FORTY-SEVENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1987-88)

(EIGHTH LOK SABHA)

INDIAN AIRLINES—FARE AND COST ASPECTS (MINISTRY OF CIVIL AVIATION)

Presented to Lok Sabha on 29 April, 1988
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LOK SABHA SECRETARIAT
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*Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha on 2-4-1988.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-seventh Report on Indian Airlines—Fare and Cost Aspects.

2. The Committee took evidence of the representatives of Indian Airlines on 10 November, 1987 and 5 January, 1988 and also of representatives of the Ministry of Civil Aviation on 24 March, 1988.

3. The Committee considered and adopted the Report at their sitting held on 26 April, 1988.

4. The Committee wish to express their thanks to the Ministry of Civil Aviation and Indian Airlines 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 the Undertakings who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
April 28, 1988
Vaisakha 8, 1910 (*S*)

VAKKOM PURUSHOTHAMAN
Chairman,
Committee on Public Undertakings

PART I

BACKGROUND ANALYSIS

1. Passenger Fares

Prior to nationalisation, fares were fixed by the individual airlines according to the mileage rates laid down by the Air Transport Licencing Board. After nationalisation in 1953, Indian Airlines felt the need to rationalise its fare structure and a Sub-Committee was constituted to examine the fares. The Sub-Committee made two recommendations:

(i) Fares, other things being equal should not vary between two different points served by two different connecting services having regard to passenger convenience, competitive modes of transport, existing load factors and the type of aircraft used.

(ii) Rationalisation of fares should not be on the basis of fixed rate per mile. In the revision of fares, the guiding factor should be the desire to conserve the existing traffic potential to tone up the fare structure in the light of convenience of air travel, the competitive modes of transport, the existing load potential, operational peculiarities of the route, etc.

On the basis of above recommendations, passenger fare was revised and refixed on all routes effective from July, 1955.

1.2 Again in September, 1955, the Air Transport Council (ATC), set up under the Air Corporations Act, 1953, was requested to study the problems of fares to be charged by Indian Airlines and to draw up for consideration of the Government a set of principles on the basis of which such fares should be determined. The Air Transport Council submitted its report in May, 1957. Indian Airlines accepted the recommendations of the ATC and refixed the fares effective from 15th June, 1958, on the basis of following recommended taper:

Mileage Slab	Rate per Mile Paise
1—30	40.63
31—100	31.25
101—200	29.69
201—500	28.13
501—900	26.56
901 and above	25.00

1.3 Keeping in view the recommendations of the Air Transport Council, fares have been revised from time to time by Indian Airlines with the approval of the Government. The basic design of the tapering rate per mile had also been modified occasionally. The distance(s) used for determining fares are pre-determined route distances at the time of fixation of a particular fare.

1.4 Initially, lower fares were fixed for services operated by old type of aircraft like Viscount, Skymaster, etc. but after phasing out of DC-3 aircraft in 1974, uniform fares are reportedly charged for travel on a particular sector irrespective of type of aircraft used.

1.5 The Committee wanted to know the criteria followed in determining the tapering rate per mile. The Indian Airlines replied in a written note as under:

> "The criteria followed in determining the tapering rate per mile were the two aspects of 'Cost of Service' and 'Value of Service' when the Air Transport Council recommended their fare design. At that time the tapering rate per mile was kept at a lower level than the corresponding operating costs, in view of the then prevailing market conditions. Subsequently the fares have been increased on the basis of increase in costs from time to time."

1.6 During the course of oral evidence of Indian Airlines, the Committee made a reference to the principle adopted by Indian Airlines in July 1955 viz. fares, other things being equal, should not vary between two different points served by two different connecting services having regard to passenger convenience. When enquired whether this principle is still followed by Indian Airlines, a representative of Indian Airlines stated:

> "We are not following that principle Sir....The principle is that if there is a direct flight between two points, we charge telescopic fares."

1.7 Citing an example in this context, the Committee pointed out that there is a direct flight from Delhi to Trivandrum *via* Goa and Cochin and that one can travel between Delhi and Trivandrum by this Direct flight or by taking connecting flights from other places such as Bangalore, Bombay or Madras depending upon ones convenience. The Committee enquired whether the passenger fare between Delhi and Trivandrum should not be equal irrespective of the flights one take whether direct flight or connection flight. A representative of Indian Airlines then stated:

> "Not necessarily Sir.....When we provide a direct flight from Delhi to Trivandrum with a stop in Bombay or anywhere else like Cochin or Goa, the principal of sector fare will not be effected. There

is a direct flight from Delhi to Trivandrum. In the case of other flights also there is no passenger transfer, but they have to take two sector tickets and not one."

The Managing Director of Indian Airlines added:

"If you come on a longer route and go from one point to another, naturally the cost of operation is more and the fare will be higher. If you go on a shorter route, of course, the fare would be less."

Fare Increases

1.8 Asked about the periodicity of review of fares/freight rates, it was stated in a note that there is no fixed periodicity for review of fares and freight rates by Indian Airlines. However, as and when there is general increase in costs of fuel, spare parts, insurance, etc., Indian Airlines proposes revision of fares with a view to meeting partially such increases in costs. The fare increases by Indian Airlines during the last five years an the reasons attributed therefor are indicated below:

Date of Increase	Increase	Reason
1. 2nd April, 1983	Additional fuel surcharge element increased at the rate of 6.5% of basic fare.	To off-set the additional burden of Aviation Turbine cost.
2. 29th May, 1985	(a) 12 to 7% increase in basic fare element on the basis of Kilometres distance flown on all domestic sectors of Indian Airlines. (b) Additional fuel surcharge was raised by 11.5% of basic fare.	To off-set additional burden of fuel and other costs.
3. 18th March, 1986	Fuel surcharge increased by 10% of pre-revised basic fares of May 1985.	To off-set the additional buden of increased Aviation Turbine fuel cost.
4. 25th June, 1987	(a) 10% on basic fares. (b) Executive class fares fixed at 20% higher than economy class fare. (c) Excess baggage rates 1.1% of total revised fare. (d) Basic cargo rates 1.06% of revised basic fare.	To off-set various increased costs.

1.9 The Committee pointed out in this connection that as per section 7(1) of the Air Corporations Act, 1953, one of the functions of Indian Airlines is to provide among other things economical air transport services and the corporation shall in particular so exercise its powers as to secure that Services are provided at reasonable charges.

1.10 Asked what were the elements of cost-increase that necessitated increase in fare on each of the occasions mentioned above, the Mg. Director of Indian Airlines in the course of oral evidence stated:

> "The price of petroleum production was increased in February, 1983 by Rs. 280 per kilo litre. This had an impact of Rs. 12.6 crores for the year. In order to off-set this increase, we had introduced fuel surcharge to the extent of 6.5%.
>
> Subsequently, in May 1985 again the fuel price was increased by Rs. 720 per kilo litre and the impact was to the tune of Rs. 35.72 crores. We once again increased the fuel surcharge by 11.5%. It is because rather than increasing the basic fare, we had increased that quantum which meets the cost of fuel. The landing charges and the parking charges levied by Airport Authorities have gone up. In April, 1982, it had gone up by 15 to 25% and in October, 1983 by 11% and April 1985 by 13%. Besides that aircraft maintenance and material cost has gone up by 96% for the year 1981-82. Correspondingly the staff cost has also gone up. Insurance cost has gone up by 31%. Other operating costs like food services, passenger amenities etc. have gone up to the tune of 62%.
>
> Again in March, 1986 there was an increase in fuel surcharge as the price of fuel went up from Rs. 5442 to Rs. 6027 per kilo litre. We increased the fuel surcharge by 10% which works out to 6.3% of the total fare.
>
> Lastly, on the 25th June, 1987 since our expenditure increased by 14% under various heads and both IAAI and NAA increased charges we had to increase it..... All this had an impact of Rs. 65 crores on Indian Airlines including the fare cost. We can get an additional revenue of Rs. 49 crores."

1.11 The Committee wanted to know what was the additional revenue earned each year since 1983-84 on account of fuel surcharge and how it

compared with additional expenditure on account of increase in prices of aviation fuel. Indian Airlines in a written reply furnished the following statement:

(Rs. in crores)

Year	Additional Expenditure	Additional Revenue	Remarks
1983-84	12.40	12.37	Fuel price increased with effect from 15th February 1983 whereas revised fare effective from 2nd April, 1983.
1984-85	1.47	—	Fuel price increased w.e.f. 17th March, 1985 whereas revised fare w.e.f. 29th May, 1985.
1985-86	41.04	31.22	Fuel price increased w.e.f. 17th March, 1985 whereas revised fare effective from 29th May, 1985. Again fuel price increased w.e.f. 1st February, 1986 whereas revised fare effective from 18-3-1986.

1.12 A representative of the Ministry of Civil Aviation stated in this connection :

"We have got the figures for the last 4-5 years. Increase in fares has not totally compensated the rise in fuel costs and the other costs."

2. Uneconomic Services

It is observed from the Annual Report of Indian Airlines that the operating profit of Indian Airlines was Rs. 90.7 crores in 1983-84, Rs. 99.8 crores in 1984-85 Rs. 97.9 crores in 1985-86 and Rs. 101.2 crores in 1986-87.

2.2 The Committee were informed by Indian Airlines in a written reply that total number of services including international services operated by Indian Airlines and out of these, services not meeting Total Operating Cost (TOC) and those not meeting Direct Operating Cost (DOC) during the last three years were as under :—

	1984-85	1985-86	1986-87
Total number of services	139	145	152
Services meeting T.O.C.	46	54	53
Services not meeting T.O.C.	93	91	99
Services not meeting D.O.C.	45	49	44

2.3 In order to examine the economics of any service, it is necessary to identify such costs as would be saved if the service is discontinued. Cash cost equals this cost. Other costs-fixed and overheads, are not saved by discontinuation of any service and only get allocated as additional burden on the

balance services making them less economical. Indian Airlines informed the Committee that on this basis, the total number of services not meeting cash cost is as under :

	1984-85	1985-86	1886-87
No. of services not meeting cash cost	33	37	39

2.4 When asked during evidence as to which of the uneconomic routes were opened on the directive of Government the Managing Director, Indian Airlines stated that "We have no direction from Government about operating any route."

2.5 Asked what was the total amount of loss suffered on cash cost basis on these uneconomical routes during the last three years, Indian Airlines, in a written reply, stated as under :—

(Rs. in crores)

Year	Loss on Cash Cost
1984-85	3.05
1985-86	5.78
1986-87	6.77

2.6 When enquired as to why the Indian Airlines which is expected to act on business principles, is operating the service, which have been incurring huge cash losses, the Managing Director, Indian Airlines, said during evidence :—

> "We have been operating these flights, as there is a need for them. Now, we are examining it and we are going to rationalise the fares. By rationalising the fares, we will make up the loss to some extent."

