in Asia Pacific region, the M.D., Air India stated in evidence:—

> "For the last three years i.e. 1981-82, 1982-83, and 1983-84, the Air India staff cost is in the region of 16½ per cent of the total cost whereas some of the other figures that we have here are—Qantas 27 per cent, KLM—29 per cent, PAN Am—35 per cent, SAS—32 per cent, Japan Airlines—25 per cent."

4.22 Enquired whether cost norms have been laid down in respect of each item of operation route-wise, the witness said:—

> "Every year on each item of operation the budget figure is worked out and at periodic intervals, the actual expenditure is measured against the budgeted figure. It is done station-wise and headquarter-wise. These are monthly, six-monthly and yearly reviews. It is done on an item-wise basis. Each station is given a budget."

4.23. The Committee wanted to know of the specific measures taken since 1979-80 to minimise the operating cost and the cost saving on account of each measure. Replying to the query, the witness said,

> "Of course, cost saving is a continuous exercise. At all stages we examine what are the costs and whether there is any

scope for reduction. Apart from that, on occasions we have gone into a large cost cutting when the fuel prices went up. In 1980-81 there were massive losses and an exercise was carried out to minimise the fuel cost and adopt better fuel saving measures. The fuel saving measures relate to improved engine and aircraft efficiency use of alternates, optimum flight plan and weight reduction of aircraft. And on the basis of the fuel-saving measures we have a recurring saving of Rs. 5.6 crores every year....In 1984-85 we have cut down some of the routings, we have cut down some of the uneconomic stations, we have stationed out some of the routes. On the Europe route, we have achieved a saving of Rs. 6.29 crores for the full year. Last year also, we achieved certain staff reduction. On retirement of persons in some stations, the existing staff were adjusted and on that account we achieved a saving of Rs. 1.31 crores."

4.24. Air India Board had observed in its 172nd Meeting held on 27-3-1984 that the increase in profits for the year 1983-84 was to a great extent, on account of fortuitous circumstances such as reduction in fuel prices and reduction in interest charges It was, therefore, necessary to identify areas involving reduction in expenditure and increase in revenue effected by and through Managerial efforts, and to assess as to what would have been the situation if the fortuitous circumstances mentioned above had not been there. The Board, therefore, decided that the full details of Managerial efforts resulting in increase in revenue or reduction in costs should be identified and a paper submitted to the Board for information, in this regard. The Committee enquired whether any such paper was prepared and if so, what was the outcome. The M.D., Air India deposed,

"The profit generated because of fuel cost reduction and reduction in the interest rate cumulatively was Rs. 17 crores. During 1983-84, the gross profit was Rs. 57 crores. If this reduction had not taken place, the profit would have been Rs. 40 crores. This Rs. 40 crores is due to the managerial efforts......"

(iv) *Staff productivity*

4.25. Staff Productivity in an airline is generally expressed in terms of ATKMs per employee which is arrived at by dividing capacity provided by average number of employees. This has been the generally accepted standard for measuring productivity of employees in the air transportation business.

4.26. Given below is the staff productivity from 1979-80 to 1984-85:

	ATKM per employee
1979-80	113,800
1980-81	126,400
1981-82	134,700
1982-83	144,300
1983-84	145,400
1984-85	135,300

4.27. Air India however stated that the formula of measuring staff productivity in terms of ATKM per employee suffers from certain drawbacks. For instance, the following factors which are independent of the employee's effort, can improve the staff productivity expressed in terms of ATKM per employee:

(i) ATKM may be augmented by adding additional aircraft to the existing fleet;

(ii) Certain major jobs may be sub-contracted and external agencies engaged for handling;

(iii) Computerisation of various jobs and progressive mechanisation/automation;

(iv) Similarly, the concept of ATKMs per employee does not take into account product improvement and yield improvement etc. to increase productivity.

4.28. Though ATKM per employee has been generally accepted as a broad measure of employee productivity, the formulae (a) RTKM per employee and (b) Operating Revenue per employee are more appropriate and truly reflect the staff productivity as they are not influenced by the drawbacks stated above. Even in the case of "ATKM/Employee" formula, the trend in growth would be reflected over a longer period of time and not on a year-to-year basis.

4.29. The M.D., Air India held out an assurance during the oral evidence stating, "henceforth we will try to relate it (staff productivity) in RTKM and not merely in ATKM."

4.30 Asked for the reasons for decline in staff productivity during 1984-85, Air India stated in a written reply as follows:—

> "In 1984-85, with no change in the fleet size, there was a 3 per cent decline in the capacity offered (ATKM) due to rationalisation of routes. At this point of time, rationalisation of routes and the absence of new investment has led to a phenomenon akin to diminishing returns in staff productivity. This is a temporary occurrence, largely due to the fact that manpower must be inducted gradually and regularly while capital investment takes place at longer intervals. As a result, the induction of new capacity in the coming year will result in an increase in staff productivity."

