FIFTY-FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(1988-89)

(EIGHTH LOK SABHA)

AIR INDIA—FARE ASPECT

(MINISTRY OF CIVIL AVIATION AND TOURISM)

8P

सत्यमेव जयते

Presented to Lok Sabha on 23-2-1989.

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LOK SABHA SECRETARIAT
NEW DELHI

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Corrigenda to the 51st Report of Committee on Public Undertakings (1988-89) on Air India - Fare aspect

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STUDY GROUP I ON INDIA TOURISM DEVELOPMENT CORPORATION LTD; FOREIGN TOURS UNDERTAKEN BY CHAIRMEN, MANAGING DIRECTORS AND OTHER OFFICIALS OF PUBLIC UNDERTAKINGS (HORIZONTAL STUDY); LIFE INSURANCE CORPORATION OF INDIA; AIR INDIA; (I) FARE ASPECT AND (II) UNDUE BENEFIT TO PRIVATE OPERATORS

1. Shri K.H. Ranganath — *Convener*
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3. Shri Raoof Valiullah
4. Shri Dipen Ghosh
5. Shri A.G. Kulkarni
6. Thakur Jagatpal Singh

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf present this Fifty-first Report on Air India—Fare Aspect.

2. The Committee took evidence of the representatives of Air India on 14 July and 17 August, 1988 and the representatives of Indian Airlines on 1 September, 1988 and also of representatives of the Ministry of Civil Aviation and Tourism on 25 October, 1988.

3. The Committee considered and adopted the Report at their sitting held on 7 February, 1989.

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

NEW DELHI;
February 21, 1989
Phalguna 2, 1910 (Saka)

VAKKOM PURUSHOTHAMAN
Chairman,
Committee on Public Undertakings.

PART I

BACKGROUND ANALYSIS

1. General

Air India's net profit/loss during the last 5 years on its worldwide network as also on the India/Gulf route are given below:

Year	Profit/Loss worldwide	Gulf-India (Rs. in crores)
1984-85	44.69	99.36
1985-86	66.00	87.61
1986-87	30.16	64.46
1987-88	(−43.41)	43.29
APR-JUL 1988	(−6.30)	20.91

1.2 The capacity offered by Air India in the Gulf sector *vis-a-vis* its total capacity during the last eight years are stated to be as follows:—

ATKMs (in million)

Year	Total capacity	Increase in total capacity	Capacity in Gulf sector	Increase in Gulf sector
1980	1613	—	292.645	—
1981	1713	6.1%	387.290	32.3%
1982	1861	8.6%	404.016	4.3%
1983	2010	8.0%	441.977	9.4%
1984	1953	(−2.8%)	466.274	5.5%
1985	1825	(−6.5%)	440.425	(−5.6%)
1986	1891	3.6%	426.071	(−3.9%)
1987	2152	13.8%	471.197	10.6%

ATKMs: Available Tonne Kilometres

1.3 According to the information furnished by Air India eight IATA (International Air Transport Association) airlines, and two non-IATA airlines are operating in India-Gulf route. The IATA airlines operating in the route are Kuwait Airways, Gulf Air, Syrian Airways, Saudia, Iraqi Airways, Sabena, British Airways and Emirates. The non-IATA airlines are Bangladesh Biman and Cathay Pacific.

1.4 When enquired about the percentage of traffic carried on Gulf-Bombay sector by Air India and other Airlines and also the total number of passengers carried by Air India on Gulf countries-Bombay sector and Gulf-Trivandrum sector, the Managing Director, Air India stated during the course of oral evidence:

> "Sir, the total number of passengers of Bombay-Gulf route carried by Air India is 525902 and other airlines carried 1128550. In terms of percentage Air India carried 31.8 per cent and other carriers carried 68.2 per cent.
>
> In regard to the Gulf-Trivandrum vis-a-vis Gulf-Bombay figures which Air India carried in the year 1987-88 for the Gulf-Trivandrum route was 161372 and for Gulf-Bombay route was 571060.
>
> Just to give you another statistics, the Gulf-Trivandrum Route Dropped for air India by .04 per cent over the previous year whereas the traffic over Bombay-Gulf grew by 8.6 per cent. So, the Gulf traffic to Trivandrum is dropping and the Gulf traffic to Bombay is growing."

1.5 Air India informed the Committee in a written reply that the total number of international passengers carried by Air India in India / Gulf / India route was 713199 in 1985-86 constituting 33.3% of the total and 779566 in 1986-87 constituting 35.5%.

1.6 It was observed from the Annual Reports of Air India that while Air India's seating capacity is declining year after year in the Gulf sector, the designated carriers of UAE have increased net seat capacity into India by as much as 18% during 1986-87. The Committee wanted to know how was it that while there was phenomenal increase in the seat capacity of foreign airline, Air India was reducing its capacity in India-Gulf route. In reply, the Managing Director, Air India stated during the evidence :—

> "Unfortunately in 1985-86, Air India lost one of its aircraft. That was Kanishka. There was a definite reduction in capacity which then resulted in redeployment and perhaps a consequent decrease in the capacity. Secondly, between 1985 and 1986, Air India replaced its 707s with AB 300. From the year 1987-88, we have once again put an additional capacity into the Gulf and this trend is planned to be continued and as a result of this between 1986-87 and 1987-88, Air India's capacity increased. It is a fact that Air India is severely cramped as far as capacity is concerned. We are hoping to supplement this either this year or next year."

1.7 Asked whether the decline in seat capacity and traffic growth was necessitated by irrational fare structure of Air India on this route, Air India stated in a written reply as follows :—

"The fare structure on the India-Gulf route cannot be deemed as irrational. The number of seats offered in fact increased. The decline in the growth in traffic between India and Gulf was not related to the fare structure but due to the economic situation in that area. The general situation in the Gulf is no longer favourable for the employment of Indians. This is specially highlighted by PAN-ARAB policy for employment whereby Arabs from neighbouring countries such as Egypt and Lebanon would be given preference over all others. Whilst this policy has not yet been strictly implemented, but it is indicative of what can possibly be the future trend. Despite the overall problems, the traffic for Air India showed an increase of 9.3% in 1986-87 as compared to 1985-86 and 3.8% in the subsequent year 1987-88 over 1986-87."

1.8 Air India further stated in a written reply that its seat capacity on the India / Gulf route in the year 1987-88 was 1,269,400 seats, which reflects an increase of 13.5% from the previous year's figure of 1,118,700 seats. Passenger traffic on the route during 1987 and 1988 was 808,998 and 779,566 passengers respectively, registering a growth of 3.8%.

1.9 The Committee observed from the information furnished by Air India that the operating profits in the route, however, declined from Rs. 64.46 crores in 1986-87 to Rs. 43.29 crores in 1987-88.

1.10 Asked as to what were the reasons for decline in profits in 1987–88 when Air India experienced@3.8%growth in passenger traffic in that year, the Ministry of Civil Aviation stated in a written reply as follows:—

"The reasons for decline in profit experienced by Air India on the Gulf/India route for the year 1987–88 is related mainly to the drop in yield. The competition on the route has increased whereas the traffic on this route is not growing due to drop in activity in the Gulf. The war between Iran and Iraq drop in the price of fuel, have arrested the prosperity of the Gulf region and this had adverse effect on the growth of traffic on this route. While the traffic has not grown the capacity offered on this route has not declined but grown as a result of carriers have started indulging in under-cutting. This has resulted in dropping Air India's yield and as a result thereof, a drop in Air India's profit on this route."

1.11 The Committee enquired as to whether the decline in profit of India-Gulf route is not due to the fact that considerable number of Gulf passengers coming to Trivandrum prefer to travel by other airlines taking Gulf-Colombo-Trivandrum route instead of Air India's direct services on Gulf-Trivandrum sector because of higher fare in the direct services. In reply, the Managing Director, Air India, stated in his oral evidence that:—

> "Out of the total number of passengers, the Air India carry a certain percentage. The statistics show that there has been slump in the developmental activity in the Gulf for the last three years. The yield or the earning per passenger in the Gulf continues to decline. If you look at what is happening in respect of fare, you will find that the net fare which is being charged for Gulf by Air India is constantly coming down. This is a matter of fact. A new carrier has been added, i.e. Emirtus Airways which was part of the Gulf Airways system—Dubai and Abu Dhabi, part of the Gulf. When a new airline has been started, the competition has become more and more severe. The Gulf profitability is dropping. It is a matter of great concern for a company like Air India, whose profitability is declining on the Gulf."

2. *Gulf-Trivandrum Fare Level*

2.1 Prior to the establishment of direct services to Trivandrum in 1978, passengers travelling from points in the Gulf States to Trivandrum and vice versa had to travel via Bombay. The fare charged for this travel was constructed by combination of two sector fares, for instance, the fare applicable on the international sector Abu Dhabi-Bombay and the add-on published by Indian Airlines for the sector Bombay-Trivandrum. Although Air India introduced direct services between points in the Gulf States and Trivandrum, the airline, instead of establishing a fare applicable on these services, continued to charge the same fare which was applicable for travel via Bombay.

2.2 The Committee was informed by the Ministry of Civil Aviation in a note submitted in this connection that a Committee was constituted in February, 1984 by the then Secretary, Ministry of Civil Aviation, to go into the following aspects:—

(i) The need to establish a fare applicable on direct service operated by Air India between Trivandrum and points in Gulf and its level;

(ii) The need to bring about parity between the domestic fares and the US Dollar Add-on fares on Bombay-Trivandrum sector;

(iii) The financial implication in terms of loss that is likely to be incurred in the revenue of Air India as well as the profit of both Air India and Indian Airlines.

2.3 This Committee consisted of Shri R.V Ranadive, Dy. Director General, Civil Aviation and Shri N.S. Kumaraswamy, Dy. Director, DGCA and representatives of Air India and Indian Airlines. The Ranadive Committee submitted a working paper in 1984 on Gulf-Trivandrum fares. According to the Working Paper, the flown distance on the indirect route and the direct route on Abu Dhabi-Trivandrum sector is as follows:—

Abu Dhabi-Trivandrum (via Bombay)	2020 miles
Abu Dhabi-Trivandrum (direct)	1847 miles

The direct route is, therefore, shorter by 173 miles.

2.4 It has also been stated that when there was no direct service between India and Moscow and India and Mauritius, passengers travelled to Moscow via Europe and to Mauritius via Nairobi. When Air India established direct services to these points, the airline established fares applicable to travel on the direct service which gave a substantial relief to the passengers.

