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AIR INDIA — FARE ASPECT

(MINISTRY OF CIVIL AVIATION)

COMMITTEE ON PUBLIC UNDERTAKINGS 1990-91

SECOND REPORT

NINTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

SECOND REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
(1990-91)

(NINTH LOK SABHA)

AIR INDIA — FARE ASPECT

(Ministry of Civil Aviation)

[Action Taken by the Government on the recommendations contained in the 51st Report of Committee on Public Undertakings (Eighth Lok Sabha)]

Presented to Lok Sabha on 27 Aug.

Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 2nd Report on Action Taken by the Government on the recommendations contained in the 51st Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Air India — Fare aspect.

2. The 51st Report of the Committee on Public Undertakings was presented to Lok Sabha on 23rd February, 1989. Replies of the Government to all the recommendations contained in the Report were received on 21 September, 1989. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 12 June, 1990.

3. An analysis of the action taken by the Government on the recommendations contained in the 51st Report (1988-89) of the Committee is given in Appendix-II.

NEW DELHI:
23 July, 1990

Sravana 1, 1912 (*Saka*)

BASUDEB ACHARIA
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Fifty-first Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Air India—Fare aspect which was presented to Lok Sabha on 23rd February, 1989.

2. Action taken replies have been received from the Government in respect of all the 15 recommendations contained in the Report. These have been categorised as follows:

i) Recommendations/Observations that have been accepted by the Government:

Sl. Nos. 1, 2, 3, 5, 6, 12, 13, 14 and 15.

ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Sl Nos. 4, 7 and 8.

iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Sl. Nos. 9. 10 and 11

iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:

-NIL

3. The Committee will now deal with the action taken by the Government on some of their recommendations.

A. *Reduction in fare on the direct service between Gulf and Trivandrum*

Recommendations Sl. Nos. 1, 3 and 6 (Paragraphs 1, 3 and 6, Part II)

4. The Committee's examination of fare aspect of Air India revealed that though there had been reasonable grounds for establishing a lower fare on the introduction of a direct service on Gulf-Trivandrum sector, no serious attempt had been made to restructure the fare on this sector. As a result, the fare on this sector continued 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 had been deprived all these years of the relief that should have been provided on introduction of direct service on this sector, the committee stressed that there is need for taking immediate steps to establish a lower fare on the direct service. The Committee recommended that Government should 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.

5. The Government have stated in thier reply that although efforts have been made in the past in the forum of IATA to reduce fares on Gulf-Trivandrum sector, Air India have not succeeded primarily due to the fact that the international carriers operating to and from India are concerned about prorate losses as they do not operate to Trivandrum. It has been stated that this matter has now been taken up at the appropriate level with the concerned Governments.

Nevertheless, at the last relevant Passenger Tariff Coordination Conference in November, 1988 Air India have reportedly succeeded in specifving fares between Middle East and Trivandrum, as a result of which, since July 1, 1989 on the introduction of new currency system, fares between the Gulf and Trivandrum will not be constructed over Bombay but will be a specified fare. Air India, after lengthy negotiations with the Middle East carriers have reportedly succeeded in specifying fares between the Middle East and Trivandrum at the levels prevailing prior to July, 1989. With the introduction of the new currency system from July 1, 1989 the Trivandrum-Dubai oneway economy fare would have become INR 5920. But it has been kept as INR 4454, as a result of which a saving of Rs. 873 which is nearly 20% has been effected.

6. Though it has been stated that the fares between the Gulf and Trivandrum have been specified on the introduction of new currency system since July 1, 1989, it is not clear whether the fares so specified are lower than the fares constructed over Bombay i.e. by combination of two sector fares from Gulf states to Bombay with add on by Indian Airlines for the sector Bombay-Trivandrum. The Committee would like to be informed of the same. The Committee would also like to know the outcome of efforts made by the Government in consultation with the Governments of concerned countries/carriers to bring down the fare on the direct services between Gulf and Trivandrum.

The Committee also note that while replying to a Starred Question No. 206 in Lok Sabha on 27 March, 1990, the Minister of Civil Aviation agreed to constitute a departmental Committee to go into the question of rationalising the fare on the Trivandrum Gulf sector. The Committee would like to know whether the proposed Committee has since been constituted and, if so, the outcome of their examination and the action taken thereon.