4.31 In response to a query as to what specific measures have been taken to augment productivity growth. Air India mentioned the measures in a written reply viz. introduction of automation/mechanisation programmes, improvement in Managerial effectiveness, strict control over the release of additional posts in the Corporation and abolition of 544 posts after review of all existing vacancies which remained unfilled for the last two years.

4.32 On the demand side the efficiency of an airline is indicated by the load factor (percentage of the capacity utilised to the capacity provided). The Committee are disappointed to know that Air India's overall load factor on scheduled international services during 1981-84 has not only deteriorated sharply as compared to other international Airlines but also registered a steep decline as compared to its own achievement in 1981. Air India's overall load factor which stood at 69.6 per cent in 1981 and topped among the ten airlines for which information has been furnished came down steadily to 63.4 per cent in 1984 to figure as the lowest among the ten airlines. All this was inspite of the boom available to Air India on India-Gulf route during the period. This is an unfortunate situation. The downward trend in the load factor is reported to be due to injection of additional capacity during 1982 and 1983 and disturbances in northern India in 1984. Attributing the fall in load factor to the injection of additional capacity is hardly convincing as it is a continuous and common feature to all airlines. As it transpired during oral evidence and as brought out in one of the preceding findings of the Committee, political disturbances in northern India was not the sole factor for the fall in load factor in 1984. This is further substantiated by the fact that there has been considerable shortfall in achiev-

ing the annual target of load factor during 1982-83 to 1984-85. The shortfall was in the range of 10 per cent every year.

4.33 On the supply side, the efficiency of an airline is indicated by the number of hours per day an aircraft is utilised on an average. Though Air India's position in 1983-84 compares favourably with the Industry average as informed by the Corporation, the Committee find that the overall aircraft utilisation in hours per day which was 9.55 hrs. in 1978-79 has declined to vary in the range between 8.18 hrs. and 8.78 hrs. during 1979-84. The Committee hope that with the phasing out of B-707 aircraft the overall position will improve.

4.34 The Committee observe that staff costs as percentage of total operating cost in Air India was in the range of 16½ per cent during the last 3 years which is considerably lower as compared to a number of other airlines whose staff costs were between 25 per cent and 35 per cent. This point only highlights the fact that the percentage of cost on other items of expenditure in Air India is on rather high side. The Committee desire that immediate steps should be taken to identify the high cost centres in Air India's operations and effective measures be undertaken to keep the various items of cost within the normal limits. The Committee would suggest that a regular and systematic study of inter-firm comparison on various aspects of working should be made by the Corporation to the extent the information from other airlines is available. This will enable an assessment of relative performance.

4.35 Staff productivity in an airline is generally expressed in terms of Available Tonne Kilometers (ATKM) per employee which is reported to be the generally accepted standard for measuring productivity of employees in the air transportation business. This index of staff productivity is, however, replete with a number of drawbacks as this could be influenced by many factors which are independent of the employees efforts. For instance, addition made to the existing fleet of aircraft, subcontracting of major jobs, engagement of external agencies for handling etc. could inflate the ATKM per employee and distort the index. The Committee feel that the formulae (a) Revenue Tonne Kilometers per employee and (b) Operating Revenue per employee are more appropriate and could be considered as better indices of staff productivity. The Committee, therefore, recommend that as agreed to by the Managing Director of Air India, in future the staff productivity should be indicated in terms of RTKM per employee and operational revenue per employee and should be shown in the Annual Report of the Corporation. The Committee in this connection note that the rate of growth of staff productivity in terms of ATKM per employee has declined over the years but more regrettably the staff productivity has declined in absolute terms as well from 145,400 in 1983-84 to 135,300 in 1984-85. The decline in 1984-85 was reportedly due to 3 per cent fall in the capacity offered on account of route rationalisation. It is, however, not clear as to what were the reasons for the decline in the growth rate of productivity over the years. The Committee would await an explanation in this regard along with the steps proposed to be taken for augmentation of productivity growth.

V. MISCELLANEOUS

(i) *Corporate Plan*

Corporate Plan is a premier instrument for total management improvement. Making note of the observations made by the Secretary, Ministry of Tourism & Civil Aviation in the performance review meeting held on 5-1-84 that Air India should prepare a Corporate Plan for better manpower plan, the Committee wondered how no corporate plan had been prepared by Air India even so many years after the issue of guidelines by BPE in 1974 in this regard. In reply the M.D., Air India said in evidence:

> "We have a five year plan and an annual plan. Apart from that it is true that we do not prepare any other corporate plan. In the recent past, we have formulated a ten year perspective plan which has already been submitted to the Board."

The witness added:

> "....We have now seen BPE OM 1974 and we are looking into the record. It seems that this was never sent to us.... Now that we have got it, we shall prepared a corporate plan on the basis of the guidelines incorporated here (in the BPE O.M.)."