2.5 Similarly, Air India established direct fare between Amritsar and Birmingham when the airline commenced direct services between Amritsar and Birmingham. At the same time, fares on the sectors Birmingham/Delhi and Birmingham/Bombay were also established at the level of Birmingham/ Amritsar fare. Before the establishment of such a fare between Birmingham and Amritsar, a passenger had to pay a fare which was constructed by combination of the London-Delhi/Bombay sector fare with the add-ons for the sectors Amritsar/Delhi and London/Birmingham. Thus, the establishment of a direct service resulted in the establishment of a lower fare.

2.6 The Working Paper on Gulf-Trivandrum fares had also brought out that with the reduction in the flown distance on the direct route of Abu Dhabi-Trivandrum, the savings in the direct operating costs would amount to Rs. 345.80 lakhs per year based on Air India's level of operation in 1984. It was computed that on the basis of the number of passengers carried by Air India on these services, the airline would save on the direct operating costs Rs. 298 per passenger in each direction.

2.7 On being enquired as to what would be the savings in costs in the direct route at the present level of operations, the Secretary, Civil Aviation stated during oral evidence:-

"The position more or less remains the same even now because at that time the fuel cost was higher. The depreciation on interest also remains the same. According to their calculations the savings worked out to about 48,600 or 50,000 per flight and that holds good even now. So, the benefit that should accrue to the passengers should be about Rs. 260 to Rs. 300."

2.8 The Working Paper indicated that if lower fare is to be established for direct services, it would have to be applied for travel on the indirect route as well. Since, Indian Airlines is required to be paid in full the add-on for the sector Bombay-Trivandrum, the present fare from Abu Dhabi to Bombay will have to be reduced by Rs. 298/-. The establishment of the fare applicable on direct services and the revision in the fare applicable on the sector Abu Dhabi-Bombay will have to be done through the rate fixing machinery of the International Air Transport Association and in all probability, it will be resisted by other member airlines, whose revenue earnings on the sector Abu Dhabi-Bombay would be adversely affected. Further, the revised fares would have to be approved by the respective governments of the Gulf States. It has been pointed out that such of those governments who have earlier indicated interest in their airlines operating direct services to Trivandrum may be inclined to give their approval provided traffic rights at Trivandrum are granted to their national airlines.

2.9 It has been argued that the reduction in distance for a direct operation Abu Dhabi-Trivandrum versus that via Bombay is only 9% and that the current IATA rules permit a deviation in mileage at the same fare level upto a maximum of 15%. The Working Paper pointed out that the very basis of reducing a fare for a direct routing vis-a-vis on indirect route when the reduction in mileage is within the current permissible limit set by IATA rules is incorrect.

2.10 Enquired as to what was the percentage reduction in distance for a direct operation Birmingham-Amritsar versus, that via Delhi/Bombay, the Secretary, Civil Aviation stated in evidence that it was 11%.

2.11 The Committee pointed out that since only Air India is having direct services from some Stations in Gulf to Trivandrum, there appears to be no direct competition to Air India from other airlines. As a result the passengers travelling in the direct services to Trivandrum may not get any competitive discount and the relative market fares would be high. Enquired whether this would not amount to exploitation of passengers travelling on the direct services to Trivandrum in a non-competitive situation, the Ministry of Civil Aviation stated in a written reply as follows:-

"Under industry rules direct route fares can also be applied for indirect route provided the indirect route is within the mileage deviation. Thus the Gulf/Trivandrum direct route fare is also applicable for travel via Bombay. There are many flights between Gulf and Bombay and for personal reasons many passengers prefer to come via Bombay. Since the fare is same whether the passenger travels via Bombay or by direct routing. Air India does not have a monopoly in respect of Gulf/ Trivandrum traffic and Government do not believe that present situation can be deemed as 'exploitation' of passengers travelling to Trivandrum. However, Government is considering taking up this matter at its own level."

2.12 Explaining the reasons for not reducing the fare in direct service, the Managing Director, Air India stated in evidence:-

"We cannot unilaterally reduce the fare to any point in the Gulf because in that event it will immediately invite reaction from the Government in that country that it will be an unfair advantage to Air India over their Airlines. That will not be accepted by that Government; they will reject it. Even after the IATA approves a particular fare level, it has to be approved by the two Governments; and that Government will not approve."

2.13 Pointing out that the reduction in fare had been effected on introduction of direct services from Amritsar to Birmingham, India to Moscow and India to Mauritius, the Committee asked what were the reasons for not effecting similar reduction in fare on introduction of direct service between Trivandrum and points in Gulf. The Ministry of Civil Aviation explained in a written reply as follows:—

"Air India's introduction of direct service between Trivandrum and points in Gulf is not comparable with the introduction of a direct service from Amritsar to Birmingham, India to Moscow and India to Mauritius. In respect of both Moscow and Mauritius there was a substantial reduction as a result of direct operations as compared to the conventional routes. In respect of Amritsar /Birmingham, the new route Amritsar /Birmingham was shorter than via Delhi. Furthermore Air India flight from Amritsar to Birmingham originated in Bombay and operated Bombay /Delhi /Amritsar /Birmingham. Thus, Amritsar was an intermediate point and could not have a higher fare than Bombay and Delhi. Bombay and Delhi were already common-rated in so far as Birmingham or points in Europe were concerned and, therefore, the only solution was to common-rate Amritsar also with Delhi, for Amritsar-Birmingham travel.

On the other hand the reduction in distance as a result of Air India operating a direct service to Trivandrum as against passengers travelling to Trivandrum via Bombay, was very marginal. At the time of introduction of this service it was felt appropriate to apply the fares constructed for travel to Trivandrum via Bombay to the direct route.

It should be noted that reduction of fares between India and Moscow as also India and Mauritius as a result of Air-India's direct operations was achieved through IATA mechanism. In respect of Amritsar /Birmingham at the time Air-India introduced the service there was no IATA agreement on this route. This matter was, therefore, discussed with British Airways, the national carrier of the other country involved, and Amritsar was common-rated with Delhi as a result of agreement reached between Air-India and British Airways. It has not been possible to obtain similar agreements in respect of carriers between Gulf and India to reduce fare to /from Trivandrum."

2.14 The Committee noted that Air India operates services to four points in the UAE, namely, Abu Dhabi, Dubai, Ras-al Khaima and Sharjah which are common-rated. In other words, the fares applicable between Bombay and these four points are the same; the fares applicable between Delhi and these four points are the same; and the fares applicable between Trivandrum and these four points are the same.

2.15 Enquired whether the fare from Dubai to Bombay and Dubai to Delhi is the same, a representative of Air India stated in evidence:

"We do operate direct service to Dubai, from Dubai to Delhi and from Dubai to Bombay. The fare is the same because they are equidistant from the Gulf."

2.16 According to Ranadive Committee IATA specified fares between two points are generally based on the distance flown but the practice of common-rating points is also followed even if they are not equidistant from the points with which they are common-rated. For example, the fares between gateway points in India such as Bombay and Delhi on the one hand and certain points in Europe, such as Paris/Frankfurt/Amsterdam, or London, or New York/Montreal are the same, irrespective of the distance. As already stated, the fares to Birmingham from Bombay, Delhi and Amritsar are the same, i.e. these three points in India are common-rated, vis-a-vis Birmingham. The Ranadive Committee, therefore, recommended that the question of common-rating Bombay and Trivandrum vis-a-vis the points in the Gulf may be examined separately.

2.17 Enquired as to whether the question of common-rating Bombay and Trivandrum vis-a-vis the points in the Gulf was ever examined as recommended by Ranadive Committee, the Secretary, Civil Aviation stated in reply, "No Sir, they were not examined."

2.18 Air India informed the Committee in a written reply that the fares from stations in UAE to Trivandrum are discounted by 25% and shown as seamen discounted tickets to facilitate the Malyalee community in the UAE. The fares ex-Kuwait to India are discounted by 17% as per guidelines from the Civil Aviation authorities of Kuwait. It is observed that the fares are accordingly discounted in Abu Dhabi-Trivandrum, Dhahran-Trivandrum, Dhahran-Bombay, Dubai-Trivandrum, Kuwait-Trivandrum, Kuwait-Bombay, Ras-Al-Khaymah-Trivandrum, Sharjah-Trivandrum and London-Delhi.

2.19 Asked what is meant by the seamen's discount and on what consideration the seamen's discount is given, the Ministry of Civil Aviation stated in a written reply:

> "For travel of seamen both for individuals and groups, discounted fares have been established. These discounts are applicable for transportation between various points and originally were established for the purpose of allowing the seamen to join a ship or leave the ship and go to home-town. Some of the discounts have been established by means of and Resolution while most of the individual seamen discounts have been established by Government directives. To be eligible for this discount the shipping company or its agent or a competent authority is required to submit an application. The application is required to include the place of origin and destination, name of passenger, name of ship vessel and name of shipping company concerned."

2.20 Referring to the practice of giving seamen's discount, the Secretary, Civil Aviation stated during evidence:-

> "Actually this was a bonus discount which was given to facilitate people. They raised a lot of hue and cry. It was done with a view to help the labourers."

2.21 The Ministry of Civil Aviation, however, stated in a written reply that "the practice of giving seamen's discount is now being stopped."

2.22 Giving an assurance that the Government will consider the question of reduction of fare on direct service, the Secretary, Civil Aviation stated during oral evidence:-

"There has been a demand that the fares between the Gulf countries and Trivandrum—the direct route—should be lower than the fare via Bombay. On the face of it, it appears to be quite reasonable. But the fares are fixed after mutual consultation by the IATA carriers in the Gulf region and this matter was specifically discussed with the carriers for bringing about a reduction in the direct fare (Gulf to Trivandrum) but they did not agree to that because they felt that if this was done, then this would mean giving Air India an advantage and their traffic over Bombay would suffer. Now in the absence of an agreement, it is not possible to have these fares unilaterally.

Apart from that, under the IATA regulations, Air India has pointed out that if the fare is within 15 per cent, then the same fare can be charged even if the distance is shorter. In this case, it is about 11 per cent or so. Basically that is the main reason for the objection that the Gulf countries are not agreeing and we cannot take action unilaterally."

The witness added:—

"We have received a lot of representations regarding this. We would certainly like this to be considered favourably that this should be reduced so that a lot of labourers who come will be given the benefit. But so far, the carriers have not agreed. What we can do is that we can take up the matter at the Government level."