2.7 Subsequently, the Indian, Airlines, in a written note furnished to the Committee stated as under :—

> "Indian Airlines operates many routes as a part of its social obligations like places in Norther-Eastern Region where due to terrain alternative convenient mode of transport is not available. The operation of services is also necessitated in order to bring passengers from distant and remote places to the main stream for further Journey on the trunk routes. Certain operations take place for promotion of tourism, like, Delhi-Agra and Delhi-Jaipur, etc. Certain operations, though uneconomical are also resorted to in order to tap the market potential."

2.8 Asked as to what was the quantum of social burden borne by Indian Airlines, the Civil Aviation Secretary informed during the course of oral evicence :

> "The approximate burden due to operations of uneccnomic routes in 1985-86 and 1986-87 was Rs. 44 crores and Rs. 53 crores respectively including operations in North Eastern Region."

2.9 When pointed out that as per Section 9 of the Air Corporations Act 1953, Indian Airlines is required to act so far as may be, on business principles, the witness then stated:—

> "The act say 'so far as may be'. So, there is an element of discretion on the part of the authorities keeping in view other social considerations and I suppose this would be covered in terms of the provisions of the Act. Otherwise, it would have been 'the Corporation shall act on business principle',if it was absolute."

2.10 As per Section 34 of the Air Corporations Act, 1953, if it is expedient in the national interest the Central Government may direct the Corporation to undertake any air transport service or the other activity and to discontinue or make any change in any scheduled air transport service or other activity. The Committee on Public Undertakings (1981-82) in their 42nd Report had observed that there was no detailed review of uneconomic routes at the Government level and had recommended that whole position should be reviewed by Government, and such of the services which cannot at all be Justified on commercial considerations but are desired by Govt. should be covered by direction under Section 34 of the Act. The Government informed the Committee later in their action taken reply that as recommended by the Committee review of uneconomic routes was being done.

2.11 Taking into account this aspect and the fact that the number of services not meeting even the direct operating cost has gone up from* 28 in 1980-81 to 44 in 1986-87, the Committee enquired during Ministry's evidence whether any review of uneconomic routes was over undertaken by Govt., the Secretary, Civil Aviation stated in reply :

> "We had initiated this proposal and the Board is undertaking a study as a result of which certain routes have been discontinued. Then they are going to give a total analysis of the routes to be continued irrespective of socio-economic conditions. A list of those which have to be continued because of socio-economic reasons will be submitted to Government and if the Government desire that they should continue, a directive will be issued under Section 34."

The witness also added :—

> "A number of routes have either been discontinued or rescheduled. Certain routes which are feeder routes will have to continue. For example, in the Poona-Bombay-Delhi route, the Poona-Bombay becomes a short sector but it is necessary and it has to continue. Even if the load factor is 60%, it can continue to absorb but where it is say 30% or less those routes should be discontinued. That exercise is already going on."

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*At the time of factual verification, Indian Airlines indicated the figure as 54.

2.12 It is observed from the post-evidence reply furnished to the Committee by Indian Airlines that 13 services incurring cash losses have since been discontinued by Indian Airlines.

2.13 The Secretary, Civil Aviation informed the Committee during his evidence on 24-3-1988 that the number of uneconomic services which was 39 in 1986-87 has sicnce gone down to 29.

2.14 Section 34 of the Air Corporations Act also provides for reimbursement of loss on the operation of any uneconomic service established altered or continued on the directions of the Government provided there was overall loss. The Committee on Public Undertakings (1981-82) had recommended in their 42nd Report that the desirability of amending Section 34 of the Air Corporations Act to make provision for payment of subsidy without regard to the overall working results of the Airlines may be considered in view of the need of the Airlines to generate internal resources. During the course of evidence the Ministry on 24-3-88 the Civil Aviation Secretary admitted that "We have accepted (this recommendation) in principle and assured that they will now take steps to get the relevant provisions amended.

2.15 Asked when is it proposed to move the amendment, the witness then replied "I think in the next session because it has to be cleared by the Finance Ministry."

Route rationalisation

2.16 The Aircraft typewise actual load factor vis-a-vis Break-even Load Factor (BELF) for the last three years is as under :

(Percentage)

Aircraft	1984-85			1985-86			1986-87		
	Actual LF.	BE-LF	Margin over BELF	Actual LF.	BE LF	Margin over BELF	Actual LF.	BE-LF	Margin over BELF
Airbus	69.1	59.2	9.9	70.0	58.3	11.7	69.0	57.7	11.3
B—737	69.2	70.9	(—)1.7	68.5	69.7	(—)1.2	69.0	71.1	(—)2.1
F—27	69.4	143.5	(—)74.1	60.9	151.3	(—)81.4	66.4	157.9	(—)91.5
HS—748	66.5	117.7	(—)51.2	68.2	121.0	(—)52.8	70.8	129.2	(—)58.4

2.17 When pointed out that the above percentage of break-even Load Factor is on total cost basis, Indian Airlines stated in a written reply that on the basis of the Cash Cost, the Break-even Load Factor on Boeing 737 aircraft was much lower than what has been indicated above. Indian Airlines claimed that the operation of Boeing 737 aircraft during the years 1984-85 to 1986-87 was economical in as much as it contributed a substantial amount to the Fixed Overheads of the Corporation

2.18 The Committee wanted to know whether the operation of F-27 and HS-748 aircraft is viable, Indian Airlines stated in a written reply as follows :

> "It is the type of the routes in the network that largely affect the viability of an Airline e.g. the existence of a large number of short haul routes has adversely affected the profitability of Indian Airlines, since the cost of short distance operations is decidedly much higher than the cost of long distance operations. The two Turboprops F-27 and HS-748 can operate at almost similar cost as that of Jet aircraft namely Airbus and Boeing 737 upto a short haul distance of say, 300 Kms. as these Jet aircraft show very little advantage of speed over turboprops upto this distance as well as the fixed cost of the turboprop operation is negligible in the absence of depreciation, interest etc."

2.19 Indian Airlines has also informed the Committee in a note that as a step towards Route Rationalisation, Indian Airlines has been endeavouring to provide more direct connections/city-pair services instead of multi-stoptransit services. By constantly monitoring the traffic flow on the network and by assessing the emerging city-pair affinity, Indian Airlines has been providing more and more point-to-point connections between stations. This reduces the travel time and the intermediate stops for passengers. Apart from providing passenger conveniences, the Corporation has been able to improve the economics of services by providing direct connections. This has resulted in the increased average stage length flown by a passenger in the network during the last three years, as is evidenced from the following table:

Year	Average distance flown by the passenger
1984-85	785
1985-86	803
1986-87	814

2.20 The Committee observed that Yayudoot was established with an objective to meet the needs of transportation to connect stations which have difficult geographical terrains, slow means of transportation and poor communication facilities.

2.21 Asked about the cirteria followed in apportioning the routs between Indian Aitlines and Vayudoot, the Civil Aviation Secretary replied during evidence :

> "Vayudoot was set up to provide feeder services and air link places which are inaccessible and which may be of tourist interest not served by Indian, Airlines, Normally, Indian Airlines and Vayudoot do not

serve in common sectors, but there are some routes where both Vayudoot and Indian Airlines operate. There are twelve routes on which both Vayudoot and Indian Airlines operate. These are Bombay-Pune, Bombay-Aurangabad, Madras-Tirupati, Delhi-Jaipur, and so on."

2.22 Explaining the reasons for both Vayudoot and Indian Airlines operating on some routes, a representative of the Ministry of Civil Aviation explained during evidence :

"There are one or two reasons. One is the capacity. If the capacity is less than a Boeing load then one service compliments another service. The other reason is that if Vayudoot is going to make profit in future then it must cross-subsidise the losses made in one area with the profits in other areas. It is concentrating mainly in the north eastern region. So, it has to be compensated by some other routes which would give them profits."

2.23 The Civil Aviation Secretary also stated in this connection during evidence as under :—

"I think this monopolistic aspect is very important. At the moment, Vayudoot is not in a position to compete, but when it comes up, then probably in some sectors it might. Such a huge organisation in my view would not produce results. I am doubtful about its overheads economy. The balance of advantage lies in having Vayudoot."

3. Concessional Fares

Indian Airlines is reported to be offering at present the following special concessional fares :—

1. Srinagar Winter Group Discount
2. 21 days South India Excursion Fare
3. Youth Discount
4. Discover India Fare
5. India Wonder Fare
6. Tour India Scheme
7. Off-season Tourist Fares
8. Discount for employees of Govt. of India : Foreign Mission
9. Discount for Gorkha Personnel of Indian Defence Forces.
10. Armed Forces Discount
11. Personnel of General Reserve Engineering Force.
12. Kashmir Special Fares (Seasonal)

13. Family Discount Port Blair
14. Common Interest Group
15. TC-3 45 days excursion fare
16. Promotional Fares—SARC
17. Bravery Award Winners
18. Student Discount
19. Teachers Discount
20. Blind Persons Discount
21. Cancer patients Discount
22. Invalid passengers/stretcher cases
23. War Disabled persons
24. War Widows
25. Airline/IATA Employees Discount
26. Indian Airlines approved Agents
27. Ships Crew Discount
28. Tour Conductors' Discount

3.2 Indian Airlines has informed the Committee that only the first seven special concessional fares mentioned above are commercial in nature and the fares mentioned at Sl. Nos. 8 and 9 were introduced as Government directed fares. Out of the rest, some fares were reportedly introduced with a view to fulfil its social humanitarian obligations.

3.3 Categorising the types of discounts mentioned above, the Civil Aviation Secretary said during evidence :—

> "Broadly, there are three categories in such type of discounts: (1) those which are commercial discounts to promote tourism and generate more traffic thereby; (2) concessions to blind people, people suffering from cancer, etc., and (3) LTC discount for own employees, subject to availability of seats in the plane."

3.4 In reply to a query whether the economies of the concessional fares have been worked out, Indian Airlines has stated in a note as under:—

> (i) While it is not possible, at present, to determine the exact impact of various special fares as Indian Airlines is not keeping record of utilisation of various special fares, with computerisation of ticketing and departure-control procedures in future, it would be possible to evaluate the utilisation and financial impact of various special fares. Meanwhile, Indian Airlines has made a sample study, in which rough estimate of utilisation of special fares and financial impact has been worked out on the basis of average figures.

(ii) With the current capacity situation, traffic loads and marketing environment of Indian Airlines, it is reasonable to assume that the various concessional fares result in dilution of revenues, and have an adverse financial impact on Indian Airline operations.

(iii) Child and infant discounts are considered an essential part of the normal fare-structure and no financial impact in respect of these fares has been worked out.