5.2. The Deptt. of Civil Aviation stated in a written reply that as already explained by Air India, the plans formulated for each five year plan period, by Air India, meets the need of the Corporate plan.

5.3 The Secretary, Civil Aviation, however said during evidence:

> "They (Air India) were taking the Five year plan as a Corporate Plan which is not correct."

Air India has prepared a ten-years perspective plan for the period 1985-86 to 1994-95. The Secretary, Civil Aviation explained and assured during evidence:

> "There is very little difference between Corporate Plan and perspective Plan. 'Perspective' is a broad scenario; 'corporate' is somewhat concise, But all the features of the Perspective Plan are reflected in the Corporate Plan in a little more concise manner—the sources position, the growth scenario, the employment position, the manpower requirement, marketing and things like that....

We will now ask them to prepare a concrete corporate plan."

(ii) *Implementation of BPE guidelines*

5.4. The Committee wanted to know the extent of implementation of BPE guidelines by Air India and the reasons for non-implementation of any of the guidelines. From the written reply furnished by Air India, it is noted that the BPE guidelines regarding use of official car for private purposes and norms for hiring of residential accommodation have not been implemented by Air India.

5.5. BPE had advised vide O.M. No. 2(23)/83-BPE(WC) dated 10th January, 1984 that private use of the official car should not be extended to senior appointments made by the Board of Directors themselves. The facility of private use of the official car should be made available only to the Chief Executive and full time functional directors of Public Enterprises. The PSEs who have extended this facility to their executives holding posts below the Board level should discontinue the same forthwith. Regarding implementation of this guideline, Air India stated that they had thoroughly analysed the implications of this guideline and have come to the conclusion that it would not be possible to implement the instructions of the BPE since it would severely hamper the smooth and efficient functioning of our operations. By the very nature of Air India's operations, it is essential that some of the officers holding posts below the Board level must be provided with Corporation's conveyance to ensure their mobility.

5.6. According to BPE's O.M. No. 1(3)/82-BPE(WC) dated 1st July 1983 hiring of accommodation should not be normally resorted to by Public Sector Enterprises except in the case of key officials where it becomes inevitable to hire houses BPE have not only prescribed area of accommodation which could be leased but also rental ceiling for such accommodation. In respect of Delhi, Bombay, Calcutta, the following are the ceilings:—

	Area in Sq. ft.	Rental ceiling in Rs.	
		Earlier Ceiling	Revised Ceiling
Scheduled 'A'	1900	2100	2550
Scheduled 'B'	1900	1900	2300
Scheduled 'C'	1700	1700	2100
Scheduled 'D'	1700	1500	1900

Wherever public enterprises are not able to arrange leased accommodation for their Board level appointees within the ceilings indicated above, which in any case should be exceptional, proposals should be submitted by them to their administrative Ministry for approval of the Minister incharge.

5.7 Regarding implementation of this guideline Air India stated that while every effort is made to hire accommodation within the rental ceiling, it is impossible to lease accommodation in the metropolitan cities like Bombay, Delhi, Calcutta and Madras within the rental ceiling. In Bombay, the landlords are not willing to rent out their premises, particularly because of the various restrictions imposed on them on account of the Rent Act. In the absence of the Rent Act in Delhi, the houses are available only at very high rentals and also for a brief period, after expiry of which, high increases are demanded. Further, it may be stated that due to the very nature of our operations, it is necessary for us to provide accommodation to certain representational categories even though they may not come under the definition 'key personnel'. The matter was also discussed by the Air-India Board and we have written to the Ministry explaining the various difficulties faced by us and have also informed them that though it is possible to conform to the physical limits laid down, it is necessary to allow flexibility in regard to financial ceilings for renting of accommodation.

5.8 The Committee wanted to know whether, the administrative Ministry co-ordinates the activities in regard to implementation of BPE guidelines in respect of the undertakings under their control. The Secretary, Civil Aviation said in evidence "Yes Sir, the coordination is certainly there."

A representative of the Ministry stated in this connection:

> "The BPE guidelines are first received in the Ministry, the Ministry in turn passes them on to the Air India. In Air India we have a Section and so also in the Ministry. It is called Public Sector Undertaking Section. Its job is to monitor the activities of all public sector undertakings. This section also monitors to what extent the BPE guidelines are followed."

5.9 When the Committee made a suggestion that the extent of implementation of BPE guidelines by the different undertakings under the control of the Ministry may be brought out in the Ministry's Annual Report, the Secretary Civil Aviation said:—

> "This is a good idea Sir. In the format of the annual report, there are a number of items on which the Ministry wants information. Perhaps we can adopt your suggestion."