3. *Directional fare differences*

3.1 From the information furnished by Air India in August, 1987, the Committee observed that Air India's established fares for one way Normal Economy Class for the following sectors in India-middle East and India-UK routes are as follows:—

Sector	Fare (INR)	Distance Kilometres	Average Fare per 1000 Km. (INR)
1	2	3	4
Trivandrum-Abu Dhabi	3861	2972	1299.10
Bombay-Abu Dhabi	2861	1991	1437.00
Abu Dhabi-Trivandrum	6393	2972	2151.10
Abu Dhabi-Bombay	4738	1991	2379.70
Trivandrum-Dhahran	4625	3449	1341.00

1	2	3	4
Bombay-Dhahran	3624	2459	1473.80
Dhahran-Trivandrum	6031	3449	1748.60
Dhahran-Bombay	4726	2459	1921.90
Trivandrum-Dubai	3861	2952	1307.90
Bombay-Dubai	2861	1930	1482.40
Dubai-Trivandrum	6393	2952	2165.70
Dubai-Bombay	4738	1930	2554.90
Trivandrum-Kuwait	5061	3803	1330.80
Bombay-Kuwait	4060	2758	1472.10
Kuwait-Trivandrum	7225	3803	1899.80
Kuwait-Bombay	5796	2758	2101.50
Trivandrum-Ras-Al-Khaimah	3861	3149	1226.10
Bombay-Ras-Al-Khaimah	2861	1889	1514.60
Ras-Al-Khaimah-Trivandrum	6393	3149	2030.20
Ras-Al-Khaimah-Bombay	4738	1889	2508.20
Trivandrum-Sharjah	3861	2953	1307.50
Bombay-Sharjah	2861	1926	1485.50

Sector	Fare (INR)	Distance	Average fare per 1000 Km. (INR)
Sharjah-Trivandrum	6393	2953	2164.90
Sharjah-Bombay	4738	1926	2460.00
Delhi-London	9395	7949	1181.90
London-Delhi	11651	7949	1465.70

3.2 Asked to explain the reasons for the average fares of India-Gulf sectors being generally higher than that of India-UK Sectors, Air India stated in a written reply as follows:—

"There is a distance taper on fares and for short-haul sectors fares are generally higher than long-haul sectors. This is ture in the case of India/Gulf sector vis-a-vis India/UK sector. The following examples illustrate that the average fares drop as the distance increases:

Sector	Distance	Rate per Km.
BOM-DXB	1930	1.60
BOM-HKG	4302	1.55
BOM-FRA	6569	1.51
BOM-LON	7192	1.46
BOM-SYD	10160	1.38
BOM-NYC	12612	1.09

3.3 Air India has also informed the Committee that the IATA established fares for the same fare type as are applicable in both directions are exactly the same in what is termed as basic currency of US Dollar or UK Pounds and published in Tariffs as Fare Construction Units. However, when these are translated into local currencies, and these local currencies are then expressed in any one currency, anomalies which are totally related to currency relationships are highlighted.

3.4 Elaborating this point Air India explained in a written reply that:—

"Ever since 1945 IATA Member airlines have negotiated passenger fares in two basic currencies the US Dollar for all transportation within the Western hemisphere and between the Western and Eastern hemisphere and the UK pound for transportation wholly within the Eastern hemisphere. Therefore for the area in question (i.e. India-Gulf Sector) it is the UK Pound.

IATA Resolution 02lb establishes exchange rates between the two basic currencies as also between the two basic currencies on one hand and the currencies of the world on the other.

Due to the uncertain worldwide currency/situation these exchange rates of the basic currencies have been frozen at the rate applicable in January, 1972. Therefore, the exchange rate between the two basic currencies is UK £ 1=USD 2.6057.

Although basic currency fares are specified in USD and UK£ in Tariff publications, since Feburary/March 1973, they are shown as Fare Construction Units (FCUs). An FCU is the same at the USD. expressed at the January 1972 rate of UK £ 1= USD. 2.6057. Hence all UK£ basic currency fares are converted into FCUs at the above rate and expressed in FCUs which is used as a common yardstick.

Having establised a common yardstick, it is still necessary to adjust currencies. The means of achieving this is by way of a currency adjustment factor which in effect is a surcharge or deduction, to be applied to the FCU fare levels based on the appreciation/depreciation of the respective currencies. This currency adjustment established from the basic fare level is, however, not fully compensatory."

3.5 Giving an illustration in this regard, Air India has stated that since 1982, there has been only one fare increase of 5% from Dubai to Trivandrum and vice-versa. The Fare Construction Units for the first, economy and Group Inclusive Tour (GIT) fare for a minimum of 10 passengers are exactly the same in both directions. The same GIT fare in local currency is INR 4634 from India to the Gulf and ADH 4118 from the

Gulf. However, due to the relationship between the UAE currency and the Indian Rupee, the fare of ADH 4118 when converted into Rupees works out to INR 7668. Air India pointed out that such imbalances due to currency variations are only relevant when fares are expressed in any one currency. In actual terms of money, the local selling fares are related to the strenght or weakness of a currency which in turn is related to a number of socio-economic factors such as the economy of a country, the purchasing power of its currency and the buying power of its people.

3.6 During oral evidence, a representative of Air India pointed out that the directional imbalances of fares in the Gulf sector comes about as a result of devaluation of Indian rupee and upward revision of the Gulf currency. Explaining further the witness stated:—

> "Now, this thing becomes more pronounced as you take the case of Japanese Yen. The fare from Tokyo to Bombay is 22520 Yen but the rupee fare from Bombay to Tokyo is only 8243. We are making efforts to increase the fares from India and gradually every six months you will find that we are trying to check the Indian rupee fare. We are trying to increase the fares from India to the level of fares that are being charged from the opposite direction."

3.7 According to Air India, the problem of currency is not unique to the Gulf, as may be seen from the following table:

Sector	Type of Fare	Local Curr. Fare	INR @ BBR	Sector	Type of Fare	INR fare	Imbalance
NYC-BOM (Via ATL)	F	USD 2647	38259	BOM-NYC	F	29992	−8267
	Y	USD 1433	20712		Y	16239	−4473
LON-BOM	F	UKL 1062	25796	BOM-LON	F	21328	−4468
	Y	UKL 559	13578		Y	13152	− 426
FRA-BOM	F	DMK 3775	29267	BOM-FRA	F	18726	−10541
	Y	DMK 2417	18739		Y	11990	−6749
CAI-BOM	F	EGL 1267.10	7688	BOM-CAI	F	9871	+2183
	Y	EGL 935.50	5676		Y	6802	+1126
TIP-BOM	F	LBD 357.500	16952	BOM-TIP	F	13446	−3506
	Y	LBD 234.300	11110		Y	8811	−2290
TYO-BOM	F	JYE 316900	34004	BOM-TYO	F	17402	−16602
	Y	JYE 219500	23553		Y	11078	−12475

The above comparison is based on fares in effect in Aug., 1987.

3.8 Explaining the problem of directional imbalances the Working paper on Gulf-Trivandrum fares stated:—

"For the purpose of establishing a fare in terms of a local currency, a currency coversion factor published by IATA is applied to the FCU and thereafter the product is converted into the local currency at the exchange rate agreed by IATA which is different from the Bank's buying rate. The currency conversion factor is supposed to take care of the variations in the exchange rate. However, currency conversion factor may be not established at all for travel to a country or countries or it may be established at different levels for travel to different countries, e.g.,there is no currency conversion factor in respect of ADH when the travel is for countries other than UK and other countries in South East Asia/South West Pacific. Further, the currency conversion factor applicable to a currency may vary from fare to fare. In practice, the industry has not found it possible to keep pace with the ever-changing values of the world currencies. The FCU established by IATA is applicable for travel on a sector in both directions. The directional imbalances, therefore, arise due to fluctuations in the exchange rates and the currency conversion factors not being able to keep pace with frequent fluctuations in the values of the currencies."

3.9 Regarding imbalances in the directional fares of Abu-Dhabi-Bombay and vice-versa, the working paper stated:—

"The present Fare Construction Unit applicable on the sector Abu-Dhabi-Bombay and vice versa was established in 1981. Whereas there is no currency conversion factor applicable to the FCU for travel from the UAE to India, the currency conversion factor applicable to Indian rupee for travel from India to countries in area 2 and area 3 is 1.25. This currency conversion factor has not been revised since it was established in 1979. In 1981, one US dollar was equal to about Rs.7.00 and Abu Dhabi dirham (ADH) was equal to Rs.2.07. The present corresponding exchange rates are Rs. 10.50 and Rs.2.91 respectively. Thus, the value of the Indian rupee vis-a-vis the US dollar and the dirham has depreciated by 50% and 36% respectively in the past three years. These factors seem to have resulted in the directional imbalance in the fares from Abu Dhabi to Bombay and from Bombay to Abu Dhabi."

3.10 Air India stated in a written reply that due to various reasons, essentially the marketing policies of the carriers who sought fare realignment to their advantage the currency factors were manipulated and these also are no longer relevant to the actual problem of currency.

3.11 Air India has informed the Committee that with the agreement of Ministry of Tourism and Civil Aviation, it has taken action to increase the currency factor from India. As a result, the directional imbalance between fares, to and from India has been reduced. Following table, based on fares effective from September 1, 1988, including fares to / from Gulf reportedly reflects the current situation:

Sector	Type of Fare	Local Curr. Fare	INR @ BBR	Sector	Type of Fare	INR Fare	Imbalances
AUH-BOM	F	ADH 1877	7202	BOM-AUH	F	4861	2341
	Y	ADH 1379	5292		Y	3334	1958
BAH-BOM	F	BHD 223.200	8344	BOM-BAH	F	6002	2342
	Y	BHD 161.800	6049		Y	4062	1987
DHA-BOM	F	ARI 1939	7286	BOM-DHA	F	5999	1287
	Y	ARI 1405	5280		Y	4059	1221
DOH-BOM	F	QRI 2190	8477	BOM-DOH	F	6002	2475
	Y	QRI 1588	6147		Y	4062	2085
JED-BOM	F	ARI 2329	8752	BOM-JED	F	7208	1544
	Y	ARI 1756	6599		Y	5072	1527
KWI-BOM	F	KUD 175.900	8676	BOM-KWI	F	6689	1987
	Y	KUD 128.100	6319		Y	4547	1772
MCT-BOM	F	RIO 157.000	5747	BOM-MCT	F	4645	1102
	Y	RIO 113.300	4148		Y	3129	1019

3.12 The above revision in currency factor was stated to have been made on 1st September, 1988.

3.13 When asked about the reasons for not revising the currency factor during the last nine years, the Civil Aviation Secretary stated during evidence:-

> "If I may seek the indulgence of the Committee, Air India has controlled about 25-30 per cent of the market in India. And if we increase the fares, it means that the Indian traveller has to pay more and there is much greater outgo of foreign exchange. They will convert their money into foreign exchange and there will be greater outgo of foreign exchange from here to abroad. The dollar fares have, more or less, remained the same and considering the fall in the rupee purchasing value, it is still very high. So, we are not really losing in any way. Although this currency revision has been done, I am not sure whether this is really to our advantage."