(iv) Certain fares, like concessions for Armed Forces, blind people, cancer patients, war-widows, etc. are offered by way of relief to certain sections of society on humanitarian and socio-economic considerations. Financial impact of various special fares to different categories of passengers is given below:—

1.	Armed Forces	Rs. 2.74 crores/year
2.	Blind Persons	Rs. 1.24 lakhs/year
3.	Cancer Patients	Rs. 4.94 lakhs/year
4.	Stretcher cases	Rs. 1.07 lakhs/year
5.	Students	Rs. 29.5 lakhs/year
6.	Teachers	Rs. 7.4 lakhs/year

(v) Certain special fares have been offered with the objective of promotion of foreign tourist traffic to India, or to encourage domestic tourism to Kashmir. As far as Indian Airlines is concerned, these special fares also result in dilution of its revenues/foreign exchange earnings, under the present marketing environment. Such dilution however may be deemed to be Indian Airlines contribution to the larger national interest of development of tourism in India. Financial impact of some of the tourist fares is given below. Utilisation of other tourist fares being limited, these could not be evaluated satisfactorily in the sample study.

(i) Discover India	Rs. 1.4 crores/year
(ii) Youth Fare	Rs. 9 lakhs/year
(iii) Srinagar Winter Discount	Rs. 12.5 lakhs/year
(iv) Srinagar Special Fare (May-October)	Rs. 16 lakhs/month

(v) The total financial impact of concessional fares is about Rs. 46 lakhs per month or Rs. 5.5 crores per year."

3.5 Indian Airlines informed the Committee in a note that on a few occasions, fare increases were introduced on different rates for North-Eastern Region as compared to the rest of India. And as such, fare levels in North Eastern Region are approximately 17% lower than the rest of India, on an average.

3.6 Enquired as to whether the rates in North Eastern Region still continue to be lower by 17%, a representative of Indian Airlines stated in oral evidence :—

"Yes Sir. This has been the case right since early days of the Corporation. At that time, it was decided so because it was extremely difficult to travel by surface transport and communication in the difficult terrain was possible only by air."

3.7 The Committee on Public Undertakings (1981-82) had recommended that non-commercial discounted fares or freights should be introduced or continued only on specific directions of Government and there should be a system of subsidising the loss of revenue suffered by the Airlines on this account. In the action taken reply to this recommendation, the Ministry of Civil Aviation had stated that the Government is reviewing the matter in order to formulate guidelines for implementation by the Corporation. During evidence of Indian Airlines the Committee enquired whether any guidelines were received from Government in this regard. The Managing Director, Indian Airlines replied:—

> "We have not received any guidelines from the Government in this regard."

3.8 When asked as to why directives or guidelines in regard to the non-commercial discounted fares/freights have not been issued even after five years of the presentation of the Action Taken Report on the subject, the Civil Aviation Secretary stated during devidence:—

> "In these cases, the decisions were taken by the Airlines themselves, therefore the question of Government issuing directives does not arise except in the case of Armed Forces personnel who are given some discount while travelling."

3.9 In view of the huge amount to the extent of over Rs. 5 crores being foregone by Indian Airlines as a result of concessional fares, the Committee wanted to know whether the Ministry undertook any review of these concessional fares. The Ministry of Civil Aviation in a written reply stated that on the suggestion of the Government nominee on the Board of Directors of Indian Airlines, all concessional fares are being thoroughly reviewed by the Board.

3.10 When enquired whether at the Government level any review was undertaken, a representative of the Ministry informed the Committee in evidence:—

> "The study of the Board is not complete. After completion, it will then put up its proposals to the Government."

3.11 In the context of loss in revenue on account of concessions given by Indian Airlines, the Civil Aviation Secretary also stated:—

> "We will certainly take up the matter with the concerned Ministries which should reimburse, like for the Armed Forces—the Defence Ministry, for the blind—the Social Welfare Ministry and so on."

3.12 When asked about the measures taken by the Indian Airlines to publicise the concessional fares offered by them, the M. D., Indian Airlines stated:

> "I see your point about the publicity and whenever we give the concession, this will be taken into account."

3.13 In this connection, the Committee suggested that concessions which are available to the public should be printed in the Time Table (Flight Timings) of Indian Airlines so that the people who travel by air would come to know that such and such concessions are available to them. To this the witness replied:

> "Sir, may not be on the Time Table because there is very little space left for anything to be added, but we definitely have to find the ways and means of giving publicity to it."

3.14 When enquired why an extra page should not be added in the Time Table for this purpose, the witness said—

> "We can give the heading but we may not be in a position to give all the details.....We can mention to the extent the page can accommodate."

3.15 In the post evidence reply furnished to the Committee, the Indian Airlines however stated :

> "It is confirmed that information about the various special fares concession, etc. offered by Indian Airlines would be included in the 'Sector Fares' folder. Inclusion of this information in schedules is not considered feasible."

4. Freight Rates

Freight rates (Basic cargo rates/excess baggage rates) were initially fixed at 1.1% of Economy Class Passenger fares per kilogram, according to the recommendations of the Air Transport Council. This is based on the assumption that the average weight of a passenger is 200 lbs. or 90 kgs.; and reducing the passenger fare on per kilogram basis, the rate per kilogram works out to 1.1% of the passenger fare. This criteria of fixing basic cargo rates/excess baggage rates continued till 1980. In June, 1980 when Fuel Surcharge was introduced for the first time, the excess baggage/basic cargo rates were not revised. Due to rather frequent revisions in passenger fares since then, it was not considered desirable, from the marketing point of view, to correspondingly increase the freight rates also. With effect from 25th June, 1987, however, the excess baggage rates and basic cargo rates have been delinked and refixed 1.1% of the total fare for excess baggage rates and 1.06% of basic fare for the basic cargo rates.

4.2 Regarding availability and utilisation of cargo capacity, Indian Airlines stated in a written reply as under :

"Indian Airlines has identifiable cargo carrying capacity only on Airbus. On other types of aircraft, cargo carrying capacity depends on the number of passengers and with full compliment of passengers, there is negligible capacity left. The assured cargo capacity available with Indian Airlines can, therefore, be worked out on the basis of cargo carrying capacity left after taking 100% utilisation of passenger capacity. On this basis, hte cargo capacity available with Indian Airlines during the last 3 years has been about 147825 tonnes, 164980 tonnes and 86996 tonnes during 1985-86, 1986-87 and 1987-88 (upto September, 1987). The total freight tonnage i.e. cargo, mail, and excess baggage carried has been 69707, 74817 and 42741 tonnes respectively, representing percentage utilisation *of 42.25% 50.6% and 49.13%."

4.3 Explaining the difficulties faced in utilising the available cargo capacity, Indian Airlines stated in a note as under :

(i) As far as Cargo business is concerned, Indian Airlines faces as rather challenging task in promotion of cargo traffic on its service due to factors like:

(a) Large cargo capacity available on Indian Airlines routes, particularly on wide-body aircraft.

(b) Air Cargo rates being much higher than the Surface cargo rates.

(c) Stiff competition by surface transport, with facilities like door-to-door service, guaranteed delivery, etc.

(d) Security requirement of cooling period of 24 hours before the cargo is uplifted by Indian Airlines.

(ii) Promotional cargo pricing is, therefore, of crucial importance to Indian Airlines. Certain commodities are moving by air cargo only due to the special rates offered by Indian Airlines. Revenue arising out of such carriage of cargo on special rates is incremental. Promotional cargo pricing, therefore, has only favourable financial impact, the quantification of which for all sectors and all commodities is not feasible. For illustrative purposes, however, a

*At the time of factual verification, Indian Airlines indicated the figures as 47.16%, 45.35% and 49.13%.

few examples of financial impact of promotional cargo rates, are given below :

(a) Live fish @ Rs. 4.50/Kg. (Normal Rate-Rs. 9.75/Kg.) at the weight break of 500 kgs. on Delhi/Guwahati Sector. Between 27th July, 1987 and 17th August, 1987, live fish carried was 33656 Kgs. Revenue earned from this carriage was Rs. 1,51,608/-. Despite this utilisation Indian Airlines on this sector has 2800 Kgs. spare capacity on an average per day.

(b) Hatching Eggs @ Rs. 3.15/Kg. (Normal Rate-Rs. 8.60/Kg.) at the weight break of 500 Kgs. on Delhi/Calcutta sector. Between 25th April, 1987 and 31st July, 1987, eggs carried were 12094 Kgs. Revenue earned was Rs. 38,209/-. Depsite this utilisation, Indian Airlines on this sector still has 6000 Kgs. spare capacity on an average per day.

(c) Automobiles @ Rs. 2.95/Kg. (Normal Rate-Rs. 7.55/Kg.) on Bombay/Delhi Sector. Between 1st April, 1987 and 31st July, 1987, 286 cars were carried. Revenue earned was Rs. 10,71,610/-. Despite this Utilisation, Indian Airlines on this sector still has 18000 Kgs. spare capacity on an average per day.

4.4 Asked as to how long has the Indian Airlines been carrying idle capacity, the M.D., Indian Airlines informed during evidence :

"We have got Air Buses for the last 11-12 years. Since then we have had additional capacity for cargo. Before that this problem was not there."

4.5 During the last five years, Indian Airlines is reported to have increased its cargo rates as under :

(a) Basic cargo rate has been increased only once effective from 25th June, 1987 by 9% at an average.

(b) Discounted rates were increased once effective from 1st February, 1985 by 10%.

The increase in cargo rates was reportedly necessitated due to increase in handling cost, fees to the handling agents and increase in other operational costs.

4.6 The freight rates of Indian Airlines as compared to the rates in other countries in domestic sector are given in the statement below:

Comparative domestic sector in other countries

Sector	Distance (Kms)	Rate in INR	Sector	Distance (Kms.)	Rate in INR
Bombay/Trivandrum	1274	8.10	Jakarta/Balikappan (Indonesia)	1234	10.69
Madras/Madurai	430	3.00	Tokyo/Osaka (Japan)	429	13.29
Calcutta/Imphal	632	3.85	Adellaide/Melbourne (Australia)	646	8.45
Bombay/Mangalore	724	5.00	Naples/Turin (Italy)	718	12.94
Gorakhpur/ Varanasi	157	1.20	London/Birmingham (United Kingdom)	160	6.88

4.7 It may be observed from above that cargo rates of Indian Airlines in domestic sector are substantially lower than the rates prevailing in other countries.

4.8 When enquired whether Indian Airlines is offering any special discount for the promotion of cargo traffic, the M.D., Indian Airlines then stated that "We are giving concession upto 60% of the cargo."

4.9 Subsequently, Indian Airlines in a written reply informed the Committee that at present about 65% of the cargo is carried on discounted rates whereas about 35% is carried on normal rates.

4.10 To a query whether the Indian Airlines is still carrying idle capacity in spite of its offering discount, the Indian Airlines stated in a written reply as under:

> "The reasons for unutilised cargo capacity, in addition to the reasons already stated are little or low cargo potential on certain routes. For example, there is little cargo potential on Bombay-Goa-Bombay, Bombay-Hyderabad, Guwahati-Calcutta, Trivandrum-Bombay, Bombay-Madras and Hyderabad-Bombay routes. Similarly on Srinagar-Delhi route cargo demand is seasonal and is confined more or less to carriage of fruit during season. Another reason for unutilised weight capacity is the nature of cargo. For example, when cars are carried on a pallet in our Airbus aircraft, the pallet capacity is utilised only to the extent of about 1000 to 1500 kilograms whereas the maximum capacity of a pallet is 3500 kilograms."