B. Undercutting of Fares

Recommendation Sl. No. 9 (Paragraph 9, Part II)

7. The Committee had noted that undercutting of fares is generally prevalent in all regions where Air India operates and that one of the reasons why Air India was losing was because of indiscriminate undercutting of fares. The Committee, therefore, reiterated their earlier view expressed in their 40th Report (1987-88) 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.

8. Government have stated in their reply that both ICAO and IATA have been concerned about international air tariff malpractices. Whilst IATA had a compliance machinery within the Organisation but somehow it could not work satisfactorily and IATA have done away with it. ICAO's work has mostly been indirect through the Fares and Rates Panel under the Air Transport Division. It is mostly in the shape of guidance of States.

It has been further stated that realising the salutary effects of stabilising the fares and improving yields, there have been Yield Improvement Programme (YIP) at local levels on parallel sectors, and carriers do get together to try and adhere to the filed fare levels as far as possible. In so far as India is concerned, it has been stated that BAR(Board of Airline Representatives) India under the Chairmanship of Air India has steered a go-clean compaign and it has yielded satisfactory results. As far as the Gulf is concerned, the Gulf Cooperation Council States comprising of UAE, Bahrain, Qatar and Oman along with Air India have reportedly established a Yield Improvement Programme which is functioning satisfactorily and the yield levels are fairly stable.

9. The Government's reply is silent as to whether any fresh initiative was taken by Govt. in the international forums to curb international air traffic malpractices. Notwithstanding the Yield Improvement Programmes established in India and some States in Gulf undercutting of fares was reported to be generally prevalent in all regions that Air India operates. Incidentally, Govt. have also stated elsewhere in reply to a recommendation in this report that the loss to Air India of traffic meant for Trivandrum over other points like Colombo is due to unethical practices of some carriers. The Committee would like the Govt. to take effective measures to curb the evil of undercutting of fares, prevailing especially in the regions where our national carriers operate and apprise the Committee of action taken in this regard.

C Legislation to prohibit undercutting of approved fares and establishment of a Tariff Enforcement Directorate

Recommendation Sl. No. 10 (Paragraph 10, Part II)

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 the country. The Committee regretted to point out that no final reply had been furnished by Government on this recommendation till then. However, the Committee were informed that Govt. was considering establishment of a Tariff Enforcement Directorate under DGCA to enforce already agreed tariffs and to prevent undercutting of fares. The

Committee desired 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. Govt. have stated in their reply that following modalities will be adopted for the efficient functioning of the proposed directorate of Tariffs and Enforcement:

(a) Spot investigations by surprise checks/visits to airline ticketing offices, travel agents, airport check in desks, loading ramps, cargo handling units and allied operating positions to detect malpractices in tariffs, traffic rights and noncompliance of terms and conditions of various permits issued to airlines and other air transport operators;

(b) Collection and examination of evidence during spot checks;

(c) Followup through administrative action;

(d) Followup through legal proceedings if necessary for conviction in a court of law.

12. The Committee cannot but express their dismay over the irresponsiveness of the Govt. in furnishing a reply to the recommendation made by the Committee as long back as in April 1987. The Government have not cared to reply even now as to why they 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 require that Government should intimate the action taken on this recommendation within three months from the date of presentation of this report.

13. The Government's reply is also silent on the proposed establishment of the Directorate of Tariffs and Enforcement to enforce already agreed tariffs and to prevent undercutting of fares. The Committee desire to be informed of the final dicision taken in this regard, at the earliest.

D. Product variation as a determinant factor in the fare level

Recommendation Sl. No. 11 (Paragraph 11, Part II)

14. The Committee had been informed that the pricing policy of airlines varies according to nature of the product. The Managing Director of Air India had deposed that a discount in fare is accepted if the product is inferior. The Committee were 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 hoped that this would eliminate unofficial discount being offered for inferior product and desired that Air India should take up this matter at the IATA Traffic Conferences for establishing fares taking into account product variation.