3.14 Subsequently, the Ministry of Civil Aviation stated in their written reply as follows:-

"The devaluation of the Indian rupee has been gradual and most pronounced in the last couple of years. Similarly revaluation of the various currencies such as Deutshe marks vis-a-vis Indian rupee has also been most pronounced in the last couple of years. While it would have been more appropriate to take increases in currency factor on a regular basis, regrettably this was not done in the past. Moreover, frequent increase in the currency factor would have meant greater cost to the Indian traveller."

4. *Differential fare policy of Indian Airlines*

4.1 The fare structure of Gulf-Trivandrum Sector comprises of Normal first and Economy class fares and Promotional fares viz. Group Inclusive Tour fare. There also exist Individual Excursion fares both for First and Economy Class for travel only from the Gulf countries to Bombay and Delhi. For passengers travelling to cities other than Bombay and Delhi, the present system requires that the Excursion fares available to Bombay and Delhi can be combined with domestic fares within India.

4.2 The fare for the sector e.g. Dubai-Trivandrum-Dubai comprises of two components viz. the Dubai-Bombay-Dubai fare and the Bombay-Trivandrum-Bombay fare. On the Dubai-Bombay-Dubai sector there are two types of fares charged viz. the Normal fares and the Promotional fares. The Normal fare between Dubai and Trivandrum comprises of the Normal fare between Dubai and Bombay and the domestic add-on fare between Bombay and Trivandrum (which is approximately the same as the Indian Airlines sector fare). Similarly, the Individual Excursion fares applicable only from Dubai to Trivandrum is made up of the established excursion fare Dubai-Bombay-Dubai and the Indian Airlines sector fare Bombay-Trivandrum-Bombay.

4.3 In a note submitted to the Committee in August 1987, Air India has stated that for the Bombay-Trivandrum-Bombay component of the Dubai-Trivandrum-Dubai Economy Class Individual Excursion fare a substantial increase in the promotional fares takes place for travel on the Indian domestic sectors when payment are made at home in Indian Rupees which for the sector under reference is 61.64% higher. Air India further stated that for promotional fares, travel on Indian Airlines attracts no discount, whether the payment is made abroad or at home in Indian Rupees.

4.4 The International Component of Indian Airlines traffic is comparatively small, vis-a-vis the pure domestic carriage. Air India pointed out in a note that if it is economically viable for Indian Airlines to charge a lower fare in Indian Rupees, there should be no reason for them to charge other

Carriers the higher amount for billing purposes. Air India stated that this aspect results in substantial increase in fares between Trivandrum and Gulf countries.

4.5 Air India also infomed the Committee in a note that the question of reduction in fares between Gulf and Trivandrum was formally taken up by Air India at the International Air Transport Association (IATA) Forum even though Indian Airlines were not willing either to apply any prorates/ concessions on the domestic sectors or consider charging the actual Rupee fare instead of the much higher fare presently charged by them to International travellers. On account of the same the IATA Airlines were reportedly not agreeable to Air India's proposal at the Tariff Conference held in October, 1986. Asked whether this matter was pursued further by Air India and if so, with what result, Air India stated in a written reply:

> "The question of reduction in fares between Gulf and Trivandrum was again formally taken up by Air India at the 1987 IATA Tariff Coordinating Conference. In view of the fact that any reduction in the through fare to Trivandrum would have required an absorption on the part of the international carriers who operate to the gateway point of Bombay only, the proposal was defeated."

4.6 It was also stated that the above proposal related to promotional fares viz. economy class individual excursion fare with a validity of four months applicable from the Gulf points to India.

4.7 Air India has informed the Committee that if Indian Airlines charges add-on fare in terms of rupee-fare instead of dollar-fare, it would be possible to reduce the far on Gulf-Trivandrum sector. The M.D. Air India who stressed this point during evidence stated:

> "If the Indian Airlines was to charge only the rupee-fare, which you can buy in India, the difference would be 15% on the entire fare. So, the Dubai-Trivandrum fare can be brought down by 15% if the Indian Airlines, instead of charging the dollar fare, decide to charge the rupee-fare."

The witness also stated:

> "There is very little logic in charging higher when somebody pays in foreign exchange. It will not affect their (Indian Airlines) profitability."

4.8 The Managing Director, Indian Airlines however, pointed out during evidence that :

"High fare between Dubai and Trivandrum is not on account of Indian Airlines fare between Bombay and Trivandrum, but on account of disproportionately high international fares between Gulf and India. Comparative rates per mile between Dubai/Bombay and Bombay/Trivandrum are US $. 32 per mile for Dubai Bombay and US $ 0.15 for Bombay / Trivandrum. It is thus clear that Indian Airlines fare on Bombay/Trivandrum sector is in no way responsible for the high fare levels between Dubai and Trivandrum. As far as Air India's non-stop service Dubai / Trivandrum is concerned, Indian Airlines does not come into the picture as passenger is not carried on Indian Airlines service and no money is paid by Air India to Indian Airlines."

4.9 The witness also stated :

"Indian Airlines cost of operations on Bombay-Trivandrum sector are very high on account of the fuel price paid by Indian Airlines which is about Rs. 6275 per Kilo litre, whereas the fuel price paid by Air India is only about Rs. 2533 per kilo litre."

4.10 The Committee enquired whether it is not anomalous to have two fare level with a differential of 40% in a domestic sector. The Ministry of Civil Aviation stated in a written reply as follows :

"Indian Airlines has two levels of domestic fares one quoted in US Dollars and the other in Indian Rupees. The fare quoted in US Dollars is meant for sale outside India and the one quoted in Indian Rupees is meant for sale within India. This two-tier format of domestic fares has been in existence since 1968, when following the massive devaluation of Indian currency, Indian Airlines had frozen the pre-devaluation Dollar equivalent of Indian Rupees as the fare applicable for Sales outside India, in order to protect its foreign exchange earnings and revenue from international traffic."

Due to constantly deteriorating value of Indian Rupee against US Dollar, the present differential between the two fare levels is about 40% inspite of the fact that Indian Airlines has not increased its Dollar fares since 1981, whereas Rupee fare have been increased during this period by more than 30%. It is not possible for Indian Airlines to reduce its Dollar fare in accordance with the declining value of Indian Rupees, nor is it possible for Indian Airlines to increase the Rupee level of fares to such an extent as to eliminate the differential between the two levels.

It may be noted that the large bulk of Indian Airlines investment is in terms of foreign exchange and it is necessary for Indian Airlines to Protect and enhance its foreign exchange earnings in order to cater for growth. Any reduction in the foreign exchange earnings capability of the Airlines would seriously impair its plans for acquiring more aircraft and its projected investment in the 7th and 8th Five Year Plan period and beyond.

It may be noted that with effect from 1st April, 1989 all travel performed by foreigners on Indian Airlines would require to be ticketed on the US Dollar fare. In order to eliminate any inconvenience to passengers however holding bookings prior to October 15, 1988, the facility of Rupee fare will be available upto 31st March, 1989.

It may also be noted that differential fare policy is not unique to Indian Airlines alone but is followed by other Airlines in other countries, particularly in week currency areas."

4.11 Enquired whether Indian Airlines agrees with the view of Air India that charging of rupee-fare in the domestic component of international flights will not affect the profitability of Indian Airlines, the M.D., Indian Airlines stated during evidence:

"If I am to charge rupee fare, Indian Airlines will lose approximately Rs. 50 to 60 crores per year. This is a very conservative figure."

4.12 The present add-on of US Dollar was reportedly established by Indian Airlines in 1981 at the then prevailing rate of exchange between Indian Rupee and US Dollar. Enquired whether the Government ever reviewed this aspect and if so, what was the outcome of that review the Ministry of Civial Aviation stated in a written reply as follows:

"While no formal Committee was ever established to review the differential fare policy of Indian Airlines in general, the matter was examined in 1984, by the Ranadive Committee which has been constituted by the Ministry of Civil Aviation to examine the matter in depth and prepare a paper on the subject."

4.13 Asked whether there should not be a periodical revision of US Dollar and add-on fares charged by Indian Airlines taking into account the change in Rupee fare and the change in the value of Dollar with a view to bringing parity between the two fare levels, the Ministry of Civil Aviation stated in a written reply:

"The Dollar and Rupee fares represent two distinct fare systems and as such there is no requirement to bring about parity between these two fare levels.

The Rupee fares are meant for sale within India to Indian Nationals only and take into account the socio-economic conditions prevalent in our country. The dollar fares are meant for foreigners only and are essential in order to protect Indian Airlines foreign exchange earnings in a situation of a dateriorating Rupee versus Dollar parity. The very purpose of the existance of Dollar fares is to enable Indian Airlines to protect its foreign exchange earnings to cater for future growth and investment. This purpose would be defeated by bringing about parity between the two fares."

4.14 To another query as to whether bringing parity to the fare levels will not also provide an incentive to foreign tourists for undertaking travels in India, the Ministry of Civil Aviation stated in a written reply as follows:

"Indian Airlines Dollar fares have not been increased since 1981 i.e. more than 7 years. As such, in real terms, the dollar fares today represent considerably higher value for travel than was available 7 years ago. Apart from this, the bulk of tourists travelling are those from hard currency areas of Europe, UK and Japan. For tourists from such countries, the cost of travel when quoted in US Dollars has in fact declined considerably as their own currencies have appreciated considerably vis-a-vis the US Dollar. The question of offering lower fare levels to foreign tourists as an incentive to promote foreign tourism requires to be examined in the light of the capacity offered by Indian Airlines and other providers of tourism facilities including hotels, surface transporters etc. The freezing of US Dollar fare at 1981 levels provides sufficient incentive to foreign tourists undertaking travel within India. However, in order to meet special requirements and in some cases to counter the effects of seasonality, Indian Airlines has introduced a range of concessional fares aimed at providing greater incentive to foreign tourists to travel more intensively within the country."