4.11 Enquired whether foreign airlines also face similar difficulties in utilising cargo capacity and if so, how they tackle the problems, the M.D., Indian Airlines then stated in evidence:

"There are aircraft where there is hardly any cargo capacity. It depends on the type of aircraft that they develop."

4.12 According to Indian Airlines, the total available capacity for carrying passenger and cargo (including Excess Baggage and Mail) for different types of its aircraft is as under:—

Aircraft Type	Total capacity (Tonnes)	Passenger capacity (no. of seats)	Average Cargo Capacity (with full passenger payload)
Airbus	31.5	273/271	10 tonnes
Boeing 737	11.6	126/130	1.5 tonnes
F—27	3.7	40	0.5 tonnes
HS—748	3.7	44	0.7 tonnes

4.13 Considering that as much as nearly onethird of the total Airbus capacity meant for cargo remains mostly unutilised in some of the routes due to little or low potential, the Committee wanted to know whether the Government ever examined the feasibility of having some of the wide bodies aircraft designed in such a way as to reduce the cargo capacity and increase the passenger carrying capacity to match the specific requirements of Indian Airlines. A representation of the Civil Aviation Ministry replied during oral evidence:

"In the new aircraft that we are going to have we will have a cargo capacity of 2 tonnes....In the existing aircraft it is really not practicable to convert this space into seats because the cargo hold is situated in the belly of the aircraft."

4.14 On the question of working out a strategy to ensure full utilisation of the available cargo capacity, Indian Airlines stated in a written reply that they have taken several measures to maximise the utilisation of cargo capacity viz.

(a) Regular meetings of cargo agents and with certain important shippers.

(b) To conduct market research at our stations in order to identify the commodities which can bear air freight and can be carried by air. Examples of commodities identified are ice-cream and generator sets ex. Delhi, Handicrafts and electronic goods ex. Srinagar, Transistor and electronic goods ex. Calcutta and drugs, scooter parts and watch cases ex. Hyderabad, etc.

(c) Grant of incentive passages to agents in order to motivate them to generate more cargo business for Indian Airlines.

(d) Formulation of special schemes for bulk users, relating the extent of discount to weight of the shipment.

(e) Plan to instal X-ray machines at Bombay Airport to avoid cooling off period specially for perishable cargo.

(f) Suitable publicity.

5. Rationalisation

5.1 The Committee on Public Undertakings (1981-82) had recommended in their 42nd Report on 'Indian Airlines' that the fare and freight structure should be so devised as to break-even as far as possible on each of the three distinct categories, viz., passengers, cargo and mail and overall generate sufficient internal resources to meet to some extent capital expenditure. The Committee on Public Undertakings (1982-83) in the 57th Action Taken Report reiterated that in order to have a correct assessment in regard to profitability of various operations, the cost of carriage should be worked out separately for passengers, cargo, and mail on the basis of the average cost per tonne kilometer and compared with the earnings from each category.

5.2. During the course of evidence of Indian Airlines, the Committee enquired whether the Indian Airlines had devised its fare and freight structure on the above lines. A representative of Indian Airlines replied:

> "As far as this issue is concerned, I would like to submit that unless we have got the freighter operations and the passenger operations separately, it is very difficult to work out."

5.3 Indian Airlines, however, stated in this connection in a written reply as follows:—

> "It is agreed that the basic framework of fare design should be based on the cost of carriage. However, the operating cost of different aircraft types varies and also there are vast variations in the unit operating costs depending on sector distance. On short sectors the unit costs tend to be so high that it is practically not feasible to raise the fare levels so steeply and, therefore, such cost have to be left unrecovered to a certain extent. The cost of carriage of cargo is interlinked with passenger carriage, in view of the fact that deployment of aircraft is done with the objective of catering to passenger traffic and not for the purpose of carrying cargo. In view of these reasons it is not feasible that the fare and freight structure should be such as to separately recover the cost of carriage on all sectors and for each category of traffic viz., passenger, cargo and mail. The allocation

of overheads is also not done on the basis of passenger, cargo or mail traffic. Therefore, total overall costs are recovered by total overall revenue. The freight rate structure is related to passenger fares and thus indirectly linked to overall costs."

5.4 A representative of the Ministry of Civil Aviation also stated in his evidence that "We feel that it is not feasible to calculate the cost of carriage separately."

5.5 It has been reported that the Government has reportedly advised Indian Airlines in July, 1985 to rationalise their fare structure. During the course of evidence of Indian Airlines, held on 10-11-87 when asked as to what action has been taken to rationalise the fare structure, a representative of Indian Airlines stated:

"We are doing that exercise and the Board has appointed a Sub-Committee to go into this matter. I think the Sub-Committee should be finalising its report. It should be possible to implement the suggestion by the First of April, 1988."

5.6 Explaining about the special features of rationalisation, the M.D. Indian Airlines said:—

"Basically, where there is shorter route, there is need to increase the passenger fares. But, we cannot do it drastically. We have got proposal which is being examined."

The witness added:—

"If the flight is short, my costs are much higher than they are on a longer flight. For a shorter flight also the overhead costs are the same, if not more."

Citing an example the witness said:—

"I Just say while talking about rationalisation of fares, that on some of our routes in spite of full load of passengers, as for example a route like Bombay-Goa with a capacity of 271 passengers, we still lose money."

5.7 In the post evidence reply, the Indian Airlines stated:

"The main feature of the rationalisation exercise is to improve the correlation between the unit operating cost and the fare rate on shorter sectors and to introduce an element of market orientation in the domestic tariff structure of Indian Airlines."

5.8 During the Ministry's oral evidence on 24-3-88 when enquired whether the fare structure has since been rationalised, the Civil Aviation Secretary stated:

> "They have submitted a proposal already where they have suggested an increase in fares between 20% and 5% for different kinds of short routes i.e. upto 700 Kms. The increase in fare is at no stage be more than 20% of the existing fare and the difference between the executive class and the Economy Class fares will continue to be maintained at the existing level of 20%. This has already come to us. We have examined it in our internal finance and it is now going to the Finance Ministry for inter-Ministerial clearance."

5.9 Enquired whether there is any mechanism in the rationalised fare structure to induce improvement in productivity and efficiency, the witness stated:—

> "While determining the efficiency and profitability, etc. load factor is taken into account. Where the load factor goes below a certain percentage, then those routes are given up or re-schedules are drawn up. Then an exercise is also going on in providing more and more direct connections between cities and reducing the number of intermediate points so that if you are having three services having intermediate points, you can have one service for intermdediate points and two direct. So, that would have an immediate impact on productivity, time-saving and benefit to the passengers."

5.10 To a query whether the rationalised fare structure is related to standardised costing system, the Civil Aviation Ministry stated in a written reply as follows:—

> "The rationalised fare structure, as proposed by Indian Airlines, has been based on total operating cost for different distance slabs. While calculating cost, landing and navigational charges, fuel expenses and engineering costs have been determined on the basis of the actual costs. It will not be possible for Indian Airlines to meet the cost of operations for all routes under the rationalised fare structure. The recovery in cost is estimated to be varying between 56% and 99% depending upon the distance slabs and the seat factors."

5.11 Section 30 of the Air Corporations Act 1953 provide for the Constitution of Air Transport Council. The functions of the Council have been specified in Section 31 of the Act. In pursuance of these provisions Air Transport Council was set up in 1955. This was, however, dissolved on 30 March, 1962.

5.12 To a query whether it is not desirable that the proposals of Indian Airlines for fare revisions be studied by an independent expert body like Air Transport Council as envisaged in the Air Corporations Act, the Civil Aviation Secretary stated:

> "The Air Transport Council has been discontinued several years back but we would like to review the matter and we will reconsider this issue of reviving the Air Transport Council. I personally feel that the Air Transport Council would be a good step because it would provide a forum of expert advice which will be available with the Government but we will take a decision and get it examined after the case in the Gujarat High Court is finalised which is expected to be done in another week or 10 days' time."

5.13 Enquired whether a common-man should also not be included in such a Council, the witness said:—"The point is well taken, Sir."

5.14 To a query whether it is not desirable in the commercial interests of Indian Airlines to allow them to provisionally raise tariff pending clearance by Government, as and when there is fuel price hike, the Ministry of Civil Aviation stated in a written reply as under:—

> "At present under Section (2)(i) of the Air Corporations Act, 1953, previous approval of the Central Government is necessary for determining and levying fare and freight rates, etc. Government is, however, considering the question of flexibility in fare adjustments. The suggestion that Indian Airlines be allowed provisionally to raise tariff, pending Government clearance, is likely to create practical problems like settling of claims from the public, etc.'

6. Capacity Utilisation

The aircraft capacity utilisation is determined in terms of overall load factor. The aircraft type-wise distribution of the Load Factor and the System load-Factor of Indian Airlines from 1984-85 to 1987- (Upto November, 1987) was as under :

(Load Factor %)

	A300	B737	F-27	HS-748	Overall Load Factor
1984-85	69.1	69.2	69.4	66.5	69.2
1985-86	70.0	68.5	69.2	68.2	69.4
1986-87	69.0	69.0	66.4	70.8	69.1
1987-88 (upto Nov. 87)	72.9	70.7	65.2	72.8	71.9

6.2 Informing that Indian Airlines is reported to be basically a passenger oriented Airline and carriage of cargo is incidental thereto, Indian Airlines has proposed that the capacity utilisation in Indian Airlines should be viewed from the Seat Factor achieved. The average Seat Factor in the last three years, aircraft type-wise, is shown below:

(Percentage)

Year	Airbus	B-737	HS-748	F-27	Total System
1984-85	78.2	70.4	63.3	66.6	73.8
1985-86	79.1	69.8	64.0	63.7	73.9
1986-87	78.4	69.8	66.0	60.3	73.7

6.3 It has been stated that Indian Airlines despite having very high aircraft utilisation is having passenger dis-satisfaction due to non-availability of seats. On some of the routes, the Seat Factor was as high as over 90% resulting in long list of wait-listed passengers thereby leading to turn-away traffic.

6.4 The Managing Director, Indian Airlines informed during evidence on 5-1-88 that capacity utilisation (Seat Factor) in the current year 1987-88 was 75%. Asked as to what measures Indian Airlines is taking to utilise the remaining capacity, the witness then explained:

> "The capacity utilisation comes to about 75 per cent in the Indian Airlines. This 75 per cent is the average for the year. During certain periods, we utilise the capacity as much as 90 per cent. In some flights such as between Bombay and Delhi, we achieve even one hundred per cent. In other Airlines even 55 to 58 per cent seat utilisation is considered quite good. So, internationally we compare very well in this regard."

Referring to the seasonal factors which result in unutilised capacity to some extent, the witness said :

> "We do offer promotional fares and there are other marketing efforts in this direction. But the fact remains that it is very difficult to fill each and every seat in each and every sector."

