

# FIFTY-THIRD REPORT

## COMMITTEE ON PUBLIC UNDERTAKINGS (1988-89)

(EIGHTH LOK SABHA)

INDIAN AIRLINES - FARE AND COST ASPECTS  
(Ministry of Civil Aviation and Tourism)

[Action Taken by Government on the recommendations contained in the  
47th Report of Committee on Public Undertakings (Eighth Lok Sabha)]



*Presented to Lok Sabha on 3-3-1989  
Laid in Rajya Sabha on 3-3-1989*

LOK SABHA SECRETARIAT  
NEW DELHI

*March, 1989/Phalguna, 1910(Saka)*

*Price: Rs. 13.00*

728.374  
198.53;5

## C O N T E N T S

		PAGE
COMPOSITION OF THE COMMITTEE		(iii)
COMPOSITION OF THE ACTION TAKEN SUB-COMMITTEE		(v)
INTRODUCTION		(vii)
CHAPTER-I	Report	1
CHAPTER-II	Recommendations that have been accepted by the Government.	9
CHAPTER-III	Recommendations which the Committee do not desire to pursue in view of the Government's replies.	22
CHAPTER-IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee.	24
CHAPTER-V	Recommendations in respect of which final replies of the Government are still awaited.	29

### APPENDICES

I	Minutes of the 28th sitting of Committee on Public Undertakings (1988-89) held on 7 February, 1989.	32
II	Analysis of action taken by the Government on the recommendations contained in the Forty-Seventh Report of Committee on Public Undertakings (Eighth Lok Sabha)	33

COMMITTEE ON PUBLIC UNDERTAKINGS  
(1988-89)

CHAIRMAN

Shri Vakkom Purushothaman

MEMBERS

*Lok Sabha*

2. Shri Saifuddin Chowdhary
3. Shri K.P. Singh Deo
4. Shri S.G. Gholap
5. Shri Virdhi Chander Jain
6. Shrimati Sheila Kaul
7. Shri Modh. Mahfooz Ali Khan
8. Shri Keshorao Pardhi
9. Shri Balwant Singh Ramoowalia
10. Shri K.H. Ranganath
11. Shri Harish Rawat
12. Shri E. Ayyapu Reddy
13. Shri Lal Vijay Pratap Singh
14. Shri S.D. Singh
15. Prof. Saif-ud-din Soz

*Rajya Sabha*

16. Shri Dipen Ghosh
17. Shri A.G. Kulkarni
18. Shri Kamal Morarka
19. Shri V. Narayanasamy
20. Thakur Jagatpal Singh
21. Shri Raoof Valiullah
22. Shri Virendra Verma

*SECRETARIAT*

1. Shri R.D. Sharma-*Joint Secretary*
2. Shri Rup Chand-*Deputy Secretary*
3. Smt. P.K. Sandhu-*Under Secretary*

**ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON  
PUBLIC UNDERTAKINGS  
(1988-89)**

1. **Shri Vakkom Purushothaman - *Chairman***
2. **Shri K.H. Ranganath - *Convener***
3. **Shri K.P. Singh Deo**
4. **Shri Virdhi Chander Jain**
5. **Shrimati Sheila Kaul**
6. **Shri Mohd. Mahfooz Ali Khan**
7. **Shri Lal Vijay Pratap Singh**
8. **Prof. Saif-ud-din Soz**
9. **Shri Kamal Morarka**

## INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 53rd Report on Action Taken by Government on the recommendations contained in the 47th Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Indian Airlines- Fare and Cost Aspects.

2. The 47th Report of the Committee on Public Undertakings was presented to Lok Sabha on 29 April, 1988. Replies of Government to all the recommendations contained in the Report were received on 23 January, 1989. The replies of Government were considered by the Action Taken, Sub-Committee of Committee on Public Undertakings on 7 February, 1989. The Committee also considered and adopted this Report at their sitting held on 7 February, 1989.

3. An analysis of the action taken by Government on the recommendations contained in the 47th Report (1987-88) of the Committee is given in Appendix-II.