4.15 In reply to an unstarred question No. 3251 in Lok Sabha on 5.12.1988, the Government have stated that the Planning Commission has set up a five member Committee under the Chairmanship of Dr. Vijay Kelkar, Chairman, Bureau of Industrial Costs and Prices to examine the tariff structure of domestic air carriers with following terms of reference:-

1. To examine the present tariff structure of domestic air carriers and infrastructure facilities and recommend a rational framework for revision of tariffs, both for passenger and freight, keeping in view the service and other considerations including special importance of air transport in certain remote and backward areas;

2. To identify services which are not able to meet the cost of service and to recommend restructuring of routes;

3. To recommend eligibility criteria for grant of any direct subsidy for loss making services otherwise considered essential to operate; and

4. Any other matter relevant to the above issues.

4.16 Section 7 of the Air Corporations Act, provides among other things that the Corporation has to so exercise its powers as the services are provided at reasonable charges. The Committee pointed out that there is wide disparity between US Dollar add-on fares charged by Indian Airlines and domestic rupee fares. Also no relief is being provided by Air India to passengers on direct service on Gulf States–Trivandrum inspite of the savings in cost due to operation of direct service. The Committee enquired whether it is not obvious from these instances that Section 7 of the Air Corporations Act is not strictly followed by Indian Airlines and Air India resulting in passengers being charged unreasonably on Gulf–Trivandrum sector. The Ministry of Civil Aviation stated in a written reply:

> "The fares are not unreasonably high. However, Government is considering taking up this matter at its own level."

5. *Proration of fares*

5.1 According to Air India, Indian Airlines do not prorate but charge the full Dollar domestic sector fare from the international carriers when they are one of the carriers involved as a part of an international Journey.

5.2 In the case of Air India, whether Air India issues the ticket in India in Rupee or abroad in foreign currency, Indian Airlines reportedly charge Air India for their portion of carriage the full Dollar domestic fare which is substantially higher than the Rupee fare. Illustrating this point Air India stated in a written reply as follows:

> "Dollar domestic fare of Indian Airlines for the sector Bombay/Trivandrum/Bombay is USD 248. This when sold in the Gulf amounts to a local currency fare of ADH 930 equivalent

of which in INR is 3232. The Rupee fare for the same sector is Rs. 2310.

This disparity results in the international carriers having to charge the full Dollar domestic fare since Indian Airlines will not apply any sort of discount on their sector fare which thereby increases the through fare."

5.3 During the course of oral evidence, the M.D., Air India pointed out that Air India becomes more incompetitive internationally because the domestic carrier does not charge pro-rata in the domestic sector. The witness also stated :

"In order to make the destination more attractive the Airlines in other countries give discount on the domestic airlines. Air India is not in a position to do that because the other airlines will not give discount to Air India because Indian Airlines does not give discount to Air India."

5.4 The M.D., Indian Airlines, however, stated in this connection:

"The proration is in proportion to the distance travelled. The distance between Dubai and Bombay is 3,000 miles and between Trivandrum and Bombay, it is 1,000 miles.* If you work it out on a prorated basis, Indian Airlines is charging 124 dollars whereas they are charging 196 dollars. If it has to be on a prorated basis, Indian Airlines will only be happy because they would earn more. Of course, we do not want to charge more as far as our people are concerned. My submission is that it will be more, if it is on the basis of proration."

5.5 On the question of pro-ration the Secretary, Civil Aviation stated during evidence:

"The Ministry has given thought to the matter of proration. Most recently, this issue has been considered by the high powered National Committee of Tourism, which has Air India Managing Director as one of its members.The conclusion arrived at by the National Committee on Tourism, which was headed by Shri Mohd. Yunus and had senior representatives from Government, Civil Aviation, Tourism and Travel Industry, is quoted below:

'Having examined the question of proration of fares on domestic sectors of Indian Airlines, we are of the view that proration has

*At the time of factual verification of the report, Indian Airlines pointed out that the distance between Dubai and Bombay is 1199 miles and between Trivandrum and Bombay it is 783 miles.

little relevance to promotion of tourism, as it is just a method of sharing revenue among various Airlines participating in the carriage of a passenger on a number of sectors against a through fare. In case of India, the domestic sector air fares are mostly used as 'add-on' and separately collected from the passenger. Besides, proration is considered a fair method of sharing revenues amongst the Airlines only when they operate common sectors of similar distances, with similar operating costs and to/from commonly shared markets. Domestic operations are generally short sector operations compared to international operations and have a different cost structure.Therefore, all over the world, the common practice amongst the Airlines is not to prorate on domestic sectors, with the exception of United States. In India, the state of development of commercial aviation at present is such that it is a high cost industry with considerable outgo of foreign exchange in purchase of aircraft, spares, aviation fuel and several other related equipments. Proration on domestic sectors, under such circumstances, will be of no benefit.'

This report is under consideration and certain recommendations of the Committee have been accepted and certain recommendations have already been implemented."

5.6 The view of the National Committee of Tourism that proration is just a method of sharing revenue implies that it does not affect the consumer. When the Committee pointed out that proration has relevance to the actual fare of the passenger, the witness conceded and said:

"If is correct that this has some relation with it. The Indian Airlines insisted that the foreign travellers coming over here should make the payment in dollars for the domestic flights. Now, there is a very small chunk of traffic, which is Indian traffic which is coming from the Gulf. The bulk of the traffic that is coming is foreign traffic and there is no reason why Indian Airlines should lose on that. I would say that in order to safeguard the interests of Indian Airlines foreign exchange and at the same time to look after the interests of the consumers—particularly the labour class I will see that we take this matter up at the Government level and try to get fares of the direct route reduced."

5.7 On being asked whether some of the domestic Airlines of other countries prorated the fares on the domestic component of the international travel and if so, why is it not done by Indian Airlines, Indian Airlines stated in a written reply as follows:

> "With the exception of USA, domestic fares are rarely prorated anywhere else in the world. It is because of different cost structure of domestic and international flights and different nature of operations. For example, Indian Airlines pays about Rs. 6275 per kilo litre for Aviation Turbine Fuel for its domestic services, whereas Air India pays only about Rs. 3,600 per kilo litre for its international services. Also Indian Airlines average sector distance is just about 800 kilometres whereas longhaul international sectors operated by Air India and other international Airlines are generally more than 5000 kilometres. It is established all over the world that cost of operation of short sector flights is much higher compared to longhaul flights. In view of this reason, proration is not considered a fair and equitable method of revenue sharing between domestic and international flights."

5.8 To a query whether applying prorates on the domestic sector fares would not be an effective step to attract more foreign tourists into the country and would be in line with one of Indian Airlines objective of promoting tourism, Indian Airlines stated in a written reply:

> "Indian Airlines is of the view that proration of domestic fares is not relevant to promotion of tourism to India."

5.9 When enquired whether Indian Airlines don't consider that the additional inflow of foreign tourists and the resultant increase in inflow of foreign exchange would more than compensate the likely loss of foreign exchange to Indian Airlines on account of prorating/charging of rupee fare the M.D., Indian Airlines stated during evidence:

> "The difference is almost negligible. Most domestic airlines in the world are not prorating for this reason. Even when two airlines are merged as in the case of Thailand International and Domestic, they have not prorated."

6. Undercutting of fares

6.1 The fare structure of International Air Transport Association (IATA) airlines is decided upon the agreement reached at IATA Traffic Conferences. The machinery and the procedures required to deal with the subject of deciding fares structure is stated to be complex. The task involves reconciliation of multitude of factors such as national policies, economic parametres, tourist revenues, social requirements, technical developments, competitive elements and the individual philosophies of a large number of airlines who are involved in the task. At the IATA Traffic Conferences not only must a consensus be found on fare levels, but agreements must also be reached on several integral elements of the system in order to provide for a workable worldwide network. These include fare construction, currency conversion rates, baggage regulations, agency commission, interline facilities and prorating principles.

6.2 The normal fares which have been so arrived at are subject to fares construction rules which are designed to permit carriers to calculate their own through fares between points which are not governed by the specified fares and at the same time to prevent the undercutting of the specified fare structure either directly or indirectly. These fare construction rules also attempt to ensure that the results are same for all carriers thus eliminating competitive advantage for journeys by different airline between the same pair of points.

6.3 Air India, being a member of IATA, reportedly applies all fares as decided in that body and which have been approved by the Government of India. The only deviation from IATA fares is stated to be the application of the Government of India directed fares and when for competitive reasons Air India has to match the Government directives of other nations. Further, in cases where there is no IATA agreement like the North Atlantic, Air-India matches the fares of the national carriers in order to maintain its own competitive position by filling the fares with the Civil Aviation Authorities concerned.

6.4 The Committee wanted to know whether the fares having so fixed are really adhered to in practice by Air India and other airlines. Air India stated in a written reply that due to the highly competitive nature of the international air market, undercutting of fares is generally prevalent in all regions that Air India operates. When enquired whether in view of the wide prevalent practice of undercuttings the whole exercise of establishing fares does not become meaningless unless the established fares are scrupulously adhered to, Air India stated in a written reply as follows:-

> "Within the IATA framework, the establishment of fares is derived through the machinery of multilateral negotiations and ratification of concerned Governments. This enables the participating carriers to weigh and balance a large number of factors on any given sector which would normally not be available to it outside the IATA forum. The airlines in their negotiations bring to the Conference table their knowledge and expertise of various markets keeping in mind their own economic requirements and thereby arriving at an understanding which is generally a compromise. The fares so established thereafter acts as a base

for all carriers operating on that sector whether they are IATA or non-IATA. This bench-mark is of vital importance to all airlines even when they are undercutting as they require a fare level to undercut from. In an ideal situation, if all airlines adhere to the established fares, the industry would show a remarkable increase in its yields and profitablility.

IATA established fares normally have the approval of most Governments and are therefore easily acceptable for transportation between a number of countries. Furthermore, in the context of interline transportation and the division of revenue between airlines, the established fare is acceptable when shown on the ticket. Absence of such established fares would cause numerous problems to the travelling public especially when interline transportation is involved."

6.5 To a query whether the practice of undercutting is only seasonal or prevalent throughout the year. Air India stated in a written reply:-

"With a view to maximise its revenues and maintain the highest yield possible in a competitive market place, Air-India varies its incentives as per seasonalities and demands. When the demand is excess of the capacity utilised, the incentives are minimised or withdrawn in order to maximise revenues. In other seasons where capacity is in excess of demand, the incentives are varied depending on the shoulder season or lean season to ensure market shares."

6.6 In this connection, the Secretary, Civil Avitation stated during evidence:

"The undercutting relates to supply and demand of the market conditions. In peak period there is virtually no undercutting. In periods where there is greater capacity, undercutting is done. In certain areas as a result of agreement between airlines they are able to arrive at a decision not to undercut each other. But generally these agreements do not last for very long. They operate for a few months and then again the normal market fares come into operation."

6.7 Asked to specify the extent of undercutting in each region during the last three years, a representative of Air India stated in evidence :

"Sir, the percentage of discount varies from route to route and place to place. There is no uniform discount agreed as such."

6.8 From the information furnished by Air India in a written reply it is, however, observed that the percentage discounts given by Air India in economy class excursion and promotional fares ranged between 10% and 20% during the last 3 years.