6.5 Indian Airlines informed the Committee in a written reply that the payload varies substantially from flight to flight depending on various factors such as the sector distance, weather conditions, runway length and strength limitations, temperature, elevation of Airport, etc. For example, for Boeing 737, maximum capacity could be as low as 7 tonnes (as against 11.6 tonnes normally) at certain airports like Cochin, Port Blair, Leh etc.

6.6 Asked what steps have been taken to increase the capacity utilisation of the existing aircraft, the Indian Airlines stated in a written reply as under :

"The aircraft capacity utilisation of all aircraft types excepting F-27 has been on the increase in Indian Airlines, F-27 aircraft is operated in the North-Eastern Region, Majority routes of which had been transferred to Vayudoot which also included high density traffic routes. With close monitoring of flight schedules based on traffic demand and affinity, there has been remarkable improvement in the capacity utilisation in other types of aircraft leading to improvement in load factor of the system as a whole. Judging by the Airlines' standard, the capacity utilisation by Indian Airlines is comparatively very high. Steps have been taken for further improvement in the capacity utilitation of Indian Airlines by boosting up cargo traffic."

6.7 Annual capacity utilisation of some of the other Airlines in the world for domestic operations expressed in terms of Seat Factor and Load Factor is stated to be as below :

Airlines	Seat Factor (%)	Load Factor (%)
British Airways	64.7	58.4
Japan Airlines	54.4	50.6
Eastern Airlines	61.0	57.0
American Airlines	64.4	52.0
United Airlines	63.4	55.6
Continental Airlines	65.1	55.9
Air Canada	63.6	51.4
T.W.A.	64.7	57.5

6.8 When enquired about the constraints in regard to capacity utilisation, Indian Airlines stated in a written reply :

"The utilisation of aircraft could have been better had there been no airport constaints like lack of night landing facilities, shorter runways etc. For example, night landing facilities are not available in major cities like Kanpur, Chandigarh, Srinagar, Jammu, Gwalior, Ranchi, Coimbatore and most of the places in the North-Eastern Region. Similarly, runway restrictions at places like Ahmedabad, Cochin, Tirupati, etc. prevent the operation of bigger type of Aircraft. Similarly unavoidable factors like weather, altitude, temperature, etc. also act as constraints to the capacity utilisation."

6.9 On being enquired about the gap between demand and available capacity, Indian Airlines informed in a written reply that Indian Airlines is

at present having acute shortage of capacity which is borne out by the fact that the system Seat Factor during the last three years averaged around 74%.

6.10 As regards shortage of aircraft faced by Indian Airlines, a representative of Indian Airlines informed the Committee during evidence that the shortage faced by Indian Airlines at present is 8 Boeings and one Airbus.

6.11 Asked about the estimated demand at the end of the Seventh Five Year Plan and the programme of the Corporation in regard to acquisition of new aircraft to meet the increased demand, Indian Airlines stated in a written reply as follows :

"In the fleet augmentation plan till the end of Seventh Five Year Plan, Indian Airlines had projected passenger traffic demand on its network at an annual growth rate of 10.1% which, in terms of revenue passenger Kms. was estimated at 10,834 million by 1989-90. In order to meet this demand, Indian Airlines estimates the aircraft capacity requirements equal to 25 Airbus A320. Indian Airlines submitted a proposal for purchase of 19 Airbus A320 aircraft during 1989-90 as it was advised by Airbus Industries of availability of only 19 aircraft by March, 1990, i.e. end of the Seventh Plan period. With the approval of the Government, Indian Airlines has already placed an order for acquisition of 19 Airbus A320 aircraft beginning from April 1989 at a total project cost of Rs. 1238.37 crores.

In the intervening period, Indian Airlines had planned induction of leased A300 and Boeing 737 aircraft capacity. Indian Airlines is having on lease one Airbus and 2 Boeing 737 aircraft since 1986-87. The proposal for further acquisition on lease of one Airbus and four Boeing 737 aircraft each in the years 1987-88 and 1988-89 is already under consideration of the Government. With the acquisition of these aircraft it is estimated that the traffic demand in the Seventh Five Year Plan will be met by the Corporation.

6.12 In this connection the Aviation Secretary stated during his evidence :

"The basic position is that the growth that the Indian Airlines is capable of is between 10.5% and 12% whereas the Planning Commission has imposed a ceiling of 8% growth. The Planning Commission has said that even though the Corporation may not ask for any budgetary support, they will not permit a growth beyond 8%. Therefore, the growth that has been shown as approved by the Planning Commission falls short of the annual requirement of the Airlines."

6.13 Enquired whether there will be shortage of capacity even after the acquisition of the 19 Airbus A320, the Civil witness admitted "Yes, sir, even then shortage will be there."

6.14 To a query whether the shortage of capacity is because of financial constraints, the witness said :

> "No, Sir. The Planning Commission has said that after all, we will go in for institutional borrowings, and those funds are limited. They have said that they have to consider the other sectors of the economy as well, and if we draw resources to the extent we require, other sectors may be deprived. Since the Planning Commission is responsible for the overall economy of the country, they have said that our ceiling is eight percent and they would not like us to go at a faster pace because this will have implications on the foreign exchange as we will need to import more fuel. So, taking all these factors into consideration, they have fixed the ceiling of eight per cent. After purchasing these nineteen, we have the option to buy another 12, which will make it 31. But even after having these 31, we will ,be short of aircrafts."

6.15 Asked about the rationale for fixing growth rate at eight per cent by the Planning Commission, a representative of the Ministry of Civil Aviation said in evidence :

> "The exact reason for fixation of this eight percent is not given. But reasons for lowering it is there. They say that a large amount of foreign exchange goes in import of fuel. And since Civil Aviation Sector is an oil inefficient sector compared to other sectors, it should be limited in the overall national interest."

6.16 On being enquired whether Planning Commission has put any restriction on acquiring aircraft on lease, the Civil Aviation Secretary stated:

> "There is no bar. It has put the ceiling of 8 per cent on leased aircraft plus aircraft that is purchased. The total must remain within that ceiling. We are trying to contest. I have also had a talk with the Finance Ministry people. This bar should not apply to leased aircraft. I personally feel that it should not be there."

6.17 Asked about the present position in regard to acquisition on lease of an Airbus and four Boeing by Indian Airlines, the Ministry of Civil Aviation stated in a written reply that Government have already accorded approval to Indian Airlines in January, 1988 to acquire one Airbus and four Boeing 737 on lease for a period of 24 months, through Airbus Industries. Indian Airlines is reportedly pursuing the subject with Airbus Industries.

7. Aircraft Utilisation

Indian Airlines fleet as on 31st March 1987 consisted of 11 Airbus, 27 Boeing, 7 HS-748 and 5 F-27 including two F-27 aircraft leased to coast Guards.

7.2 The aircraft utilisation per aircraft per annum (total hours) from 1983-84 to 1986-87 by Indian Airlines as observed from the Annual Report (1986-87) of Indian Airlines is as follows :—

	1983-84	1984-85	1985-86	1986-87
A 300	2477	2624	2733	2887
Boeing 737	2652	2761	2970	3054
F-27	2219	2307	2235	1950
HS-748	2127	2066	2220	2346
All types	2429	2563	2700	2797

7.3 The Committee observed that utilisation of F-27 in 1982-83 was 2579 hrs. Since then it started declining. Asked about the reasons for decline in utilisation of F-27 Indian Airlines stated in a written reply:

> "The decline in aircraft utilisation in respect of F-27 was primarily in 1983-84. This was due to taking over of F-27 routes by Boeing 737 aircraft viz. Calcutta-Jorhat-Dibrugarh and Calcutta-Agartala besides reduction in operation by F-27 on certain other routes. It may be mentioned here that Indian Airlines has been constantly upgrading F-27 services to Boeing 737 services and F-27 services are being limited to those airports which are not capable of accepting large aircraft and/or those routes which are short haul/having less demand.

7.4 Asked about the steps taken to increase the aircraft utilisation, the M.D., Indian Airlines said during evidence.

> "One of the thinks is to operate our aircraft a little more than normal.

7.5 Enquired whether the safety of the aircraft would be affected due to operation of the aircraft in excess of the normal hours per day, the witness said :

> "The safety is not in any way affected."

The witness also added :

> "There is no compromise on safety standards. The reason why I say so is that we have adequate time for maintaining our aircraft. Besides we have a system of monitoring our safety and failure, etc. I would say that Indian Airlines is responsible though we have a

Director General of Civil Aviation who ensures that the basic requirements are being met and I am repeating that we in the Airlines are responsible for the safety as well. I would say with a lot of certainty that there is no compromise. Everyday an aircraft is available for maintenance for 5 hours and I consider this is ample for rectifying the snags."

7.6 It has been reported in the Annual Report of Indian Airlines (1986-87) that the utilisation of the existing Jet aircraft has already reached beyond the optimum level and calls for immediate increased aircraft capacity in order to cope up with the traffic demand.

7.7 Enquired whether there is any standard or norm in regard to operation of an aircraft in a day, the M.D., Indian Airlines said during evidence :

"The standard is that if an aircraft lands, such and such inspection must be done. Similarly at the end of the day's flying, such and such inspections should be done. These are the standards."

7.8 Indian Airlines, however, stated in the post-evidence reply that as per norms specified, annual utilisation of Indian Airlines fleet of A 300 and B737 aircraft should be 2820 and 2700 flying hours per aircraft per year respectively. The present utilisation of Airbus and Boeings are about and in excess of 3000 flying hours per aircraft per year respectively. The norm has reportedly been arrived at by taking into consideration a number of factors which influence the aircraft utilisation. Besides the preventive and break-down maintenance requirements, operating day length, fleet size, average aircraft stage lengths, number of transit halts during the day and duration thereof, constraints due to non-availability of airport facilities etc. reportedly determine the aircraft utilisation levels for airlines.

7.9 In this connection, the Civil Aviation Secretary stated:

"There are no normal hours of utilisation. As long as proper maintenance is done and the DGCA certifies that the aircraft is safe for utilisation. it can be utilised. In other countries, in fact, the utilisation is even higher."

The witness also said in this context :

"We have figures of other airlines in the case of airbus in 1986-87. Our utilisation is 2,887; Thai Airlines 3,006 and Air India 3,175."

7.10 The Committee wanted to know the total life in terms of flying hours for each type of aircraft and whether Indian Airlines has any aircraft which is being operated beyond its life. Indian Airlines stated in a written reply as follows :

"The modern design concepts for pressurised aircraft do not specify any upper limit on the hours of cycles (i.e. number of landings) to be flown by aircraft in its life span. However, structural integrity is checked as specified by the manufacturer during its operating life span. However, only aircraft in Indian Airlines fleet i.e. F-27, which had the life span of 45000 landing/cycle had undergone the manufacturer specified structural integration programme to acquire extended life beyond 45000 landings/cycles. None of Indian Airlines aircraft is operated without carrying out such structural integrity checks at any time."