NEW DELHI;  
21 February, 1989

---

2 Phalgun, 1910 (Saka)

VAKKOM PURUSHOTHAMAN  
*Chairman,*  
*Committee on Public Undertakings.*

## CHAPTER I

### REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Forty-Seventh Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Indian Airlines—Fare and Cost Aspects which was presented to Lok Sabha on 29 April, 1988.

2. Action taken replies have been received from the Government in respect of all the 25 recommendations contained in the Report. These have been categorised as follows:-

- (i) Recommendations/observations that have been accepted by the Government:  
Sl. Nos. 1, 2, 5 to 7, 9 to 11, 13, 14, 17, 19, 21, 22, and 24.
- (ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government replies:  
Sl. Nos. 23 and 25.
- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:  
Sl. Nos. 3, 4, 8, and 20
- (iv) Recommendations/observations in respect of which final replies of the Government are still awaited:  
Sl. Nos. 12, 15, 16 and 18.

3. The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by the Government should be furnished to the Committee expeditiously.

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

*A. Need to re-introduce point to point fares*

**Recommendation Sl. No. 3 (Paragraph No.3)**

5. The Committee noted that the fare charged by Indian Airlines between two points for connecting flight is more than the fare charged for the direct flight. 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 ignored the concept of passengers convenience. The Committee, therefore, recommended that fares charged between two points served by the different services should be the same.

6. The Government have stated in their reply that till 1979, Indian Airlines used to offer point to point fares when a passenger could travel by a combination of services. However, in 1979 this practice was discontinued by Indian Airlines as it was found that it resulted in complications from the administrative point of view since point to point fares were creating problems due to the large number of combinations and permutations of city-pairs that were being possible. Point to point fares were also not realistic from the view of cost of operations, as the passenger made use of more than one service. It has been stated that Indian Airlines keeping this logic in view, decided to discontinue this practice and introduce a system of charging the sum total of sector fares according to the itinerary of the passenger.

7. The Committee are not convinced of the Government's reply that the practice of charging point to point fares by Indian Airlines had created complications and problems. The Committee do not admit this plea as fare structure was rationalised on the basis of recommendation of a committee constituted by Indian Airlines and passengers fares on all routes were re-fixed effective from July, 1955. Thus, point to point fare had been in vogue for about twenty-five years i.e. from 1955 to 1979. Considering the fact that Indian Airlines is a service organisation and it is a monopoly in most of its routes, it should give utmost priority to passengers convenience. The Committee, therefore, reiterate their recommendation. They desire that the Indian Airlines should examine afresh the question of re-introduction of point to point fare having regard to passengers convenience.

*B. Rationalisation of fare structure*

**Recommendation Sl. No.4 (Paragraph No.4)**

8. The Committee had, *inter-alia* recommended that as the present system of constructing fares on the basis of total cost of operations

conveniently conceals the uneconomic 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.

9. The Government's reply relates only to restructuring of routes and is silent on the question of rationalisation of fare structure. The Committee hope that the Government have taken note of the Committee's above recommendation. They expect that expeditious action would be taken by Government on this recommendation.

**Recommendation Sl. Nos. 5 & 7 (Paragraph Nos. 5 & 7)**

10. The Committee noticed that out of 99 uneconomic services operated by Indian Airlines in 1986-87, 39 services were not meeting even the cash cost. After the matter was taken up by the Committee, Indian Airlines discontinued 13 services which were incurring cash losses. Regarding the question of continuance or otherwise of other uneconomic routes, the Committee had been informed that the matter was being reviewed by the Indian Airlines Board and thereafter it would be considered by the Government. The Committee desired that the review of uneconomic services by the Board and the 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.

*C. Review of Uneconomic routes*

11. While agreeing with the Committee's recommendation, the Government have stated in their reply that where Indian Airlines is operating on the uneconomic routes because of socio-economic considerations or to far flung areas on national considerations, such operations should be reviewed and if the Board of Indian Airlines is satisfied that these are not being operated on business principles as enunciated in Section 9 of the Air Corporations Act, 1953, Indian Airlines should place the facts before the Government and if Government desires that Indian Airlines should continue to operate services on such routes, then directions should be issued.