15. The Government have stated in their reply that the policies and procedures followed under the IATA framework are such that all Member airlines are considered equal and no consideration is given to the nature of the product. This is so as it is considered to be very vital for the functioning of IATA as each airline has absolute vote within IATA Conference and a negative vote can hold up an entire agreement if it is not in the interest of an airline. Differential pricing within IATA is considered a taboo. Airlines at all times continue to strive to upgrade their product in terms of services, aircraft, routing etc. to suit market needs. Therefore, it has been stated that flexibility in price is best left to be determined by market forces rather than to be determined by IATA forum.

16. The Committee are unable to appreciate Government's reply. The Committee feel that if the scope for undercutting of fare is to be completely eliminated, product variation needs to be counted as a factor in determining fare levels. The Committee would, therefore, urge that Air India should make an attempt in the IATA forum to carry conviction and to get the fare construction Rules suitably-amended to make provision for differential fare levels on account of product variations.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl. No. 1 (Paragraph No. 1)

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.

Reply of the Government

The profitability of flight operations is dependent on among others, the level of revenue, volume of traffic and level of operating costs. The major reason for the profitability of Air India's Gulf route is the low level of operating costs on this route, as also a high volume of traffic prevalent in the market between India and the Gulf Region. The costs of operation on the India/Gulf route are low because of factors like the fuel costs, which forms 17.8% of the operating costs on the Gulf route, as compared to 23.0% on the India/USA route and 19.7% on the India/Europe route. The establishment costs of Air India in the Gulf Region are also low because sales and marketing activity is undertaken through Air India's

General Sales Agents, which is less expensive than if Air India were to undertake this activity by appointing its own staff. It is for these reasons that the overall cost structure on Air India flights to the Gulf is at a lower level when compared to the cost structure on the other routes.

It needs to be re-emphasized that the fares between Trivandrum and the Gulf Region are not high as compared to fares prevalent in several other Regions of the world. The following table where fares on various sectors have been expressed on a per mile basis, will illustrate this situation:

Sector	Distance in Miles	One way Economy Fare (INR)	Rate per Mile (INR)
Dubai/Baghdad	867	4589	5.29
London/Rome	898	5995	6.67
Geneva/Istanbul	1189	9142	7.69
Dubai/Djibouti	1245	7590	6.09
Baghdad/Rome	1829	9498	5.19
Kuwait/Frankfurt	2499	11425	4.57
Jeddah/Geneva	2523	11316	4.48
Dubai/Copenhagen	3028	16192	5.34
Dubai/Bombay	1199	6020	5.02
Dubai/Trivandrum	1834	8043	4.38
Kuwait/Trivandrum	2362	8591	3.64

As can be seen from the above table, fares between Trivandrum and the Gulf compare favourably with fares in other major areas of the world.

With regard to the revenue arising from collection of fares, it has been explained in the past that fares cannot be set unilaterally by Air India, as fares are established after agreement amongst concerned carriers at International Forums of IATA. Several major carriers operating between the Gulf Region and India have expressed their opposition to proposals made by Air India for reduction of fares between the Gulf and Trivandrum.

Nevertheless, at the last relevant Passenger Tariff Coordination Conference in November 1988, Air-India have succeeded in specifying fares between Middle East and Trivandrum, as a result of which, since July 1, 1989 on the introduction of new currency system, fares between the Gulf and Trivandrum will not be constructed over Bombay but will be a specified fare. The matter has also been taken up with concerned Governments.

[Ministry of Civil Aviation & Tourism O.M,.No.AV.26012/1/83-A dated 20th September, 1989.]

Comments of the Committee

(Please see paragraph No. 6 of Chapter I of the report.)

Recommendation Sl. No. 2 (Paragraph No. 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 between 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.