7.11 It has been reported in the press that the Indian Airlines has decided to send a group of about 11-12 Boeing Co-Pilots for Conversion Course as a Commander of Avros. The training for the conversion would take six months and involve an expenditure of Rs. 6 lakhs per person. It has also been reported that turbo-prop aircraft would be phased out totally. Asked about the factual position in this regard, the Mg Director, IA said during evidence :

"Firstly, about the turbo-prop, while we have a proposal to phase it out, we are not able to phase it out unless we get some leased capacity."

7.12 Enquired as to by what time, the turbo-prop aircraft would be phased out totally, the witness said :

"We have still a few airports which have not been upgraded and they cannot take a Boeing. For example, take Belgaum or Tirupati. As long as Boeing cannot operate in those air fields, we have no option but to keep some turbo-props with us."

7.13 The Civil Aviation Secretary in this connection said during the Ministry's evidence. :

"Our view is that turbo-props should not operate in Indian Airlines. They should be passed on to Vayudoot. That is being done. As soon as the Indian Airlines get the other aircraft for which they have placed orders then this will be phased out."

7.14 Enquired as to whether it was a right decision to send the Boeing co-pilots for conversion course as Commander of Avros, when it is being phased out, the witness said :

"As regards training the young commanders of the Turbo-prop aircraft were selected for another aircraft and the co-pilots therefore, have to be given the necessary training so that they are able to fly this aircraft. This is just a temporary measure. The training is necessary

for the pilots. Since these aircrafts are passed on to Vayudoot, there will be no need for this."

7.15 About the cost and time involved in this training, Indian Airlines stated in a written reply as follows :

"The cost of training for conversion does not amount to Rs. 6 lakhs per person, nor six months of training are necessary for such conversion. The conversion cost in such cases does not go beyond Rs. 1 lakh per person."

8. Cost of operations

The Committee observed from the Annual Report of Indian Airlines that the operating cost and Revenue per Available Tonne Kilometre (ATKms) and per Revenue Tonne Kilometre (RTKm.) and operating Ratio (Ratio of operating expenses to Operating Revenue) during the last three years were as follows :

	1983-84	1984-85	1985-86	1986-87
Operating Cost per ATKm (Rs.)	5.09	5.25	5.91	6.41
Operating Revenue per ATKm (Rs.)	6.13	6.29	6.85	7.31
Operating Cost per RTKm (Rs.)	7.50	7.59	8.52	9.27
Operating Revenue per RTKm(Rs.)	9.02	9.09	9.88	10.58
Operating Ratio (%)	83.10	83.47	86.23	87.68

8.2 It may be seen from above that the operating ratio has gone up from 83.10% in 1983-84 to 86.23% in 1985-86 in spite of increasing the fuel surcharge and basic fares on three occasions during the period.

8.3 To a query whether this does not indicate high cost of operations, Indian Airlines stated in a written reply as under :

"The Operating Ratio went up during 1984-85 and 1985-86 due to the time lag between the fuel price hike and introduction of consequential increase in fuel surcharge after due approval of the Government and Hon'ble High Court of Gujarat. The operating ratio would have been 83.3 and 84.8 during 1984-85 and 1985-86 respectively had the increase in fuel surcharge been introduced immediately after the increase in fuel price. However, had the increase in basic fare taken place from 1st April, 1985 as against 29th May, 1985, the Operating ratio in 1985-86 would have further come down."

8.4 Indian Airlines also mentioned that only a part of the increased expenditure could be off-set by 8.3% increase in Base Fare from 29th May, 1985, as Indian Airlines was not in favour of higher increase.

8.5 Explaining the reasons for increase in the operating ratio in 1986-87, a representative of Indian Airlines said during evidence :

"It went up mainly on account of staff costs, obsolescence of spares, landing and navigational charges."

8.6 The Committee observed from the Annual Reports of Indian Airlines, that the total operating expenses of Indian Airlines were Rs. 446 crores in 1983-84, Rs. 503.8 crores in 1984-85, Rs. 613.4 crores in 1985-86 and Rs. 719.8 crores in 1986-87. The increase in 1984-85 was 12.9%, in 1985-86 21.8% and in 1986-87 17.3%.

8.7 The major cost components in Indian Airlines are :

1. Pay and allowances
2. Insurance
3. Fuel and oil
4. Landing charges
5. Navigational charges
6. Material consumed
7. Outside Repairs and Services
8. Booking Agency Commission
9. Food Services
10. Depreciation
11. Obsolescence of spares.

8.8 The expenses incurred on pay and allowances, Fuel and Oil, Material consumed and outside Repairs and Services have considerably increased during the period 1983-84 to 1986-87.

8.9 Total expenses on Pay and Allowances have increased from Rs. 65.3 crores in 1983-84 to Rs. 90 crores in 1986-87. Indian Airlines informed in a written reply that the expenditure under Pay and Allowances has gone up due to the followings :

—Increase in number of Staff due to increased operations.

—Increase in Pay due to increased V.D.A., increments and Promotions

—Provision for increase in salaries arising from wage negotiations due effective 1st October, 1985.

—Increase in the payments of Gratuity and Bonus due to higher limits/ entitlements from 1985-86.

8.10 Total expenses on Fuel and Oil have gone up from Rs. 194 crores in 1983-84 to Rs. 326 crores in 1986-87. Indian Airlines has stated in its Annual Report, 1986-87 that following steps have been taken to achieve economy in fuel consumption :

> "More Boeing 737 JT8D Engines have been converted from —17 to —17A to achieve better fuel economy. Measures like fuel tankering based on price differential between stations, shortening of flight routes and optimisation of flight techniques continued to be adopted to control the fuel consumption. Computerised flight plans are also being developed and are likely to be put into use vey shortly, which would result in reduced fuel upliftment and consequently less fuel consumption during operation of the aircraft. Constant watch was also kept to minimise fuel draining/ground run-ups and test flights during major checks."

8.11 The total expenses under the head 'Material consumed' which was at Rs. 24.4 crores in 1983-84, have increased to Rs. 47.6 crores in 1986-87. The figures of expenses on 'outside repairs and services' which was at Rs. 10.4 crores in 1983-84 have gone up to Rs. 26.7 crores in 1985-86 and slightly declined to Rs. 23.5 crores in 1986-87.

8.12 Explaining the reasons for major jump in the expenses under the heads 'material consumed' and 'outside repairs and services' a representative of Indian Airlines said during evidence :

> "The latter is related to the number of hours of operation; schedule of maintenance of various modules of aircraft and engine overhaul fallen due in these periods. About 30 modules more of the Air Bus were due for overhaul, each costing Rs. 30 lakhs. So, it depends on what fell due and in which period. If there are more engine overhauls during certain periods, we will have to incur more expenditure."

8.13 Indian Airlines stated in a written reply that the expenditure on material consumption and outside repairs has gone up due to the followings :

—Higher inspection/overhaul schedules arisen due to increased operations.

—Effect of inflationery increase in prices of spare parts.

—Effect of adverse change in the exchange rate of foreign currencies against Indian Rupee.

—Increased material consumption due to ageing of fleet.

8.14 To a query whether there are any norms laid down in this regard, Indian Airlines stated in a written reply that Indian Airlines has laid down a aircraft maintenance and overhaul policy wherein the norms are defined for

each schedule inspection/over haul. Since the scope of engineering work in the Aviation Industry keeps on changing due to Life Development and Modification Programme of Aircraft, these norms are also revised from time to time.

8.15 Pointing out that expenditure under 'Outside Repairs and Services' has increased alarmingly in 1985-86, the Committee enquired during the Ministry's evidence whether Government reviewed the reasons for this quantum jump. A representative of the Ministry of Civil Aviation then replied.

> "This was reviewed by the Board. Unless some alarming situation is projected before us this sort of review is not done by Government."

8.16 One of the reasons given by Indian Airlines for increasing the basic fare with effect from 29 May, 1985 was that "aircraft maintenance/material cost increased by 96% over 1981-82 mainly due to higher Exchange rate of Dollar and higher material consumption of ageing aircraft."

8.17 Asked how Indian Airlines justified 96% increase in the material and maintenance cost, a representative of Indian Airlines stated :

> "When we start operating an aircraft in the first few years, it is minimal. Another differential is in the dollar rate. Spare parts are imported. So, that differential is also there. Then there is an escalation in the cost of spare parts. When we calculate the economic life and the profitability of an aircraft, all these factors are taken into consideration. I am talking about material consumption in terms of physical requirement, not in terms of monetary requirement."

8.18 The expenditure incurred on outstation stay of cabin and cockpit crew during the last three years is stated to be as given below :

(Rs. in lakhs)

	1984-85	1985-86	1986-87
Public Sector Hotels	75.63	84.01	111.14
Private Hotels	147.56	177.95	243.19
Total :	223.19	261.96	354.33

8.19 It may be seen from above that private hotels have been increasingly used for outstation stay of cabin and cockpit crew. In this connection the managing Director, Indian Airlines stated :

> "We are in the process of negotiating with our pilots and cabin crew association to move into the public sector hotels."

8.20 When the Committee pointed out that at places where there are public sector hotels of prescribed standard, Indian Airlines crew should not go to private hotels, the witness assured :

"We will follow the prescribed principles and do that."

8.21 During the evidence of the Ministry, the Civil Aviation Secretary said :

"Even at places where there are public sector hotels, the pilots and others go to private hotels in terms of the agreement..... Cockpit crew and cabin crew have been staying in the public sector hotels."

The witness added :

"In the case of Government employees, you can compel them to travel in Air India and so on. In the case of Airlines, though they are Government employees, they are governed by the industrial labour relations and they have reached the settlements with the management. After the settlements have been reached, we cannot go back on the settlements. That is the basic issue."

8.22 In the action taken reply to a recommendation contained in the 42nd Report of Committee on Public Undertakings (1981-82), the Government had stated that "as far as the Committee's recommendation regarding the stay of flying crew in the public sector hotels is concerned, this is being followed by the Corporation as far as possible."

8.23 On being pointed out, that the reply appears to be not factually correct, the Civil Aviation Secretary admitted during evidence : "Yes, what you are saying is correct."

8.24 It is pertinent to state in this connection that BPE vide their guidelines issued on 9 April, 1984 [No. 3(15)/79-BPE(WC)] have laid down *inter-alia* that non-public sector accommodation in any case should not be booked/patronised in stations where public sector hotel accommodation was available.

8.25 Asked what specific measures have been taken by Indian Airlines towards cost-effectiveness, the Managing Director, Indian Airlines said during evidence :

"It was in the month of May, we imposed twenty per cent cut on all the budgets. For example, Telephone Bills. We removed STD facility from everybody excepting some key people. Besides this, on Printing and Stationery and on Travelling, we brought it down by twenty per cent. We are constantly monitoring this. We are cutting down the costs. In spite of rise in the cost of fuel, (which cost us Rs. 22 crores extra), we will still show profit."