12. The Committee regret to point out that though about nine months have elapsed since the presentation of the report nothing has been mentioned in Government's reply about the outcome/progress of the reported review undertaken last year by the Board of Directors of Indian Airlines. The Committee do not understand why it takes so much time to



carry out the review regarding uneconomic services. The Committee would urge that this exercise by Indian Airlines and Government should be carried out within a specified time frame and directions under Section 34 of the Air Corporations Act issued at the earliest in respect of the uneconomic services desired by the Government on socio-economic considerations. In regard to other services incurring cash losses, there should be no hesitation to discontinue them if it is found that there is no potential to make them viable in the near future. The Committee would like to be apprised of the action taken on this recommendation within three months.

*D. Apportionment of routes between Indian Airlines and Vayudoot*  
**Recommendation Sl. No. 6 (Paragraph No.6)**

13. The Committee had, *inter alia* suggested that all feeder services and services in inaccessible areas should be left to Vayudoot and Indian Airlines should concentrate on trunk and primary routes.

14. The Government have stated in their reply that as far as the question of operations to inaccessible areas is concerned Government are in agreement with the recommendation of the Committee that such routes should normally be operated by Vayudoot. Regarding feeder routes, Government are of the view that these routes will have to be shared by Vayudoot and Indian Airlines depending on route economics, convenience of passengers, operational reasons and availability of aircraft etc. It has been informed that for better coordination and the sharing of routes between Vayudoot and Indian Airlines, Government is setting up a Committee.

15. The Committee desire that the proposed Committee for sharing of routes between Vayudoot and Indian Airlines should be set up early and the recommendations of that Committee and the action taken thereon should be intimated to the Committee on Public Undertakings.

*E. Operation of Services by Indian Airlines-Direction of Government under Section 34 of the Act*

**Recommendation Sl. No. 8 (Paragraph No. 8)**

16. The Committee had expressed its disagreement 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. According to the Committee 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. The Committee desired that if there is any ambiguity on this score, it should be removed by suitably amending the provisions of the Act.

17. While agreeing that the Corporation should operate on business principles and any deviation from business principles in the matter of operations of uneconomic routes on socio-economic considerations should be on specific direction of Government, the Govt. have stated in their reply that the subject has to be viewed in the context of overall operations of Indian Airlines and not interpreted in isolation to individual routes. It has also been pointed out that individual routes, particularly feeder routes are not profitable in isolation nevertheless they do contribute to overall revenue generation and profitability. The Government have stated that it is, therefore, considered necessary that while applying the concept of business principles, Indian Airlines has to take a macro view while deciding its operating pattern.

18. The Committee do not agree with the Government's views that the question of issuing directions in regard to operation of uneconomic services on socio-economic considerations should be viewed in the context of overall operations of Indian Airlines. The Committee feel that in a situation, as is the case with Indian Airlines, where the corporation might be making an overall profit but are incurring heavy cash losses in a number of individual routes operated on socio-economic considerations, an objective assessment of the Corporation's performance would not be possible unless such operations are covered by the directions of the Government and the Corporation is suitably compensated for the losses incurred thereon. The Committee would, therefore, stress that any uneconomic service operated by Indian Airlines on non-commercial considerations should be continued only on the specific direction of the Govt. under section 34 of the Air Corporations Act, irrespective of the overall performance of the Corporation.

*F. Amendment of Section 34 of the Act*

**Recommendation SI No. 9 (Paragraph No. 9)**

19. 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 would be moved in the Monsoon Session (1988) of Parliament. The Committee desired to be informed of the action taken in this regard.

20. The Government have stated in their reply that the question of amending Section 34 of the Air Corporations Act, 1953 is being processed by Government in consultation with the various Ministries concerned.