6.9 Asked how far undercutting of fares has affected the revenue yield of Air India, the Corporation stated in a written reply that though undercutting of fares does have an adverse impact on airline yields, yet its exact impact cannot be separately identified as, other factors e.g. currency rate changes, currency adjustment factors, and fare increases also cause variations in the yield.

6.10 Regarding undercutting of fares the M.D. Air India stated during evidence :

> "If you look at a like to like product, chances are that the fares will not vary. For example, supposing you were to go from here to New York and the competing Airlines are Air India and Pan Am without change of aircraft and with one stop, the fare would be the same. For example, if you go by Kuwait, Airways to New York, you have to go to Kuwait, get off and wait for about six hours, and then get on to another aircraft, and proceed further - wherein a differential is accepted. If you look at all other fares, out of India there is a Board of Airline Representatives which looks into the discounting practices in the Indian market, on a monthly or a weekly basis. Today, the situation in India is that except for those carriers whose products have a disadvantage in carrying passengers, e.g. they carry, beyond their national points - the fares are by and large the same. The only exception to this rule in various other countries is to be found in USA where it is a totally deregulated market and where it is illegal for various trade bodies to discuss the fare. The American system is that any Airline can charge whatever it likes. Even if you discuss it, you may have to go to jail. Even in the United States, the fare tends to stabilise at the lower level. If Pan Am offers a particular discount, Air India has no option. This is the factual position, as far as the fare is concerned."

6.11 The Committee wanted to know what specific factors are responsible for the extent of competition in market place. Air India stated in a written reply :

> "Competition in the market place relates to the product which is offered by each individual carrier. The contributory factors are :—
>
> (i) Seat Capacity
> (ii) Frequency
> (iii) Route pattern including the number of stops on any sector
> (iv) Overall service profile.

Against the above background, carriers place themselves vis-a-vis their pricing policies, as basically the competition could be divided into three tiers. The first level airline would be those who offer direct services on 3rd / 4th freedom basis with a superior track record of service. For example, Swissair between India and Switzerland. The second tier carrier could include those who operate via an intermediate point and therefore the product becomes slightly inferior to the direct operator. For example, Lufthansa between India and London via Frankfurt. The third tier consists of other carriers who do not constitute a major threat as far as competition is concerned and these would include Turkish Airlines and Yugoslavian Airlines.

The national carrier has to equate itself with the competition and decide as to where it would like to place itself vis-a-vis its pricing policies taking into account the various parameters given above."

6.12 Asked about the steps that Air India has taken to eliminate the practice of undercutting and the results achieved therefrom, Air India stated in a written reply as follows :-

"Air-India constantly endeavours to increase its market fares and reduce incentives. Air India is also a member of voluntary bodies such as M.D.P.(Market Development Plan) Singapore, O.A.A. (Orient Airlines Association) Far East and Fair Deal Monitoring Group whose primary function is to meet and decide on the fare levels to be sold on a particular route / sector which are lower than the published IATA fares and also fix tiers of fare levels on the same route / segment directly related to the product of the airlines. Presently, in its efforts of yield improvement, Air India has stopped incentives in the Gulf region (UAE / Bahrain / Doha) and from India region to most destinations. The Yield improvement efforts in the UK and Singapore market although pursued have not yielded satisfactory returns. With the improvement of product in 1987 to Japan and ex-Bangkok, market fare levels were raised in these areas and a number of steps taken to reduce incentives.

A sharp decline in Australian fares to Europe and UK during 1986 was arrested and the situation stabilised in 1987 with an improvement in fare levels to Europe, UK and India . The fares ex-India were brought to the published fare levels as decided by the BAR Council. Similarly, on account of Pan Am's activities in the USA market, a decline in fare levels in USA during early 1987 was experienced which was reversed by modification of the incentive package leading to considerable yield improvement during the current year."

6.13 On the question of eliminating the practice of undercutting, the Civil Aviation Secretary stated during evidence:

> "Our view is that undercutting is something that is a part of the system and despite our best efforts it is not possible to do away with it because it is not a unilateral action—so many parties are involved and the market conditions, capacity of the airlines, all these factors are responsible for undercutting."

6.14 The Committee on Public Undertakings (1987-88) in their 24th Report on Air India - Agency System and Passenger Services had expressed their concern as to why Government have not so far considered the need for having a legislation to prohibit undercutting of approved fares and to be ban appointment of non-airline parties as GSAs within our and to ban appointment of non-airline parties as GSAs within our Improvement Programme and to eliminate unethical practices and also to obviate unhealthy competition among airlines. No final reply in this regard has been furnished by the Ministry so far.

6.15 To a query whether it is not desirable to take any fresh initiative at the Government level to prevent the malady of undercutting of approved fares and if so, what would the Ministry suggest in this regard, the Ministry of Civil Aviation stated in a written reply:

> "The Government is considering establishment of a Tariff Enforcement Directorate under D.G.C.A. to enforce the already agreed tariffs and to prevent undercutting of fares."

6.16 When pointed out the possibility of agents retaining a part of the discount offered by Airlines, a representative of Air India stated during evidence :

> "In most of the routes, we reward the agent for doing business to us. How much of that discount the agent passes to the passenger again depends on the market. For example, in a market where the passenger knows that he gets this much discount, he will insist from the agent that he gets part of it or otherwise, he would not go to that agent."

6.17 The Managing Director, Air India also added in this connection :

> "If he (agent) does not pass on that discount to the clients, his own position becomes uncompetitive. Nobody is going to buy a ticket from an agent who is selling even Rs. 50/- more than the other fellow. They will have to pass on the discount that Air India gives them in terms of reduced fares, commissions and market discount as given by the Airlines......... If some agent indulges in

> malpractices by not passing on the discount to the customer, then this is a wrong practice. Air India tries to initiate action by not giving them ticket or by blacklisting them."

6.18 On being pointed out that there are chances of Air India officials colluding with agents in indulging in malpractices, the witness stated:

> "As you know, in almost all transactions of business activity, there will be a black sheep who will indulge in such malpractices. It is for this reason that there is full time senior vigilance Director in the company who keeps an eye on such practices at the State level and at the headquarters' level to see that such practices do not take place. But there are not only in the Air India but in all the airlines where there is an element of discretion, one hopes there will be honest people but if such practices do exist, one has to identify such malpractices and take punitive action."

6.19 Explaining the procedure followed for determining discount, a representative of Air India said:

> "In the beginning of each year, the Station will assess the need for giving discount. That proposal of the Station will first be vetted by the Regional Director. You know, Air India's entire network is broken down to various regions. Most of the European network of Air India is controlled by the Regional Director, Central Europe, which is based in Geneva. He and his associates will look at the proposals of say, Frankfurt, Paris, Rome, etc. He will compare the proposals and will make his recommendations to the Commercial Director. Once these recommendations are received in the Office, they are vetted by the Commercial Director (Sales) and then the final approval is given. Once the approval is given there is a Station Committee which makes sure that what is approved and what is applied are matching. If there are any malpractices, they are reported. Each Station Committee has the Station Manager and the Accounts Manager also as its members. They examine the books and all that. In our Central Accounts, there is an independent cell which looks at all the books and the returns of discount submitted by Stations. In case of any discrepency, they again report it back to the Headquarters, that is, to my office, and we take it up with the Stations. So basically that is the procedure that we follow."

6.20 Enquired as to how malpractice, if any, could be detected, the witness explained:

"We have a station Accountant at each station. He is not from the Commercial Department, he is from the Finance Department. There is a statement prepared each month of the tickets issued, the fare charged and the discount given. The Station Accountant goes through all those things and if he finds a discrepency, he will bring it to our notice. But each discount given against the published figure must be matched with the figures given in the books because the money will not tally and the Station Accountant's job is to make sure that such discounts are not given."

6.21 When pointed out that the procedure of undercutting should not be encouraged by Air India, the M.D. Air India, explained :

"It is basically a retaliatory measure against every competitor or against every airlines who are lowering their fares to take away our business. We do not wish to get into a price war on this particular aspect because basically the Airlines of our country belongs to our Government. It is a national carrier. These measures will eventually hit the Airlines' future. One of the reasons why Air-India is losing is exactly because of indiscriminate discount given. We would like to sell it at the regulated fares. But, sometimes, the Airlines have to resort to this sort of practice on a temporary basis, on a seasonal basis in order to protect their own market."

6.22 Asked whether as a result of wide prevalent practice of undercutting of fares, Air India was facing any disadvantage on account of its being a member of IATA, Air India stated in a note submitted after evidence:

"The fares and rates agreed through IATA Multilateral Tariff negotiating machinery does not in any way place Air India at a disadvantage in the markets worldwide. In the past, there was an IATA Compliance Machinery which used to take punitive action against IATA Memebers for violation of IATA fares, rates and regulations. With the advent of deregulation, this compliance machinery became ineffective and has now been abolished altogether. This benefit which non-IATA carriers had of being free to operate in the market is therefore no longer available to them and IATA carriers are therefore on the same competitive terms as non-IATA carriers."

6.23 Enquired whether being a member of IATA is commercially beneficial for Air India, the M.D. Air-India stated in evidence:

"IATA is a composition formed out of the revenues or investment given by various carriers and it is a body which has been created to provide a service, that is, provide a cleaning house as far as different airlines are concerned, it has various technical committees, it has various training programmes; it provides service to airlines that wish to buy. The members of IATA obviously get a preferential tariff and preferential treatment service vis-a-vis those airlines who are not members of IATA. And therefore it is our opinion, it is a judgement on the part of the airline that in the larger context it is more economical and beneficial for the Airline to remain a member of IATA."

6.24 A representative of Air India explained further in this regard:

"IATA just does not established fare; it does many other things. For example, today, when you buy a ticket, you will find that all the tickets are uniform; whether you buy from Air India or Singapore. Today if you buy a ticket from Air India, you can go to all the corners of the world because every airline will accept the ticket, which is a standard ticket, which has been generated by IATA. The methods of sharing the revenue already has been evolved by IATA. There is a clearing House established by IATA."

6.25 In this connection, a representatives of the Ministry of Civil Aviation also explained:

"IATA is not only a fare regulating forum but it is also a body through which all the financial transactions between all the airlines is done. It is sort of clearing house. This is one distinct advantage. Further it is also a forum where lot of commercial information is available. In addition to fare and commercial matters of late IATA has also taken interest in technical and safety and security matters."

6.26 Explaining the benefits received from IATA Air India stated in a written reply as follows:

"In the case of Tariff Coordination, the benefits cannot be measured in absolute terms and neither can a cost benefit analysis be quantified. However, the benefits that Air India receives through negotiations at the Multilateral forum on fares and rates has a tremendous impact on our revenue. The basic fare and rate structure followed by almost all airlines and Tariff publishers is that agreed at the IATA forum."