5.10 Corporate Plan is a premier instrument for total management improvement. The Corporation has not prepared any Corporate Plan so far. It is surprising that Air India was ignorant of the difference between the Five Year Plan and Corporate Plan thus far despite the BPE's guidelines on this having been issued as far back as in 1974. The Committee desire that Corporate Plan should be prepared by Air India in consultation with the BPE as assured by the Managing Director and a copy of the corporate plan forwarded to the Committee for information. Further the Committee observe that some of the BPE guidelines such as on use of official car for private purposes and norms for hiring of residential accommodation etc. have not been implemented by Air India. The Committee desire that the Administrative Ministries should satisfy themselves of the reasons for non-implementation of the BPE guidelines in respect of undertakings under their control and as agreed to by the Civil Aviation Secretary, the extent of implementation of BPE guidelines on important matters along with Ministry's views on the guidelines not implemented by the undertakings should be brought out in the Annual Reports of the Administrative Ministries as well as undertakings. This recommendation of the Committee may be brought to the notice of all Administrative Ministries by BPE for implementation.

NEW DELHI;
January 30, 1987
Magha 11, 1908 (*Saka*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1	1.54	Air India was set up under the Air Corporations Act, 1953. The Committee on Public Undertakings had earlier examined the working of this Corporation in the year 1978-79. The Corporation has been making profits since 1981-82 after incurring a loss of over Rs. 36 crores during 1979-81. The profits made by the corporation were Rs. 10 crores in 1981-82, Rs. 38 crores in 1982-83, Rs. 57 crores in 1983-84 and Rs. 44 crores in 1984-85. The Committee have been informed that the Corporation was expected to make profit of Rs. 65 crores in 1985-86. The Committee are not much impressed by the profits made by Air India. Their examination of the route profitability profiles of passenger services during the period 1979-80 to 1983-84 reveals that all but three routes operated by Air India have incurred heavy operating losses during the period. The one route which made huge profits of the order of Rs. 310 crores during the period was India-Gulf route. If the profits of this route alone are excluded for the purpose of evaluation, the resulting picture would present a very dismal situation in as much as the Corporation's net loss would work out to be a staggering figure of Rs. 240 crores during 1979-84. This could in no way be considered to be a satisfactory position as claimed by the Corporation. No organisation can survive for long on the success of only one of its segments of operations as has been the

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		case with Air India which has relied only on India-Gulf route. The Committee find that the growth rate of India-Gulf route has already slumped from 34.4 per cent to Zero growth in the recent past with no signs of improvement in the foreseeable future. This is bound to have its impact on profits of Air India in the coming years. Another point of grave concern that came to the notice of the Committee during their examination is that Air India's share in international traffic has been showing a downward trend in the past few years. These and other findings of the Committee will clearly show that all is not well with the Corporation. The Committee would recommend that an expert committee should be appointed to undertake a thorough critical examination of the affairs of Air India in all its spheres and go into the problems faced by Air India in competing with foreign airlines and suggest measures to achieve its rightful place in the international air transport industry.
2	1.55	The Committee find that 13 out of 16 routes of passenger services operated by Air India have incurred operating losses during 1979—84. These are : (1) India-Canada (Rs. 15.2 crores); (2) India-Australia (Rs. 26.7 crores); (3) India-Singapore (Rs. 8.5 crores); (4) India-E. Africa (Rs. 3.0 crores); (5) India-Mauritius (Rs. 4.0 crores); (6) India-Zimbabwe (Rs. 4.7 crores); (7) India-Bangladesh (Rs 2.9 crores); (8) India-USA (Rs. 26.6 crores); (9) India-UK Term. (Rs. 18.8 crores); (10) India-Continent (Rs. 26.8 crores); (11) India-Japan (Rs. 28.9 crores); (12) India-W. Africa (Rs. 0.6 crores); (13) India-Thailand Term. (Rs. 0.5 crores). Two routes *viz.* India-USSR/UK and India-Zambia made a combined marginal profit of Rs. 7 crores during the period. This state of affairs

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		is stated to be due to intense competition faced by Air India from other airlines. The Committee wonder what inhibits the Corporation from launching an aggressive marketing strategy to face the competition. Air India expects only four routes *viz.* India-USA, India-UK, India-Continent and India-Japan routes to become profitable by 1987-88. This shows that there will be only a slight improvement in the next year. The Committee recommend that concerted and result oriented efforts should be made to make all the routes viable and self-sustaining.
3	1.56	The first seven loss-making routes mentioned in the previous paragraph also incurred cash losses in one year or other during the period. India-Bangladesh route which had been incurring cash losses over the years has since been closed down. India-Zimbabwe route has incurred cash losses since inception in 1981 except during 1983-84. Air India has planned to restructure this route by combining India/Harare and the Nairobi terminator services in order to improve the performance in this route. The operations on India-Canada route have been suspended since July, 1984. The other four routes are stated to be presently making surplus over cash costs. The Committee feel that there is no case for operating any route without recovering even the direct cost except for a brief period as a promotional venture, unless Government in public interest direct the Corporation otherwise. After a year or two of sustained efforts, the matter should be reviewed in order to take a view on its continuance. The Committee hope in this connection that the assurance of Air India that by 1986-87 no single route is expected to incur cash losses is not belied.
4	1.57	India-Gulf route has been the revenue spinner for Air India in as much as the airlines earned a