21. The Committee regret to note that though the proposed amendment of Section 34 of the Air Corporations Act should have been introduced in the Monsoon session of Parliament in 1988 as had been assured by the Civil Aviation Secretary, this has not been done as yet. The Government have now come up with the reply that the question of the proposed amendment is being processed by Government in consultation with the various Ministries concerned. The Committee take serious view of the inordinate delay and the casual manner the recommendation of the Committee has been dealt with. The Committee desire that the proposed amendment of the Air Corporations Act should be moved in Parliament at the earliest.

#### *G. Review of Concessional fares*

##### **Recommendation Sl. No. 10 (Paragraph No. 10)**

22. The Committee had desired 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 also felt 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. The Committee also desired that non-commercial discounted fares should be introduced or continued only on specific directions of Government.

23. The Government have stated in their reply that any concessional fares, based on socio-economic considerations, should be continued or introduced only if the Government desire Indian Airlines to introduce or to continue such concessional fares.

24. Nothing has been mentioned in the Government's reply as to whether any review was undertaken by Indian Airlines in consultation with the Government to decide the question of continuance or otherwise of all non-commercial discounted fares. The Committee would like to be informed of the same and also the action taken on the basis of the outcome of the review.

### *H. Freight rates structure*

#### **Recommendation Sl. No. 12 (Paragraph No. 12)**

25. The Committee had suggested 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.

26. The Government have stated in their reply that the Planning Commission have set up an independent Committee to go into the fares and freight rates of Indian Airlines as well as the cost of inputs.

27. The Committee would await the outcome of examination of the fares and freight rates structure of Indian Airlines by the independent Committee appointed by the Planning Commission and the action taken by Government on the recommendations made by the said Committee.

### *I. Cost Control*

#### **Recommendation Sl. No. 20 (Paragraph 20).**

28. The Committee noticed that the operating ratio of the Corporation had 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 were of the firm view that it could have been kept within limits, had there been an 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.

29. The Government have stated in their reply that apart from the delayed implementation of fares, the main reason for increase in the operating ratio is the increase in expenditure viz. material consumption, outside repairs, landing charges, navigation fees, obsolescence of spares, rent, rates, tariffs, etc. which are beyond the control of Indian Airlines. Some other expenses like Grand-in-Aid contribution to Indira Gandhi Rashtriya Uran Akademi, Electricity, Telephone, etc. involving substantial amounts are also stated to be beyond the control of the Corporation.

30. The Committee feel that at least some of these items are controllable by the management. For instance, effective control could be exercised on fuel and material consumption by laying down physical norms of consumption and strict monitoring. Obsolescence of spares could be

**minimised if there is proper planning and assessment of requirements. The Committee, therefore, desire that sincere efforts should be made by Indian Airlines to exercise meaningful control over costs.**

## CHAPTER II

### RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### Recommendation Serial No. 1 (Paragraph No. 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.

#### Reply of The Government

Although no formal periodical review of fare and freight rates is done, Indian Airlines maintains and analyses record of the average fare rate per seat kilometre for specific distance slabs for the purpose of comparison with the cost of operations. Indian Airlines, as far as possible, recovers the cost of operations from the fares, subject, of course, to the market conditions. Similarly, the freight and excess baggage rates are determined as a percentage of fares. In order to have better utilisation of Cargo capacity, freight rates were delinked from the excess baggage rates with effect from the 25th June, 1987, and fixed at 1.06% of the basic fare, while excess baggage rates were fixed at 1.1% of the total fares (basic fare and fuel surcharge).

The system of standard cost is mainly meant for the production oriented organisations with repetitive manufacturing processes. This system cannot be gainfully employed in a maintenance and service oriented organisations like Indian Airlines. Capacity utilisation is always kept in view while determining the cost of operations. The capacity utilisation of Indian Airlines had substantially increased over the last five years and is at much higher level than most of the Airlines in the world. The productivity of Indian Airlines in absolute terms like ATKms and RTKms., number of passengers carried, etc. has been consistently going up. Productivity in terms of ATKms. per employee has also been showing remarkable increase.

The fare revision proposals of Indian Airlines are examined in depth by the Ministry of Civil Aviation and the Ministry of Finance before giving approval. The existing procedure provides enough leverage for ensuring that the fares are not fixed / raised arbitrarily. Besides, the Planning Commission has recently constituted a high power committee to make a comprehensive examination of domestic airfares and freight rates and pricing of infrastructural facilities.