Reply of the Government

With introduction of India-Moscow and India-Mauritius direet flights there was a very substantial reduction in mileage in the routes that were being flown and these were as much as 39% and 48% respectively. In so far as Amritsar-Birmingham route is concerned, Amritsar due to its location on the Delhi-Amritsar-Birmingham flight was an intermediate point 344 km. from Delhi. It may be seen that there is hardly any parallel between Delhi-Birmingham vis-a-vis Dubai-Trivandrum. It may be seen that Dubai-Bombay is 1930 Km., Dubai-Trivandrum is 2952 Km. thus Trivandrum is farther away from Dubai by 1022 Km. In the case of Amritsar the fare was reduced only for operations via Amritsar on a particular flight. This had the concurrence of British Airways which was the only other carrier. This is not true in the case of India-Gulf where more international carriers are involved who have been disinclined to agree.

However, effective from July, 1989 Air India after lengthy negotiations with the Middle East carriers have succeeded in specifying fares between the Middle East and Trivandrum at the levels prevailing prior to July,

1989. Now onwards the Trivandrum fare from Middle East will not be constructed over Bombay as in the past, but, will be a specified fare.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 3 (Paragraph No. 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 rare 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.

Reply of the Government

Before the fare to/from Amritsar was established after introduction of the Amritsar-Birmingham flight, passengers were charged combination of the sector fares over Delhi. According to the IATA fare construction rules, Amritsar was found to be higher fare to Birmingham than ex-Delhi. On that particular flight therefore all passengers travelling from Delhi would have had to pay a higher fare on the basis of the Amritsar-Birmingham level. In order to avoid this situation, the Amritsar fare was specified at the level of Delhi/Birmingham instead of establishing it by combination of the sector fares over Delhi.

Now, since July 1st 1989 Trivandrum fare has been specified and is not constructed over Bombay as in the past. Prior to July 1st, 1989 the Trivandrum-Dubai fare on INR 4454 has now been specified for Trivandrum. With the introduction of the new currency system from July 1st, 1989, the Trivandrum-Dubai oneway economy fare would have become INR 5920. But it has been kept as INR 5920. But it has been kept as INR 4454, as a result of which a saving of Rs. 873 which is nearly 20% has been effected.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated the 20th September, 1989.]

Comments of the Committee

(Please *see* paragraph No. 6 of Chapter I of the report).

Recommendation Serial No. 5 (Paragraph No. 5)

According to Ranadive Committee, Air India has a practice of common-rating points even if they are not equidistant from the points with which they are common-rated. The Committee in this connection 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 not 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.

Reply of the Government

The practice of common-rating some gateway points is a practice followed by all international carriers throughout the world. Air-India also follows it. The system is based on a number of factors which include distance, availability of international operations to/from the points, accessibility by road and rail, prorate absorption and the standard deviation of 20%, etc.

In the case of Europe, due to the proximity of different airports, the multiplicity of airlines and the fact that the mileages are almost equidistant when taken geographically, it is possible to common-rate large number of points.

On the basis of what has been stated earlier it was possible to common-rate Abu Dhabi, Dubai, Ras-al-Khaimah, Sharjah as the distances are almost equal high prorate absorptions are not involved and that both Bombay-Delhi are serviced by the Gulf carriers and other airlines. Further consideration being that all these points are close to each other and can be reached by surface transport which is fairly easy in the area. As IATA have now specified the fare for Trivandrum which is higher than Bombay fare, the common-rating of Bombay/Delhi and Trivandrum may be acceptable to all carriers only at the higher level which in this case is for Trivandrum in view of the high prorate absorptions when travel between

Bombay/Delhi or Trivandrum is on Indian Airlines. In almost all countries there is a gateway principle followed and fares to interior parts are constructed over the gateway airport. It may be seen as an example that in the case of USA for transportation to and from India fares are specified to the gateway point of New York on the East Coast and fares to other interior points are constructed over it. In the case of Europe also fares to interior German points are constructed over Frankfurt, to interior French points over Paris and to interior Italian points over Rome. This is a general principle which is followed for fare construction with the exception of limited number of interior points which are specified for certain fare types. This is the case of India as well when fares to Bombay, Delhi, Calcutta. Madras and now Trivandrum are specified.

[Ministry of Civil Aviation & Tourism U.O. No. AV. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 6 (Paragraph No. 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.

Reply of the Government

Although efforts have been made in the past in the forum of IATA to reduce fares on Gulf-Trivandrum sector Air India have not succeeded primarily due to the fact that the international carriers operating to and from India are concerned about prorate losses as they do not operate to Trivandrum.