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		profit of Rs. 53 crores in 1981-82, Rs. 95 crores in 1982-83 and Rs. 120 crores in 1983-84. The Committee, however, find that the growth rate in number of passengers on this route which registered an increase from 17.3 per cent in 1979-80 to 34.4 per cent in 1981-82 has fallen sharply to 9.8 per cent in 1982-83 and recorded a nil growth rate in 1983-84 and 1984-85. According to the Managing Director of Air India there will be no further growth. Rather a negative growth on this route may be expected in the forseeable future. Thus the only major source of revenue for Air India is tapering off. The reason for this phenomenon is attributed to the cut back on foreign workers employed in Gulf countries following reduction in oil prices and resultant fall in the economic activities in these countries during the last few years. The Committee cannot but emphasise the need for aggressive sales strategy by the Corporation to ensure that Air India at least retains its share of the traffic on this lucrative route.
5	1.58	Air India's performance on its freighter services operations was no better. Of the five routes of freighter services operated by Air India, two routes incurred operating losses and three routes made profits during the 5 years period 1979-84. These are India-UK (Rs. 1.60 crores loss), India-Europe (Rs. 3.54 crores loss), India-USA (Rs. 1.80 crores profit), India-Japan (Rs. 3.54 crores profit) and India-Zurich (Rs. 0.77 crore profit). The India-Europe route was in the red successively for four years during 1980-84 reportedly due to directional imbalances in the load and due to most of the exports being under the Government controlled mandatory rate. The route, however, has earned a profit of Rs. 1.54 crores in 1984-85. The Committee suggest that

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		the Corporation should examine whether the directional imbalances in freighter services could be removed or lessened by entering into agreements with the other airlines on the question of transport of cargo or by taking alternative steps in this regard.
6	1.59	The overall losses incurred by Air India during 1979-81 were reportedly due to increase in cost of operations as a result of unexpected hike in oil prices in 1979 followed by recessionary market conditions and decline in traffic. The other factors responsible for the losses were stated to be industrial unrest in London and Fire at Santa Cruz Airport in September, 1979. The Committee wonder whether some of these factors were not within the control of the management. Air India's claim that other airlines also incurred losses during this period falls through on a closer scrutiny. While some airlines like British Airways, Saudia and Kuwait Airways incurred losses, a number of other airlines like Air Canada, Swiss Air, Lufthansa, Malaysian Airline System and Singapore Airlines did make profits during this period.
7	1.60	The Committee find that the return on capital employed by Air India was 12.6 per cent in 1982-83 and 14.7 per cent in 1983-84. Though Air India's achievement in this regard was better than a number of other airlines, its achievement was nowhere near comparison with British Airways or SAS whose return on capital employed was 36.5 per cent and 26.6 per cent respectively in 1983-84 (In terms of profit Rs. 365 crores and Rs. 127 crores respectively). The Committee recommend that the strategy adopted by these airlines should be gone into by Air India with a view to improving its profitability.

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8	1.61	The Committee note in this connection that one of the factors affecting the profitability of Air India is the price of Aviation Fuel which is very high in India compared to ATF price prevailing abroad. Its impact on Air India was in the range of Rs. 13 crores to Rs. 18 crores during 1982-83 to 1984-85. The Committee note that Air India's cost of operations was higher than many airlines like PANAM, Qantas and Singapore airlines during 1979—83. The Committee recommend that in order to bring down the cost of Air India's operation and considering the need for generation of more internal resources, Air India's plea for reduction in ATF prices or grant of bulk discount should be considered afresh by the Ministry of Petroleum.
9	1.62	The Corporation is at present having a net work of 45 on-line stations, 71 off-line offices and 22 Sales Representatives in India and overseas. Air India claims that all on-line stations are fully justified. The Committee, however, find from the information furnished by the Corporation that the revenue earned by the station at Rome has always been far less than the direct cost incurred by it during the 5 years period 1979—84. The Committee are of the view that *prima facie* there is no justification for continuing the station at Rome when its revenue could not meet even the direct cost of its operation even in a single year during the 5 year period 1979—84. The Committee would like to be apprised of the commercial justification for operating this station. The Committee would also like that the working of on-line stations and off-line offices be continuously monitored and periodically reviewed.
10	1.63	The foreign exchange earning is one of the important indices of efficiency of an organisation like Air-India. The Committee were anxious to