6.27 Air India has also stated in this regard that in terms of quantitative benefits, the cost of the non-IATA carrier under Trade Association when added to the loss of revenue for not being a Tariff Coordinating, Member is more than off-set the Membership costs. To this quantitative analysis could be added all the indirect and direct benefits of IATA Membership.

6.28 Quantifying the cost and benefits of being a member of IATA, Air India in a written note has stated, *inter-alia*, as follows:

> "As far as monetary obligations are concerned, there is a membership cost which an airline has to pay which is related to the mileage it covers on its routes. In the case of Air India the estimated membership cost for 1988 is Rs. 60,76,000/-.
>
> In order to quantify some of the benefits in the case of Air India, the estimated value of services it receives from IATA directly are in the region of Rs. 39,35,000. The benefits received which cannot be directly quantified run into crores of Rupees.................The activities and services provided by IATA would require tremendous amount of resources for an airline to evolve the same on its own even if it was able to do so. Air India does not have these sort of resources and the cost benefit analysis tilts the balance firmly in favour of Air-India's Membership."

6.29 Enquired whether there had been any periodic review of the advantages that accrue to Air India by being a member of IATA, a representative of Air India stated during evidence:

> "There was a review when Mr. Kuka was our Commercial Director and Mr. Tata was the Chairman. That review indicated that there was no specific benefit which will come to us by being outside the IATA and there were benefits being in the IATA."

7. *Miscellaneous*

7.1 Air India operated 13 passenger routes and five freighter routes during 1986-88. These are India-USA, India-UK, India-Continent, India-Japan, India-Australia, India-Gulf, India-USSR, India-Singapore, India-

East Africa, India-West Africa, India-Zimbabwe, India-Hongkong and India-Bangladesh. The freighter routes are India-Japan(FR), India-USA(FR) India-Europe(FR), India-UK(FR) and India-Zurich(FR).

7.2 The Committee observed from the information furnished by Air India that out of the 13 passenger routes operated by Air India, only three routes earned operating profits during the last two years. The routes earning operating profits in 1986-87 were India-Gulf (Rs. 64.46 crores), India-USSR (Rs. 2.89 crores) and India-Continent (Rs. 0.87 Cr.). In 1987-88 the routes that earned operating profits were India-Gulf (Rs. 43.29 Cr.) India-USSR (Rs. 3.75 Cr.) and India-Japan (Rs. 3.30 Cr.).

7.3 The Committee on Public Undertakings in their 14th Report on Air India (1986-87) had observed that out of 16 routes of passenger services operated by Air-India 13 had been incurring operating losses during 1979-84. Asked about the routewisee profit/loss of Air India during the last two years, the M.D. Air India stated in evidence:—

> "The position is not very different from what obtained even for the earlier years, except for the first time, the Japan route started making profit. A year before, Europe route also broke the even point. This is a matter of strategy. Air India has gone into loss in the year 1987-88. The Corporation has been dependent on the Gulf profitability for many many years. In all other routes we had loss. For the last two years, the Gulf itself is under pressure. There is not enough money for construction of industry etc. in the Gulf countries and the Gulf profitability has started coming down. For the last three years, the profit (in Gulf route) has declined from Rs.100 crores to Rs.40 crores, with the result this Rs.60 crores could not be made up in any other route."

7.4 Air India has also stated in this connection, in a written reply as follows:—

> "In addition to the profits earned on the India/Gulf route, the following routes have also registered operating profits during these years: India/USSR, India/UK freighter, India/Zurich freighter and India/Japan freighter. With the delinking of Hongkong from the Japan route, the economies of this route have shown a remarkable improvement. Routes which have shown a substantial improvement in cash surpluses include the India/UK, India/Australia, India/Singapore and India/E. Africa routes. The financial results on the India/USA, India/UK, India/Cont., India/Australia, India/Singapore and the India/USA and Europe freighter have been unsatisfactory as these routes have incurred operating losses in 1987/88 compared to the previous year.

In an endeavour to improve the Corporation's overall profitability, during the latter half of 1987/88, AI withdrew its operations on several routes which did not hold adequate potential and were proving uneconomical. These included AI's operations to Dar-es-Salaam, Harare, Lagos and Dhaka. During the year 1988/89 various measures are being undertaken to improve the overall economics of route operations, primarily by providing a vastly improved product with the introduction of non-stop operations."

7.5 Regarding the steps taken to improve Air India's overall financial performance, Air India stated in a written reply as follows:

(i) Improvement in yields, increase in business and first class traffic through improved product and intensified marketing activities.

(ii) Imparting training to officers at all levels to enhance customer awareness and improve service standards;

(iii) Computerisation over the next one year—linking agents with AI's Reservations Systems, enhancement of automated airport check-in, introduction of automated baggage labelling and boarding pass to speed up passenger handling and improve on-time departure of flights;

(iv) Improved servicing in cargo areas, increased marketing and sales efforts, and computerisation of cargo services; and

(v) Enhancement of the image of AI through improved quality of service both on the ground and in the air and promotion of these aspects through advertising and other promotional activities.

7.6 According to the information furnished by the Ministry of Civil Aviation, the total compensation paid by Air India to foreign airlines was Rs.25 lakhs in 1985-86 and Rs.29 lakhs in 1986-87 and Rs.11 lakhs in 1987-88. As against these the compensation paid by foreign airlines to Air India was Rs.534 lakhs in 1985-86 and Rs.855 lakhs in 1986-87 and Rs.900 lakhs in 1987-88. It may thus be noted that the net amount of compensation received by Air India which has constituted the unearned income of Air India was Rs. 5.09 crores in 1985-86 Rs. 8.26 crores in 1986-87 and Rs.8.89 crores in 1987-88.

7.7 Referring to the compensation amount received by Air India, the Secretary, Civil Aviation stated during evidence:

"When their (Air India) profitability is worked out a substantial part would come from an unearned income."

7.8 The CPU (1986-87) in their 14th Report had observed that Air India's share of the world-wide industry's scheduled international traffic has come down from 2.03% in 1980 to 1.92% in 1984. Asked about the present position in this regard. Air India stated in a written reply that Air India's share of total traffic accounted for 1.64% in 1985, 1.63% in 1986 and 1.68% in 1987 of world-wide traffic carried by all IATA airlines combined on scheduled international services.

7.9 Explaining the reasons for further decline in the share of international traffic, Air India stated in a written reply as follows:

> "In 1985 Air India suffered a 10.5% *decline* in traffic arising from the loss of one of its B747 aircraft, "Kanishka", in June 1985. As it was not possible to immediately replace this capacity, Air India was constrained both by a net reduction in its capacity offered as well as by the after-effects on its traffic media exposure to this incident, the new security measures introduced, etc.
>
> There was no significant change in market share in 1986.
>
> The year 1987 witnessed record growth in traffic of 16.4% which exceeded the already high growth (13.6%) recorded by the Industry. The additional capacity available to Air India in 1987 - from the induction in July 1987 of a B747 replacement for the loss of "Kanishka" - and the fact that 1987 marked the first full year of Air India's operations with its fleet of six A310-300 aircraft - as well as marketing initiatives - account for Air India's high traffic growth rate."

7.10 The Ministry of Civil Aviation have also stated in this regard:

> "The traffic carried by an airline is in the relation to the capacity it offers. Whereas from 1980 to 1987 the industry increased its capacity in terms of ATKM by 41% Air India's Increase in ATKM was only 33%. Thus Air India's increase in capacity did not keep pace with the industry's increase in capacity and as direct consequence of this Air India's share of the market also did not keep up with the industry."

7.11 Air India informed in a written reply that the total number of international passengers carried to / from India in 1985 / 86 were 5,022,013 and in 1986 / 87 4,783,312. During these two years, the percentage share of

Air India, the respective national carriers and the other foreign carriers participating in the international air market was as follows:

	Percentage share 1986-87	1985-86
Air India	30.0	26.6
National Carriers	57.9	52.5
Other Carriers	12.1	20.9
Total	100.0	100.0

7.12 Explaining the reason for low share of Air India in international traffic, the Managing Director, Air India stated in evidence:

"The reason is lack of growth and capacity. Whereas we have remained stagnant in the last ten years, other airlines have grown tremendously."

7.13 Asked whether Air India has information about the market share of foreign airlines in their own country Air India stated in a written reply:

"We do not have information about the market shares of the foreign airlines in their own country. This type of information is normally available only with the Aviation authorities and the national carriers of each country and is not divulged for general or industry use."

PART—II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

The Committee find that the only route that has been consistently earning profits for Air India during the past many years is India-Gulf route. Ten out of thirteen routes operated by Air India during the last two years have incurred operating losses. India-Gulf route made a profit of Rs. 64 crores in 1986-87 and Rs. 43 crores in 1987-88 while the Corporation as a whole incurred a net loss of Rs. 43.41 crores in 1987-88. This justifiably raises a question whether the fares charged on India-Gulf route are reasonable particularly in view of the fact that most of the passengers travelling on this route are Indian labourers working in Gulf countries. The Committee cannot but feel that Air India is overcharging in this sector to make up their losses in other routes. The Committee's examination of fare aspect of Air India has revealed that though there have been reasonable grounds for establishing a lower fare on the introduction of a direct service on Gulf-Trivandrum sector, no serious attempt has been made to restructure the fare on this sector. As a result, the fare on this sector continues to be charged by combination of two sector fares i.e. from Gulf States to Bombay with add on by Indian Airlines for the sector Bombay-Trivandrum. Considering the fact that it was poor labourers who have been deprived all these years of the relief that should have been provided on introduction of direct service on this sector, the Committee cannot but express their regret on the indifferent attitude on the part of Air India/Government in this regard. The Committee feel that there is need for taking immediate steps to establish a lower fare on the direct service in the light of the recommendations contained in this report.

2. Although Air India commenced in 1978 direct services between points in Gulf and Trivandrum with resultant reduction in distance flown and operating cost, Air India continues to charge the same fare which was applicable to the circuitous route via Bombay. For instance, the reduction in distance on the direct route Abu Dhabi-Trivandrum is stated to be 173 miles and the savings in costs is reported to be about Rs. 250 to Rs. 300 per passenger in each direction. The fuel consumption on landing and taking off a flight is quite substantial. The savings to Air India by having direct flights to Trivandrum without landing at Bombay should, therefore, be quite large. In this connection, the Committee have observed that when Air India established direct services betweeen India-Moscow, India-Mauritius and Amritsar-Birmingham, the airline did establish fare applicable to travel on the direct services which gave a substantial relief to the passengers. The Committee fail to understand why this principle has not been followed in the case of Gulf-Trivandrum sector especially when the passengers likely to be benefited by such step are the poor Indian labourers.