This matter has now been taken up at the appropriate level with the concerned Governments.

However, now Trivandrum fares have been specified since July 1st, 19[illegible] after the introduction of new currency system.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated the 20th September, 1989.]

Comments of the Committee

(Please *see* paragraph No. 6 of Chapter I of the report).

Recommendation Serial No. 12 (Paragraph No. 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.

Reply of the Government

Air India have noted the suggestion made by the Committee. The Vigilance Department of Air India has been reorganised and this Department has speeded up its activities to curb malpractices of the type for which concern has been expressed by the Committee.

To monitor the effective disbursement of incentives, Air India carries out checks at various levels starting with accounting checks at Station level, checks at the regional level by the Regional Head and the Regional Accounts manager and at the Headquarters level where a monitoring cell has been established which periodically examines the incentive disbursements and procedures of various stations on the Air India network. Profit Committees have been introduced which are constituted at the Regional Heads' level to further administer and streamline incentives and their implementation.

[Ministry of Civil Aviation & Tourism O.M. No. A.V. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 13 (Paragraph No. 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.

Reply of the Government

Air India do make effective use of all services provided by IATA and are deriving maximum benefits by being a member of IATA. As desired by the Committee Air India have taken a fresh review of the cost-benefit analysis of being a member of IATA. Air India is of the opinion that the benefits are not directly quantifiable but, have however estimated benefits derived from facilities provided by IATA, e.g., facilities of Clearing House, Multilateral Interline Traffic Agreements, Bank Settlement Plans, Technical Services Package etc. which are estimated to be nearly Rs. 45 lakhs. Air India also derives some indirect benefits by participating in Tariff Coordination machinery both in the passenger and cargo side. It has also been possible to discuss fares with US carriers which otherwise would not have been possible due to the US anti-trust laws. As a result of this it has been possible to stabilise fares in such markets.

It is the considered opinion of the Air India that the benefits to them both from direct and indirect gains are far more than the recurring expenditure they incur for being a member of IATA. As such they consider continuing the Membership of IATA to be of benefit to them.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 14 (Paragraph No. 14)

The Committee on Public Undertakings in their 14th Report (1986-87) had observed that 13 out of 16 routes of passenger services 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 in spite of the cushion provided by substantial unearned income acquired from royalty compensation from other airlines. The net amount of compensation received 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.

Reply of the Government

With a view to improving the routewise and overall performance, Air India have in the recent past reviewed various aspects of their operations and carried out certain route modifications, changes in pattern of operations, additions to the points of operations, improvements in inflight services and intensified advertising and sales promotion. This has enabled Air India to better its product as they now not only operate faster nonstop point to point services with improved departure and arrival timings to Europe, UK and Japan but more often also. Such efforts to better its product are to yield improved financial and physical performances.

[Ministry of Civil Aviation & Tourism O.M. No. A.V. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 15 (Paragraph No. 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 regard 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 Inida'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.

Reply of the Government

Air India have been conveyed the concern of the Committee. Air India have already taken certain steps some of which have borne fruitful results and some are expected to do so. However, the Committee may like to view the performance of Air India considering that the Planning Commission envisaged a low growth rate for Air India during the Seventh Plan period due to foreign exchange resource crunch.

[Ministry of Civil Aviation & Tourism O.M. No. A.V. 26011/1/83-A dated the 20th September, 1989.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation Serial No. 4 (Paragraph No. 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.

Reply of the Government

It is felt that the loss to Air-India of traffic meant for Trivandrum over other points like Colombo is due to the unethical practices of some 5th and 6th freedom carriers and is not related to high fare level on the Gulf-Trivandrum sector.

It may be mentioned that all carriers apply same IATA fares on the route i.e. the National Carriers of UAE viz. Emirates also, besides others, uses the same fares.

[Ministry of Civil Aviation & Tourism O.M. No. A.V. 26011/1/83-A dated the 20th September, 1989.]

Recommendation Serial No. 7 (Paragraph No. 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 the same.