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		know Air India's achievements as against the targets in this regard. They were, however, surprised to learn from the Corporation that Air India did not compute the foreign exchange earnings at the time of Annual Plan submission. The reason advanced for this serious lacuna interestingly was that the format prescribed (for annual plan) did not envisage such a calculation. While the Reserve Bank of India formulae for foreign exchange calculations is based on cash basis, the accounts are prepared on the mercantile system. The Committee wonder why this matter could not be sorted out with the Reserve Bank of India with a view to work out a uniform method for making projections as well as calculating the actuals regarding foreign exchange earnings. The Committee desire that this should be done immediately and the outcome reported to the Committee within six months of presentation of the Report.
11	1.64	The total foreign exchange earnings of the Corporation were stated to be Rs. 482 crores during 1980—84 and Rs. 177 crores in 1984-85. The Corporation, however, could not furnish the exact outflow of foreign exchange attributable to its operations. Air India informed that the total remittances from India to foreign stations were Rs. 120 crores during 1980—84 which did not take into account the disbursements on various other accounts. The Committee on Public Undertakings (1980-81) had suggested that Government should refer to the Reserve Bank of India the matter regarding computation of net foreign exchange earnings with a view to refining the method by taking into account the indirect foreign exchange expenditure and earnings. The Committee are surprised to note that nothing concrete has been done in this regard even after a lapse of nearly 5 years, especially when the present system of computation is reported to be not favourable to Air India. The

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		Committee expect that their recommendations are given a serious consideration and in future there should be no delay in taking action on their recommendations. They would like the Civil Aviation Secretary to take up the matter directly with the Reserve Bank of India in order to arrive at an early date a convenient method of computation regarding foreign exchange earnings.
12	2.31	There are some routes for instance India-Zimbabwe, India-Canada and India-Mauritious routes which are not recovering even the direct operating cost but are continued to be operated on national considerations. There are also Government directed mandatory fares which are less than normal rates applicable to export of cargo keeping export promotion in view which eventually lead Air India's Freighter operations into a loss. As per section 9 of the Air Corporations Act, Air India is expected to function as far as may be on commercial principles. Section 34 of the Act provides for reimbursement of loss on the operation of any uneconomic service of other activity established or altered or continued on the directions of Government provided there was overall loss. The Committee, however find that no directions have been given by the Government under Section 34 of the Act so far, but informally Government want some routes to continue. Directions have also been issued by Government regarding mandatory rates on cargo but apparently not under Section 34 of the Act. The Committee are of the view that the services and activities which cannot be justified on commercial considerations but are desired by Government on national considerations should be covered by directions under Section 34 of the Act. The direction given by the Government under the Section 34 of the Act and the effect thereof should be published in the Annual

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		Reports of Air India in future for information of Parliament and the Public.
13	2.32	Regarding the question of reimbursement of loss incurred on the routes continued on the desire of Government and loss on account of mandatory fares, Government has taken a plea that Air India has been making an overall profit. In this connection, the Committee recall their recommendation in 42nd Report (1981-82) on "Indian Airlines" to the effect that the desirability of amending Section 34 of the Air Corporations Act to make provision for payment of subsidy without regard to the overall working results may be considered. Government has not furnished any final reply on this recommendation. The Committee cannot but deplore the slackness on the part of Government in considering their recommendation made as long back as in 1981-82. The Committee desire that this should be considered without any further delay keeping in view the need of the Corporation to generate internal resources.
14	2.33	Air India's share of international traffic from and to India has gradually declined from 42.1 per cent in 1981 to touch a new low of 35.9 per cent in 1984. Thus the imbalance has accentuated over the years instead of being rectified in favour of Air India as recommended by the Committee on Public Undertakings (1980-81) in their 12th Action Taken Report (Seventh Lok Sabha). Air India submitted a report to the Ministry in August 1980 regarding nine bilateral agreements wherein Air India proposed restriction of capacities, curtailment of rights and frequencies and in some cases termination of the existing agreements. The Committee are disappointed to know that Air India's attempts to get the imbalances in bilaterals redressed have not been successful due to lack of proper response from the Administrative Ministry. Of

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		the 9 bilaterals, Air India could revise only two agreements in its favour, the rest have been either turned down by the Ministry or awaiting Government's review/approval, in spite of Air India's continued persistence in the matter over the last 5 years. The Ministry's contention that as long as Air India retains its right to operate to countries where it has not been able to operate at present due to capacity constraints is only being oblivious of the fact that Air India's overall share has greatly deteriorated over the years. The Committee desire that the Ministry should undertake immediate evaluation of all the bilaterals to correct the imbalances keeping in view Air India's capacity expansion programmes for the near future. The Committee in this connection note that there has been considerable delay in renegotiating the agreement with Air Canada with a view to claiming compensation after the stoppage of Air India's operations after Kanishka disaster on 23-6-1985. The Committee would like to be apprised of the result of the negotiations with Air Canada.
15	3.40	Air India is currently far behind a number of other airlines and ranks as the sixteenth largest carrier amongst IATA airlines in terms of scheduled international tonne kilometres performed. Air India's share of the world-wide Industry's scheduled International traffic has come down from 2.03 per cent in 1980 to 1.92 per cent in 1984. Thus the Air India's achievement in regard to its objective of maintaining and improving its rightful place in the international air transport industry is to say the least dismal. The average annual growth of total RTKMs which was over 13 per cent in 1960s and 1970s has also fallen to 6 per cent during 1980-84. However, certain non-IATA airlines particularly Singapore Airlines and Thai International expanded far more rapidly during 1980-84 primarily due to vast growth of tourist traffic.