8.26 In this connection the Ministry of Civil Aviation informed the Committee in a written reply as follows :—

"The measures relating to reduction in costs include, amongst others, non-recruitment of staff reduction in travelling, telephone, training, hotel, publicity, and other miscellaneous expenses, restriction in the use of official vehicles and postponement of new capital projects except those considered essential for operational reasons. As a result of these measures, the corporation estimates to save approximately Rs. 7.50 crores during the current financial year. In order to increase the resources, the Corporation has been continuously monitoring its flight schedules and as a result, it has been able to stop up the utilisation of aircraft by achieving higher seat factor of 75.2% during the current year as compared to 73.7% in 1986-87 and 73.9% in 1985-86. Due to time lag between fuel price hike and introduction of consequential increase in fuel surcharge. Indian Airlines had to absorb additional cost on fuel during the intervening periods."

8.27 In order to have cost effective operations Indian Airlines, has in a written reply made the following suggestions :

—Night landing facilities be provided at the airfields so that the span of operation is increased which would result in higher utilisation of aircraft.

—Airports be developed at a faster pace so that bigger and economical aircraft are operated matching with the demand.

—Landing and Navigational charges are frequently increased at steep rates. Such charges be restricted by the concerned authorities.

—The existing fare pattern does not meet the cost of operation of routes upto 700 Kms. Fares in the North-Eastern sectors are also lower by approximately 17%. Indian Airlines should be allowed to fix tariff based on cost plus a reasonable rate of return.

—At present the Sales tax on Aviation Turbine Fuel are frequently being enhanced by the State Governments. Corporation should be allowed to enhance the Fuel Surcharge portion of fare immediately on increase of Sales Tax by the State Governments.

—There is a time lag between the increase in cost and revision in tariff as Corporation has to obtain clearance from the various Government Authorities before revising the tariff. Such time lag can be narrowed down if Government agencies clear the fare proposal speedily.

—Custom Duty on Aircraft/Equipment/Spares, for which Corporation has no other option but to import, should be exempted or charged at a nominal rate.

—Facilities for over-haul/repairs of Airframe/Engine and other components be made available indigenously so that Indian Airlines does not have to depend on foreign countries for these facilities.

8.28 Asked how the Government ensure that Indian Airlines, being a monopoly enterprise in its domestic service, renders cost efficient services the Civil Aviation Secretary said in evidence:

"It is one of the problems which we have to face, airlines being a monopolistic sector. But I don't see any remedy except constant monitoring and having advisory committees and grievances cell so that if Airlines becomes complacent, because it is only one in the field then it could be remedied. Constant monitoring is being done. Government is represented on the Board of Directors and in other matters like fixation of fares. We cannot revise the fares indiscriminately. There are various check and balances. In fact, with the coming in of Vayudoot, this might, over the next 15—20 years, emerge on certain vital sectors as another airline competing with Indian Airlines. At the moment, its role is very limited. Looking to the future I, think, that just as Indian Airlines is emerging in certain foreign areas as a competitor to Air India, particularly in South-East Asian region, similarly Vayudoot could emerge on a limited basis as competitor to Indian Airlines. But this monopolistic situation is there at present. The Government is constantly monitoring its performmance and trying to ensure that immediate action is taken on complaints received from the public."

PART II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

1. The Committee's examination of fare and cost aspects of Indian Airlines reveals that Indian Airlines has been building up its fare structure on the basis of the tapering design recommended by Air Transport Council three decades ago. There is no periodical review of fares and freight rates having regard to various distortions that have crept in. Fares have been increased from time to time on the basis of increase in total cost of operations without any consideration to standard costs, capacity utilisation or productivity. Nor is there any critical examination of Indian Airlines proposals for fare revision by an independent body. The Committee desire that steps should be taken to streamline the methodology of determination of fare and freight structure of Indian Airlines.

2. The Committee find that Indian Airlines has increased its passenger fares as many as four times in the past five years. The increase in basic fare was 6.5% in April 1983, 18.5% to 23.5% in May 1985, 10% in March 1986 and 10% in June, 1987. The reasons for increasing the fares are stated to be to off-set the additional burden of fuel and other cost. What is distressing is that in spite of the frequent and stupendous hiking of passenger fares, the increase in fares, according to Ministry of Civil Aviation, has not totally compensated the increased cost of operations of Indian Airlines. Obviously, there is need for exercising an effective control by Indian Airlines to plug the loopholes. The Committee, therefore, urge that suitable corrective measures should immediately be taken by Indian Airlines to economise the cost of operations and check the wastages. The Committee desire to be apprised of the concrete steps taken in this regard.

3. On the basis of the recommendations made by a Committee constituted by Indian Airlines to rationalise its fare structure, the Indian Airlines revised and re-fixed passenger fares on all routes effective July, 1955. Accordingly, the fares, were so fixed as not to vary between two different points served by two different services having regard to passenger convenience. However, during evidence the representative of the Indian Airlines informed the Committee that this principle is not being followed presently. The fare charged between two points for connecting flight is more than the fare charged for the direct flight. For instance, the fare charged for the connecting flight from Trivandrum to Delhi via Bombay, Madras or Bangalore is higher than

the direct flight from Trivandrum to Delhi via Cochin and Goa. The Committee see no justification for charging higher fare for the connecting flights. This is clearly in contravention of the principle adopted in July, 1955 according to which the fares could not vary between two different points served by two different flights. This also ignores the concept of passengers convenience. The Committee, therefore, recommend that fares charged between two points served by two different services should be the same.

4. The Committee are shocked to know that nearly two third of the services operated by Indian Airlines are uneconomical. Out of 152 services operated in 1986-87, Indian Airlines could meet its total operating costs only in 53 services. As many as 99 services were not meeting their total cost of operations. It appears that short-haul routes are the ones which are mainly lossing due to high cost of operations and dismally low level of fares. Surprisingly, in spite of such a distressing performance, Indian Airlines has been making huge operating profits to the tune of Rs. 90 to 100 crores during each of the last four years. This leads to an inescapable conclusion that fares on the long distance operations have been jacked upto such an extent as to cover not only the losses incurred on the short-haul operations on account of low fares but also to provide a margin over total cost of operations. Thus, the requirement under the Air Corporations Act to provide air services at reasonable charges appears to have been given a go-by. As the present system of constructing fares on the basis of total cost of operations conveniently conceals the un-economic operations in two-third of services, Indian Airlines should delink its fare fixation from the concept of 'total cost of operations' and rationalise the fare structure on scientific basis.

5. The Committee feel that the fares of long routes could be substantially lower than the present level if the Corporation confines its operations to long -distance sectors. The cost of operations in short-haul sectors is decidedly much higher and the advantages much less. The main advantage of air transport lies in saving of time which is substantial only for long distance operations. The Indian Airlines should concentrate on operating its services as far as possible on long distance routes which will result in more advantage and involve less costs. The Committee in this connection have noticed that out of 99 uneconomic services in 1986-87, 39 services were not meeting even the cash cost and the loss on cash cost basis on these routes alone was as much as Rs. 6.8 crores. It appears that only after the matter was taken up by the Committee, Indian Airlines took action and discontinued 13 services which were incurring cash losses. The Committee desire that the rest of the routes which are not meeting cash costs should also be revlewed with a view to deciding their continuance or otherwise. The Committee are also of the view that there is no commercial justification for operating any service which could not meet even cash cost particularly when there is acute shortage of capacity

as pointed out elsewhere in this report. The Indian Airlines should divert its services from such of the routes as are not meeting the cash cost to more lucrative long distance routes. The Committee desire that Indian Airlines should rationalise its route structure accordingly.

6. There is need for better apportionment of routes between Indian Airlines and Vayudoot. Though Vayudoot has been set up with the specific objective of providing feeder services and to meet the needs of transportation to connect stations which have difficult geographical terrains, slow means of transportation and poor communication facilities, the Committee find that Indian Airlines continue to provide even those services which are in the domain of Vayudoot. These services cast heavy financial burden on Indian Airlines. The Committee would, therefore, suggest that all feeder services and services in inaccessible areas should be left to Vayudoot and Indian Airlines should concentrate on trunk and primary routes. The Committee hope that this would enable Indian Airlines to be more efficient and productive. The Committee would also in this connection recommend that if need be, the aircraft capacity of Vayudoot should be sufficiently augmented to expand its services to fulfil its objective.

7. In terms of Section 9 of the Air Corporations Act the Airlines is required to act on business principles. As per Section 34 of the Act services otherwise than on commercial considerations can be established or continued only on specific directions of Government. The Committee have been informed that Indian Airlines has been operating a large number of services incurring heavy cash losses as part of its social obligations. There is, however, no direction from the Government with regard to operation of these services as was admitted by representatives of Corporation during the oral evidence. The financial burden borne by the Corporation on account of operation of these uneconomic services is stated to be of about Rs. 97 crores during the last two years. The Committee would in this connection recall their earlier recommendation made in their 42nd Report (1981-82). It had been recommended therein that Government should undertake detailed review of un-economic routes operated by Indian Airlines with a view to give suitable directions in regard to the uneconomic services desired by Government in the national interest. The Committee regret to note that on such review has been undertaken by Government so far, nor has any direction been issued to Indian Airlines. The Committee take a serious view of this lapse. The Committee have now been informed that the matter is being reviewed by the Indian Airlines Board and thereafter it will be considered by Government. The Committee desire that the review of uneconomic services by the Board and Government should be completed expeditiously and directions issued to Indian Airlines in regard to the uneconomic services desired by Government to be operated by Indian Airlines in the national interest.

8. Incidentally, the Committee do not agree with Civil Aviation Secretary's view that under section 9 of the act there is an element of discretion on the part of the Indian Airlines Authorities to operate services under social considerations. In Committee's view the provision 'so far as may be' under Section 9 of the Act should be interpreted to cover such of the activities which are undertaken by Airlines only on the specific directions of Government issued under Section 34. If there is any ambiguity on this score, it should be removed by suitably amending the provisions of the Act.

9. Section 34 of the Air Corporations Act provides for reimbursement of loss incurred on any service operated on the directions of Government provided there is overall loss suffered by Airlines. The Committee on Public Undertakings (1981-82) had recommended that the Act needs to be amended to make provision for payment of subsidy without linking it to overall working results. Government had accepted this recommendation in principle. The Civil Aviation Secretary also informed the Committee during his evidence that the proposed amendment will be moved in the ensuing session i.e., the Monsoon Session (1988) of Parliament. The Committee would await the action taken in this regard.