Reply of the Government

It is presumed that the reference to currency conversion factor is in fact reference to the currency adjustment factor which was applicable from various countries till 30th June, 1989. The directional imbalances referred to are quite complex in nature and are as a direct cause of number of factors including the economy of the country, the per capita income, the purchasing power of the people and in fact in the basic terms the total strength of the economy. The system of having the currency adjustment factors was formulated to take care of the variation in the currency in relation to the SDR such that the strength and weakness of the currency as related to the International Monitory System was taken care of.

In the system of things then, it was a prerogative of the national carrier and the concerned Government to decide whether or not their currency required any adjustment factor on it. In the case of UAE, the currencies being strong, the national carriers/Government decided, in fact to have reduction factor on it, thus from the UAE to India the currency adjustment factor was established at 0.9615 which is a 3.8% reduction related to the currency.

In fact, over the period of years, since the currency system that was followed by IATA could not keep pace with the rapidly changing fluctuations, the IATA airlines have decided to do away with the system of adjustment factors and have introduced a new system from July 1st, 1989. New currency system has been introduced from July 1st, 1989 and is being followed by the IATA airlines in which the passenger fares, add-ons, excess baggage rates, and related charges are specified in the local currency from the country of commencement of travel. To facilitate fare construction wherever various currencies are involved, the local currency is being converted into the *Neutral Unit of Currency (NUC)* at the prevailing *rate of exchange (ROE)*. ROE is related to the US dollar value attached to each currency and is established using the IATA clearing house rates. To keep these rates of exchange as close to reality as possible, the ROEs are being monitored closely and would be revised four times a year (1st October, 1st January, 1st April and 1st July) by IATA. Thus as the ROEs vary the NUC derivative will also vary at a minimum of four times a year.

The system however, does not envisage that the local selling rates will necessarily change as once again, the corrective action to reduce imbalance in fares, has been basically put in the hands of the concerned national carriers and the Governments.

[Ministry of Civil Aviation & Tourism O.M. No. AV.26011/1/83-A dated the 20th September, 1989].

Recommendation Serial No. 8 (Paragraph No. 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.

Reply of the Government

The currency adjustment factor applicable to the Indian rupee to nearly all the areas remained ,unchanged over a long period of time. Since January, 1989 Air India's proposal for increases in the currency adjustment factors were received and the currency adjustment factors were increased to the extent markets could absorb. Full increases were not considered desirable and as such not planned, as disproportionately high fares with no relationship to the purchasing power of the market would have destroyed the industry in India. Abnormally high fares in local currency would have led to increase in malpractices and would have been to the detriment of the airline and the tourism industry. It has not been considered desirable to equate Indian rupee fares to equivalent of hard currency fares in the reverse direction for such reasons. The strength of weakness of a currency is not controlled by the aviation industry but has its effect on it. In view of the foregoing it has not been considered desirable to proceed with an indepth critical study of the question of directional imbalances in fares and the implication of restructuring directional fare differences.

A new currency system effective from July 1st, 1989 has been introduced by IATA in which the fares are specified in the local currencies. From this date a system of having currency adjustment factors has been done away with. The imbalances in the Indian rupee fare vis-a-vis foreign currency has been appreciably reduced to the extent markets could absorb.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated September 20th, 1989.]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Serial No. 9 (Paragraph No. 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.

Reply of the Government

Both ICAO and IATA have been concerned about international air tariff malpractices. Whilst IATA had a compliance machinery within the Organisation, but somehow it could not work satisfactorily and IATA have done away with ICAO's work has mostly been indirect through the Fares and Rates Panel under the Air Transport Division. It is mostly in the shape of guidance of States.

Airlines, realising the salutary effects of stabilising the fares and improving yields, there have been Yield Improvement Programmes (YIP) at local levels on parallel sectors, and carriers do get together to try and adhere to the filed fare levels as far as possible. In so far as India is concerned, BAR India under the Chairmanship of Air India has steered a go-clean campaign and it has yielded satisfactory results. As far as the Gulf is concerned, the Gulf Cooperation Council States comprising of UAE, Bahrain, Qatar and Oman along with Air India have established a Yield Improvement Programme which is functioning satisfactorily and the yield levels are fairly stable.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated September 20th 1989.]