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		The slow down in Air India's traffic growth in the early 1980s is stated to be due to the world recession and generally adverse economic conditions which affected both Air India and the Industry. As a result, Air India's forecast for rate of capacity expansion in the Sixth Five Year Plan was scaled down from 10.5 per cent to 6 per cent. Even this modest target of capacity expansion during 1980-85 was not achieved by Air India reportedly due to delay in according approval by Government for purchase of aircraft.
16	3.41	For the Seventh Five Year Plan, Air India projected a traffic growth of 8 per cent which has now been revised to 6 per cent at the instance of Government as the projected rate was considered too high in comparison with Industry's then projected growth of 4 per cent. In Air India's opinion its projected traffic growth of 8 per cent is supportable as the corporation has for the last 15 years achieved a higher average annual growth rate than the Industry. Further, the Industry itself has now revised its projections upward and expects a 6 per cent growth in world wide traffic. What concerns the Committee more is that the 6 per cent rate of expansion would barely cater to foreseeable growth on present routes leaving no capacity available for expansion into new routes/areas. The Committee recommend that the Corporation's proposal for 8 per cent growth rate should be considered by the Planning Commission keeping in view the need to improve Air India's share in international traffic and to gear up Air India's capacity in the face of expected tourist arrivals by 1990 provided Air India could meet its requirements without any budgetary support from the Government. The Committee are glad to observe in this connection that Air India has generated Rs. 320 crores from internal resources during the Sixth Plan period as against the target of Rs. 283 crores.

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17	3.42	The Committee observe from the statistics provided by Air India on the basis of the Quarterly Nationality Sample Survey that the percentage of foreign nationals carried by Air India sharply declined from 35.9 per cent in 1982 to 30.9 per cent in 1983 and futher to 29.1 per cent in 1984. The Committee take a serious view of this phenomenon. The Managing Director's assertion that the decline in 1984 was on account of the negative publicity abroad on the political situation in northern India does not carry weight and it does not explain the fall in previous years. The Committee would like to draw the attention of the Corporation to the fact that as stated earlier, there was steady fall in Air India's share in international traffic from and to India while other Airlines improved their position during that period. This only points to the fact that it was not the case of decline in arrivals of foreigners into India but the decline in Air India's carriage of foreigners. The malady appears to be primarily in Air India's service and not so much in any external factor. It appears that Air India has not made any in-depth study of this serious malaise as to why foreigners do not prefer to travel by Air India and what best could be done to rectify the situation at the earliest. The Managing Director's attempt to simplify the position stating that "This is probably a matter which depends on what capacity the other airlines are using and to what extent that affects us" only shows that the problem is not seen in its proper perspective and with the urgency it deserves. The Committee desire that the expert Committee recommended in para 1.54 earlier may pay special attention to this aspect of the problem while critically examining Air India. Incidentally, the Committee would suggest that instead of relying on Quarterly Sample Surveys to ascertain the nationlity of passengers, Air India should adopt a regular practice of obtaining information from the pas-

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		sengers on their nationality when booking their seats which would enable an analysis of the tourist arrivals over a period and facilitate comparison for appropriate action.
18	3.43	One of the objectives of the Corporation is to promote international tourism in India and to improve the nation's foreign exchange resources. Air India's role in achieving this objective should be clearly spelt out with reference to targets in order to enable an objective appraisal of its performance in this regard. A target of 2.5 million has been set for tourist arrivals into India by 1990. It is not known what percentage of tourist arrivals is expected to be carried by Air India and whether the Air India's projected availability of capacity by 1990 would be adequate to carry this traffic. The Committee would like to be informed of this. In order to help achieve the target of 2.5 million tourist arrivals a decision was taken by the erstwhile Ministry of Tourism and Civil Aviation and supported by Air India Board of promote tourism charters to India. In pursuance of this decision, a series of 14 charters was operated from Zurich and Munich to India in 1982-83 by Air India charters Ltd., a subsidiary of Air India. No tourist charters were, however, operated by Air India thereafter either due to lack of aircraft capacity or due to the fact that the available capacity did not meet with the requirements of charterers. The Committee cannot but point out how casually the decision has been taken without realistically assessing the likely availability of aircraft capacity. More care should be exercised in future before arriving at such a decision. Recognising the need for co-ordination at the highest level for promotion of tourism, the Committee on Public Undertakings (1981-82) had recommended appointment of the Chairman of ITDC as a member of Air India's Board. The Committee regret to note that this has not been attempted yet. The Committee hope that