3. One reason advanced for not establishing a lower fare on direct services on Gulf-Trivandrum sector is the current IATA rule on the subject which permits a deviation in mileage at the same fare level upto a maximum of 15%. It has been indicated that reduction in distance for a direct operation Abu Dhabi-Trivandrum versus that via Bombay is only 9% which is within the permissible deviation limit. The Committee are not convinced of this explanation. They note that in respect of direct operation on Birmingham-Amritsar sector, a lower fare was established even when the percentage reduction in distance was only 11% which is obviously well within the IATA permissible deviation. The Committee would, therefore, urge the Ministry of Civil Aviation to take immediate steps to revise the fare on Gulf-Trivandrum as soon as possible.

4. An analysis of capacity offered by Air India during the last eight years reveals that the rate of increase in capacity on Gulf sector has been well below 10% since 1982 as against 32% increase in 1981. The capacity in 1985 and 1986 in fact declined sharply by 5.6% and 3.9% respectively and the position improved only in 1987 by 10.6%. The profit earned by the Corporation on this route has also steadily been declining to touch the level of Rs. 43 crores in 1987-88 as against the profit of Rs. 99 crores earned in 1984-85. Though the decline in profit in 1987-88 is attributed to drop in yield on account of competition and resultant undercutting of fares, the Committee feel that irrational fare level on the direct service on Gulf-Trivandrum sector is also an important factor responsible for the present state of affairs. It is a known fact that a large number of Gulf passengers bound for Trivandrum instead of taking Air India's direct flight to Trivandrum travel by other airlines taking circuitous route via Colombo which is cheaper. Air India is thus losing considerable traffic on account of high fare level in the Gulf-Trivandrum sector. This again underlines the need for restructuring fare level on Gulf-Trivandrum sector.

5. According to Ranadive Committee, Air India has a practice of common-rating points even if they are not equi-distant from the points with which they are common-rated. The Committee in this connetion note that the fares between gateway points in India such as Bombay and Delhi on the one hand and certain points in Europe such as Paris/Frankfurt/Amsterdam or London or New York/Montreal are the same irrespective of the distance. The fares from Bombay and Delhi to four points in the UAE, namely, Abu Dhabi, Dubai, Ras-al-Khaima and Sharjah have also been common-rated. The Committee, however, regret to find that the question of common-rating Bombay and Trivandrum *vis-a-vis* the points in the Gulf has into been examined by the Ministry so far inspite of the fact that this has been recommended by the Ranadive Committee as early as in 1984. The Committee desire that the Government should immediately undertake examination of this question and take steps to effect common-rating Bombay and Trivandrum *vis-a-vis* the points in the Gulf, if such action is likely to

result in providing more relief to passengers. Incidentally, the Committee would also like to be apprised of the considerations which led to common-rating of Abu Dhabi, Dubai, Ras-al-Khaima and Sharjah *vis-a-vis* Bombay and Delhi.

6. As for lowering the fare level on Gulf-Trivandrum direct operations, the Secretary of the Ministry of Civil Aviation informed the Committee during evidence: "On the face of it, it appears to be quite reasonable..........We would certainly like this to be considered favourably." He also assured the Committee that the matter will be taken up at the Government level. Considering that there has already been a long delay in re-structuring the fare level, the Committee recommend that Government take up this matter with the concerned Governments at the appropriate level expeditiously and effect reduction in the fare on the direct services between Gulf countries and Trivandrum.

7. The Committee find that there has been wide directional imbalances between fares from and to India when expressed in terms of local currency viz. Rupee, although the IATA established fares as are applicable in both directions are exactly the same in what is termed as basic currency of US dollar or UK pounds. The directional imbalances, according to the working Paper prepared by Ranadive Committee, arise due to fluctuations in the exchange rates and the currency conversion factors not being able to keep pace with frequent fluctuations in the values of the currencies. The currency conversion factor is supposed to take care of the variations in the exchange rate. The Committee observe that currency conversion factor, however, may not be established at all for travel to a country or it may be established at different levels for travel to different countries. For instance, there is reportedly no currency conversion factor in respect of Abu Dhabi Dirham for travel from the UAE to India. The Committee are not clear as to what exactly are the reasons for non-establishment of currency conversion factor by IATA in this and other cases. The Committee would like to be apprised of ths same.

8. The currency conversion factor applicable to Indian rupee for travel from India to certain countries is stated to be 1.25. This currency conversion factor has, however, not been revised since it was established in 1979. Though, according to the Ministry of Civil Aviation, it would have been more appropriate to take increases in currency factor on a regular basis, regretably this was not done in the past. It appears that only after the matter was taken up by the Committee, action was initiated to revise the currency factor effective September 1, 1988. Though, as a result, the directional imbalance between fares to and from India has been reduced, the imbalance nevertheless remains to a considerable extent. The Committee have also been informed that frequent increase in the currency factor would

result in greater cost to the Indian traveller. The Secretary, Ministry of Tourism and Civil Aviation also informed the Committee, "although this currency revision has been done, I am not sure whether this is really to our advantage." From the above versions, the Committee find that the Government's thinking is not very clear on this issue. They therefore, desire that the question of directional fare differences should be critically gone into in depth by Government with a view to taking appropriate action. The Committee would like to be informed of the action taken in this regard.

9. Air India being a member of International Air Transport Association (IATA) applies all fares as decided in that body and which have been approved by the Government of India. Within the IATA framework, the establishment of fares is derived through the machinery of multilateral negotiations. The task involves reconciliation of a multitude of factors such as national policies, economic parameters, tourist revenues, social requirements, technical developments, competitive elements and the individual philosophies of a large number of airlines who are involved in the task. The Committee regret to note that having so established fares, they are not strictly adhered to in practice. Undercutting of fares is generally prevalent in all regions where Air India operates. As admitted by the Managing Director, Air India, one of the reasons why Air India is losing is because of indiscriminate undercutting of fares. The Committee as already recommended in their 40th Report (1987-88) are of the view that a workable solution could be found to overcome the malady of undercutting of fares provided the matter is taken up appropriately in the various International forums including International Civil Aviation Organisation and IATA to muster their support with a view to taking effective action.

10. The Committee in their 24th Report (1986-87) on Air India had observed that they are at a loss to understand why Government have not so far considered the need for having a legislation to prohibit undercutting of approved fares and to ban appointment of non-airline parties as GSAs within our country. The Committee regret to point out that no final reply has been furnished by Government on this recommendation so far. However, the Committee have now been informed that they are considering establishment of a Tariff Enforcement Directorate under DGCA to enforce already agreed tariffs and to prevent undercutting of fares. The Committee would like to be informed as to when the proposed directorate would be established and what modalities would be observed by this Directorate to ensure actual implementation of established fares.

11. The Committee have been informed that the pricing policy of airlines varies according to nature of the product. According to the Managing Director of Air India a discount in fare is accepted if the product is inferior. The Committee are at a loss to understand why nature of the product should not be taken into consideration at the time of determining fares so that different fares are established depending upon the quality of product.

The Committee hope that this will eliminate unofficial discount being offered for inferior product. The Committee desire that Air India should take up this matter at the IATA Traffic Conferences for establishing fares taking into account product variation.

12. The Committee have already dealt with in their 24th Report (1986-87) the question of malpractices resulting on account of undercutting of fares. The Committee would like to emphasise that the procedure laid down by Air India for determination of the rate of discount, if at all to be given, should be strictly followed at all levels in order to avoid malpractices. The Committee would suggest in this connection that Vigilance Department of Air India should undertake frequent surprise checks and use innovative methods for detecting cases of malpractices and irregularities without waiting for Accounts Department to report such cases on the basis of accounts.

13. According to Air India, with the advent of deregulation and abolition of IATA compliance machinery it does not face any disadvantage in the markets world wide on account of being a member of IATA and is on the same competitive terms as non-IATA carriers. The estimated cost of Air India's membership in IATA for 1988 is stated to be Rs. 60.76 lakhs. The value of services received from IATA directly, however, are reported to be only about Rs. 39.35 lakhs. It has been stated that the benefits received which cannot be directly quantified, run into crores of rupees. The Committee feel that Air India should make effective use of all services provided by IATA with a view to maximising its benefits to be derived from IATA. Since Air India's reply with regard to benefits derived from its remaining a member of IATA is not specific and the review of the advantages that accrue to Air India by remaining a member of IATA was undertaken long time back, the Committee desire that a fresh review of cost benefit analysis of its being a member of IATA should immediately be undertaken and Committee apprised of the result of review.

14. The Committee on Public Undertakings in their 14th Report (1986-87) had observed that 13 out of 16 routes of passenger serivces operated by Air India had incurred operating losses during 1979-84. The Committee regret to find that Air India's route-wise performance has since not improved. Out of the 13 passenger routes operated by Air India in 1987-88 only three routes have earned profit and all the rest have incurred operating losses. Air India has incurred an overall loss of Rs. 43.41 crores in 1987-88 and Rs. 6.30 crores during April-July 1988 inspite of the cushion provided by substantial unearned income acquired from royalty compensation from other airlines. The net amount of compensation recieved by Air India during 1987-88 was to the tune of Rs. 8.89 crores. The Committee note that in an endeavour to improve the Corporation's overall profitability, Air

India has withdrawn its operations to Dar-es-Salaam, Harare, Lagos and Dhaka, and is taking various measures by providing vastly improved product with the introduction of non-stop operations and by intensifying its marketing activities. The Committee desire that no effort should be spared to improve the performance of Air India in all its routes in a time bound framework.

15. The Committee on Public Undertakings in their 14th Report (1986-87) had observed that Air India's share of world-wide industry's scheduled international traffic has come down from 2.03% in 1980 to 1.92% in 1984. The Committee are distressed to find that Air India's achievements in this ragard has further deteriorated in the succeeding years. Air India's share of international traffic was just 1.64% in 1985, 1.63% in 1986 and 1.68% in 1987. According to the Ministry of Civil Aviation and Tourism Air India's increase in capacity did not keep pace with the industry's increase in capacity. Whereas from 1980 to 1987 the industry increased its capacity in terms of ATKM (Available Tonne kilometers) by 41%, Air India's increase in ATKM was only 33%. The Committee hope that Air India will take all possible steps to achieve its objective of maintaining and improving its rightful place in the international air transport industry.

NEW DELHI;
21 February, 1989

Phalguna 2, 1910(Saka)

VAKKOM PURUSHOTHAMAN
Chairman,
Committee on Public Undertakings.