10. The Committee find that Indian Airlines is giving as many as 28 different types of concessional fares. Besides these, fare levels in North Eastern Region are stated to be approximately 17% lower than the rest of India. The total financial impact of concessional fares is stated to be about Rs. 5.5 crores. According to the Ministry of Civil Aviation, Indian Airlines introduced all except two of these concessional fares on its own initiative. Indian Airlines, however, informed the Committee that these special concessional fares result in dilution of its revenue/foreign exchange earnings under the present marketing environment. The Committee do not understand the desirability of Indian Airlines continuing these concessional fares and losing huge amount on this account. The Committee desire that Indian Airlines in consultation with the Government should decide early the question of continuance or otherwise of all non-commercial discounted fares. The Committee feel that while it is reasonable to expect Indian Airlines to bear the financial burden of those concessions which are introduced purely on commercial considerations, it should not be burdened with such concessions as are given on socio-economic considerations. Non-commercial discounted fares should be introduced or continued only on specific directions of Government. The Committee hope that as assured by the Civil Aviation Secretary, Indian Airlines will be reimbursed of the loss of revenue suffered on this account.

11. The Committee feel that at present publicity is not given properly to the concessional fares available to the public. Although the Managing Director, Indian Airlines agreed during his oral evidence before the Committee to include the information regarding concessional fares in the Flight Timings

(Schedule) of Indian Airlines, but the Indian Airlines retraced its steps and informed the Committee in the post evidence written reply that "It is not considered feasible to include this information in schedule." The Committee urge that if at all it is decided to give any concession in fares, the information with regard to availability of such concessions should be publicised in the flight schedules so that the public becomes aware of such concessions.

12. The freight rates of Indian Airlines appear to be fixed on *ad hoc* basis. Presently excess baggage rates are fixed at 1.1% of the total passenger fare and basic cargo rates at 1.06% of basic fare. In order to promote cargo traffic Indian Airlines is stated to be giving concessions upto 60% of the charges. Discounted rates for 65% of the cargo traffic is indicative of the need for thorough critical review of freight rate structure. The Committee would suggest that instead of linking the freight rates structure with passenger fares, it should be determined on commercial and economic considerations keeping in view the need to maximise the revenue from cargo operations.

13. The Committee find that Indian Airlines has been carrying vast idle cargo capacity since the induction of Airbus about 12 years ago, as was admitted by Managing Director, Indian Airlines during his evidence. The unutilised capacity in the past two years is reported to be over 50%. The Committee note that in the existing airbus aircraft available with Indian Airlines, the average cargo capacity is 10 tonnes out of the total capacity of 31.5 tonnes i.e., nearly one-third of the total capacity. The Committee do not know on what basis the aircraft with so much cargo capacity was purchased by Indian Airlines when the actual cargo traffic is far below that level. The Committee desire that the matter should be enquired into with a view to finding out how the original assessment of cargo traffic went wrong and consequently led to availability of cargo capacity in the airbus aircraft in excess of the requirement. Indian Airlines is reported to have already taken some measures to improve cargo traffic, which *inter alia* include regular meetings with cargo agents, market research to indentify commodity which could bear air freight, grant of incentive passage to agent; special schemes for bulk users etc. The Committee need hardly emphasise the desirability of adopting aggressive marketing strategy by Indian Airlines to attract cargo so as to ensure optimum cargo capacity utilisation and mixiмum revenue therefrom.

14. Whereas the Committee do agree that it is not feasible to convert the cargo space in the existing aircraft into seats but the Committee desire that the Indian Airlines should consider the feasibility of having wide bodied aircraft that are being acquired, designed in such a way as to reduce cargo capacity and increase passenger capacity to match its requirements.

15. The Government is presently considering Indian Airlines' proposal for rationalisation of fare structure. The main feature of the rationalisation

exercise is stated to be to improve the corelation between the unit operating cost and the fare rate on short sectors. The proposed rationalisation is, however reported to be based on total operating cost as actually incurred. The Committee do not approve of this basis of rationalisation. In their view the rationalised fare structure should among other things be related to standard costs based on fixed norms of fuel and material consumption, optimum level of capacity utilisation (in three distinct categories viz., passengers, cargo and mail) and sectoral cost of operations. The attempt to correlate the unit operating cost with the fare rate should not only be in short sectors but in medium and long sectors as well. The Committee hope that with the rationalisation of route structure and fare structure suggested in this report, the fare in long sectors would be brought down to a reasonable level.

16. The Committee recommend that proposals for rationalisation/revisions of fare and freight structure should be studied by an independent expert body like Air Transport Council (ATC) as envisaged under Section 30 of the Air Corporations Act. The Committee note that ATC which was originally set up in 1955 was dissolved in 1962. On the Committee's suggestion during oral evidence, the Civil Aviation Secretary has agreed to review the question of reviving the Air Transport Council. The Committee desire that an early decision should be taken regarding the question of reconstitution of ATC and the proposals for rationalisation of fare structure of Indian Airlines including the one presently under consideration be referred to it for examination. The Committee in this connection would suggest that the ATC should among others, include Airline users, eminent financial analysts from private sector and Aviation experts as its member.

17. The Committee observe that the overall load factor and system seat factor of Indian Airlines compare favourably with that of some of the other Airlines in the world. Indian Airlines' overall load factor and system seat factor averaged around 70% and 74% respectively in the past four years as against 55% and 64% of some of the foreign airlines in their domestic operations. However, the Committee are informed that Indian Airlines is facing acute shortage of aircraft at present which is of the order of 8 Boeings and one Airbus. Indian Airlines is reported to be acquiring 19 Airbus A320 at a total cost of Rs. 1,238 crores during the Seventh Plan period. The Committee are, however, concerned to note that even after acquisition of these aircraft, Indian Airlines will continue to have capacity constraint. The Committee have been informed in this connection that as against the projected annual traffic growth of 10.1% during Seventh Plan, the Planning Commission has imposed a ceiling of 8% in the annual growth rate of Indian Airlines. The Committee hope that by restructuring the routes as recommended in an earlier paragraph i.e. by curtailing short-haul routes and concentrating on long-haul routes, the Indian Airlines would be able to meet its projected traffic growth in the current plan.

18. As on 31st March, 1987, Indian Airlines Jet fleet consisted of 11 Airbus and 27 Boeings and Turbo-prop fleet consisted of 7 HS-748 and 5 F-27. The Committee find that Indian Airlines has been currently utilising its existing Jet Aircraft above the optimum level due to shortage of capacity. As per norms specified, annual utilisation of Airbus and Boeing should be 2820 and 2700 flying hours per aircraft. As against this, the utilisation of Airbus and Boeing in 1986-87 was 2887 hours and 3054 hours per aircraft, respectively. Though, Indian Airlines and the Ministry of Civil Aviation have claimed that such excessive utilisation of aircraft does not affect its safety, the Committee are not inclined to accept this statement and desire that the matter should be examined from safety angle in consultation with aeronautic experts and aircraft manufacturers, and its outcome reported to the Committee. If it is found on such examination that safety of aircraft is beyond doubt due to such excessive utilisation, the Committee would then suggest that norms of aircraft utilisation should be reviewed and refixed realistically. On the other hand, if the examination suggests even slightest doubt on safety aspect, Indian Airlines should bring down its aircraft utilisation to the desired level forthwith.

19. The utilisation of F-27 aircraft which was 2579 hours in 1982-83 has sharply declined to 1950 hours in 1986-87. The Committee note in this connection that F-27 is being operated by Indian Airlines on extended life beyond the life span of 45000 landing/cycle after carrying out the structural integration programme. During evidence, Civil Aviation Secretary was strongly of the view that these aircraft should not operate in Indian Airlines and made a commitment that these would be phased out as soon as the new aircraft are acquired. While agreeing with the views of Civil Aviation Secretary, the Committee desire that action should be taken to phase out the Turbo-Prop aircraft as early as possible.

20. The Committee have noticed that the operating ratio of the Corporation has gone up from 83.10% in 1983-84 to 87.68% in 1986-87 in spite of having increased the fuel surcharge and basic fares on three occasions during this period. Though, Indian Airlines has attributed the rise in operating ratio to time lag between the fuel price hike and consequential increase in fuel surcharge, the Committee are of the firm view that it could have been kept within limits, had there been effective control over costs in areas such as consumption of fuel and oil, material consumed, outside repairs and services and pay and allowances which have registered a substantial increase in costs over the last four years.

21. The Committee find that during the period from 1983-84 to 1986-87, total expenses on fuel and oil have gone up from Rs. 194 crores to Rs. 326 crores and Indian Airlines is reported to have taken certain steps to achieve better fuel economy. The Committee would suggest that physical

norms of fuel consumption should be fixed aircraft type-wise and route-wise and the actual consumption closely monitored with a view to taking immediate corrective measures, wherever necessary.

22. The Committee note that expenses on 'Material Consumed' have jumped from Rs. 24.4 crores in 1983-84 to Rs. 47.6 crores in 1986-87 and that of 'Outside Repairs and Services' have shot up from Rs. 10.4 crores in 1983-84 to Rs. 26.7 crores in 1985-86 and slightly declined to Rs. 23.5 crores in 1986-87. The Committee are constrained to point out that repair work undertaken outside the country drain out the scarce foreign exchange resources. Indian Airlines in this connection has pleaded that facilities for overhaul/repairs of Airframe/Engine and other components be made available indigenously. The Committee recommend that workshop facilities within the country should be strengthened and expanded so that Indian Airlines does not have to depend on foreign countries for these facilities. The Committee would urge that priority should be given to this task keeping in view the need to conserve foreign exchange resources.

23. The Committee note that expenses on 'pay and allowances' have gone up from Rs. 65.3 crores to Rs. 90 crores during the period 1983-84 to 1986-87. The Committee would suggest that the manpower requirements of Indian Airlines should be assessed on scientific basis and actuals kept with in norms so that expenditure under this head does not escalate beyond the bare minimum.

24. The Committee regret to note that private hotels have been increasingly used for outstation stay of cabin and cockpit crew in violation of BPE guidelines on the subject. In the year 1986-87, Indian Airlines has incurred an expenditure of Rs. 2.43 crores in private hotels as against Rs. 1.11 crores in public sector hotels. In this connection, the Civil Aviation Secretary pleaded before the Committee that the use of private hotels by crew of Indian Airlines was governed by the agreement entered into with them by management and that it was not possible to go back on the agreement. The Committee do not accept this plea. They are at loss to understand how in the first instance this was agreed to by the Ministry/management setting aside BPE guidelines. The Managing Director, Indian Airlines also informed the Committee that the management is in the process of negotiating with pilots and cabin crew associations that they should use public sector hotels wherever possible. The Committee desire that wherever public sector hotels of prescribed standard are available, the Indian Airlines should not use private hotels for outstation stay of their crew.

25. The Committee are unhappy that a reply furnished by the Ministry of Civil Aviation on an earlier recommendation of the Committee (1981-82) turned out to be factually incorrect. In an action taken reply the Ministry of Civil Aviation had informed that "as far as the recommendation regarding the stay of flying crew in the public sector hotels is concerned, this is being followed by the Corporation as far as possible". This has been found incorrect from the figures now furnished regarding the amount spent on private hotels in 1986-87. The Civil Aviation Secretary also admitted this during oral evidence before the Committee. The Committee expect that the Ministry would exercise utmost care in future while furnishing any in formation to the Committee.

NEW DELHI :
April 28, 1988
Vaisakha 8, 1910(*S*)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings

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