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		this recommendation will be considered afresh keeping in view the specific role to be played by Air India in tourism promotion and the need to dovetail its plan with the tourism plan.
19	4.32	On the demand side the efficiency of an airline is indicated by the load factor (percentage of the capacity utilised to the capacity provided). The Committee are disappointed to know that Air India's overall load factor on scheduled international services during 1981-84 has not only deteriorated sharply as compared to other international Airlines but also registered a steep decline as compared to its own achievement in 1981. Air India's overall load factor which stood at 69.6 per cent in 1981 and topped among the ten airlines for which information has been furnished came down steadily to 63.4 per cent in 1984 to figure as the lowest among the ten airlines. All this was in spite of the boom available to Air India on India-Gulf route during the period. This is an unfortunate situation. The downward trend in the load factor is reported to be due to injection of additional capacity during 1982 and 1983 and disturbances in northern India in 1984. Attributing the fall in load factor to the injection of additional capacity is hardly convincing as it is a continuous and common feature to all airlines. As it transpired during oral evidence and as brought out in one of the preceding findings of the Committee, political disturbances in northern India was not the sole factor for the fall in load factor in 1984. This is further substantiated by the fact that there has been considerable shortfall in achieving the annual target of load factor during 1982-83 to 1984-85. The shortfall was in the range of 10 per cent every year.

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20	4.33	On the supply side, the efficiency of an airline is indicated by the number of hours per day an aircraft is utilised on an average. Though Air India's position in 1983-84 compares favourably with the Industry average as informed by the Corporation, the Committee find that the overall aircraft utilisation in hours per day which was 9.55 hrs. in 1978-79 has declined to vary in the range between 8.18 hrs. and 8.78 hrs. during 1979-84. The Committee hope that with the phasing out of B-707 aircraft the overall position will improve.
21	4.34	The Committee observe that staff costs as percentage of total operating cost in Air India was in the range of 16½ per cent during the last 3 years which is considerably lower as compared to a number of other airlines whose staff costs were between 25 per cent and 35 per cent. This point only highlights the fact that the percentage of cost on other items of expenditure in Air India is on rather high side. The Committee desire that immediate steps should be taken to identify the high cost centres in Air India's operations and effective measures be undertaken to keep the various items of cost within the normal limits. The Committee would suggest that a regular and systematic study of inter-firm comparison on various aspects of working should be made by the Corporation to the extent the information from other airlines is available. This will enable an assessment of relative performance.
22	4.35	Staff productivity in an airline is generally expressed in terms of available Tonne Kilometers (ATKM) per employee which is reported to be the generally accepted standard for measuring productivity of employees in the air transportation business. This index of staff productivity is, how-

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		ever, replete with a number of drawbacks as this could be influenced by many factors which are independent of the employees efforts. For instance, addition made to the existing fleet of aircraft, .sub-contracting of major jobs, engagement of external agencies for handling etc. could inflate the ATKM per employee and distort the index. The Committee feel that the formulae (a) Revenue Tonne Kilometres per employee and (b) Operating Revenue per employee are more appropriate and could be considered as better indices of staff productivity. The Committee, therefore, recommend that as agreed to by the Managing Director of Air India, in future the staff productivity should be indicated in terms of RTKM per employee and operational revenue per employee and should be shown in the Annual Report of the Corporation. The Committee in this connection note that the rate of growth of staff productivity in terms of ATKM per employee has declined over the years but more regretably the staff productivity has declined in absolute terms as well from 145,400 in 1982—84 to 135,300 in 1984-85. The decline in 1984-85 was reportedly due to 3 per cent fall in the capacity offered on account of route rationalisation. It is, however, not clear as to what were the reasons for the decline in the growth rate of productivity over the years. The Committee would await an explanation in this regard along with the steps proposed to be taken for augmentation of productivity growth.
23	5.10	Corporate Plan is a premier instrument for total management improvement. The Corporation has not prepared any Corporate Plan so far. It is surprising that Air India was ignorant of the difference between the Five Year Plan and Corporate Plan thus far despite the BPE's guidelines on this having been issued as far back as in 1974. The Committee desire that Corporate Plan should be prepared by Air India in consultation with the

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		BPE as assured by the Managing Director and a copy of the corporate plan forwarded to the Committee for information. Further the Committee observe that some of the BPE guidelines such as on use of official car for private purposes and norms for hiring of residential accommodation etc. have not been implemented by Air India. The Committee desire that the Administrative Ministries should satisfy themselves of the reasons for non-implementation of the BPE guidelines in respect of undertakings under their control and as agreed to by the Civil Aviation Secretary, the extent of implementation of BPE guidelines on important matters along with Ministry's views on the guidelines not implemented by the undertakings should be brought out in the Annual Reports of the Administrative Ministries as well as undertakings. This recommendation of the Committee may be brought to the notice of all Administrative Ministries by BPE for implementation.