Comments of the Committee

(Please see paragraph No. 9 of Chapter I of the report).

Recommendation Serial No. 10 (Paragraph No. 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 implementaton of established fares.

Reply of the Government

The Government proposes to establish a Directorate of Tariffs and Enforcement under the DGCA.

Following modalities will be adopted for its efficient functioning:—

(a) spot investigations, by surprise checks/visits to airlines ticketing offices, travel agents, airport checks in desks, loading ramps, cargo handling units and allied operating positions to detect malpractices in tariffs, traffic rights and noncompliance of terms and conditions of various permits issued to airlines and other air transport operators;.

(b) Collection and examination of evidence during spot checks;

(c) Followup, through administrative action;

(d) Followup through legal proceedings if necessary for conviction in a court of law.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated September 20th, 1989.]

Comments of the Committee

(Please see paragraph Nos. 12 and 13 of Chapter I of the report).

Recommendation Serial No. 11 (Paragraph No. 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.

Reply of the Government

The policies and procedures followed under the IATA framework are such that all Member airlines are considered equal and no consideration is given to the nature of the product. This is so as it is considered to be very vital for the functioning of IATA as each airline has absolute vote within the IATA Conference and a negative vote can hold up an entire agreement if it is not in the interest of an airline. Differential pricing within IATA is considered a taboo. Airlines at all times continue to strive to upgrade their product in terms of services, aircraft, routing etc. to suit market needs. Therefore, flexibility in price is best left to be determined by market forces rather than to be determined by IATA forum.

[Ministry of Civil Aviation & Tourism O.M. No. AV. 26011/1/83-A dated September 20th, 1989.]

Comments of the Committee

(Please see paragraph No. 16 of Chapter I of the report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

NEW DELHI;
23 July, 1990
Sravana 1, 1912 (Saka)

BASUDEB ACHARIA,
Chairman,
Committee on Public Undertakings.

APPENDIX I

Minutes of the 3rd sitting of the Committee on Public Undertakings held on 12th June, 1990

The Committee sat from 11.00 hrs. to 12.30 hrs.

PRESENT

Shri Basudeb Acharia — *Chairman*

MEMBERS

2. Shri Manoranjan Bhakta
3. Shri Narsingh Rao Dixit
4. Shri Bal Gopal Mishra
5. Shri R. Muthiah
6. Shri Harpal Singh Panwar
7. Dr. A.K. Patel
8. Shri Kalpnath Rai
9. Shri Rajdev Singh
10. Shri R. Surender Reddy
11. Shri Daulat Ram Saran
12. Prof. Saif-ud-din Soz
13. Shri Piyus Tiraky
14. Shri Hukumdeo Narayan Yadav
15. Shri Dipen Ghosh
16. Shri Ajit P.K. Jogi
17. Shri Pramod Mahajan
18. Shri Syed Sibety Razi
19. Prof. Chandresh P. Thakur

SECRETARIAT

1. Shri R.D. Sharma — *Joint Secretary*
2. Shri S.N. Banerjee — *Deputy Secretary*
3. Shri N.M. Jain — *Under Secretary*

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2. The Committee, thereafter, considered and adopted the Action Taken Report on 51st Report of Committee on Public Undertakings (1988-89) on Air India—Fare aspect. The Committee also authorised the Chairman to finalise the Report on the basis of factual verification by the Ministry of Civil Aviation and Air India and to present the same to Parliament.

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The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of the Introduction)

Analysis of the Action taken by the Government on the recommendations contained in the 51st Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Air India — Fare aspect.

I.	Total number of recommendation	15
II.	Recommendations that have been accepted by the Government (Vide recommendations at Sl. Nos. 1,2,3,5,6,12,13,14 and 15)	9
	Percentage to total	60%
III.	Recommendations which the Committee do not desire to pursue in view of the Government's replies (Vide recommendations at Sl. Nos. 4, 7 and 8)	3
	Percentage to total	20%
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee (Vide recommendations at Sl. Nos. 9, 10 and 11)	3
	Percentage to total	20%
V.	Recommendations in respect of which final replies of the Government are still awaited: NIL	—
	Percentage to total	—