[Ministry of Civil Aviation & Tourism  
O.M. No. H. 11013 / 5 / 88-ACIA dated 20th January, 1989]

**Recommendation Serial No. 2 (Paragraph No. 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.

**Reply of the Government**

*2 (i) In spite of frequent hiking of passenger fares, the increase in fares has not totally offset the increased cost of operations of Indian Airlines*

It is true that increase in the basic fares by Indian Airlines does not totally offset the additional expenditure due to cost escalation as total offsetting of cost escalation would necessitate very high increase in the basic fares. The fare revision proposals are, therefore, basically intended to recover a part of the cost increases, the remaining portion of the increased cost being absorbed by stepping up of production and adoption of economy measures. The fuel surcharge portion of the fare is revised from time to time in order to off-set the additional expenditure on account of the hike in the prices of Aviation Turbine Fuel. However, no additional fuel surcharge was levied for increase in Sales Tax by some State

**Governments in 1987-88 involving additional liability of a huge amount to Indian Airlines.**

**It may also be mentioned that Indian Airlines' domestic fares continue to be amongst the lowest in the world in spite of fact that the cost of operation of Indian Airlines is much higher compared to many other countries in view of high fuel prices.**

**2 (ii) *Need for exercising economy in the cost of operations and check the wastages***

**About 85% of the cost of operation of Indian Airlines relate to such items of expenditure, the escalation in the cost of which is beyond the control of Indian Airlines. The prices of engineering spares imported from abroad have been on the increase and the position exacerbated by the adverse foreign exchange rate.**

**The Corporation has taken the following concrete steps to reduce expenditure in the other areas:**

- (a) Increasing utilisation per aircraft per annum of Airbus and Boeing-737 aircraft from 2624 and 2761 in 1984-85 to 2872 and 3185 in 1987-88 respectively.**
- (b) Increasing in the intervals between the two inspections and major Checks of the aircraft at the workshop resulting in saving of expenditure on aircraft maintenance and increased availability of aircraft for revenue operations without compromising safety.**
- (c) Upliftment of aircraft fuel based on the price differential between stations, improving the flying /maintenance techniques.**
- (d) Increasing seat and overall load factor from 73.8% and 69.2% during 1984-85 to 76.4% and 72.9% during 1987-88 respectively.**

**[Ministry of Civil Aviation & Tourism  
O.M. No. H. 11013/5/88-ACIA dated 20th January, 1989.]**



**Recommendation Serial No. 5 (Paragraph No. 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 along 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 reviewed 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.

**Reply of the Government**

Please refer to the reply of the Government to Recommendation No. 4.

[Ministry of Civil Aviation & Tourism  
O.M. No. H. 11013/5/88-ACIA dated the 20th January, 1989.]

**Comments of the Committee**

(Please See paragraph No. 12 of chapter I of the Report.)

**Recommendation Serial No. 6 (Paragraph No. 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 cause 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.

### **Reply of the Government**

As far as the question of operations to inaccessible areas is concerned, Government is in Agreement with the recommendation of the Committee that such routes should normally be operated by Vayudoot.

Regarding feeder routes, Government is of the view that these routes will have to be shared by Vayudoot and Indian Airlines depending on route economics, convenience of passengers, operational reasons and availability of aircraft etc. For better coordination and the sharing to routes between Vayudoot and Indian Airlines, Government is setting up a Committee. As regards the Committee's recommendation pertaining to the augmentation of Vayudoot fleet Vayudoot is already taking necessary steps for augmentation of its fleet.

[Ministry of Civil Aviation & Tourism O.M. No. H. 11013/5/88-ACIA dated the 20th January, 1989.]

### **Comments of the Committee**

(Please See paragraph No. 15 of Chapter I of the Report.)

### **Recommendation Serial No. 7 (Paragraph No. 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 no 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.

#### **Reply of the Government**

For reply to this recommendation, please refer to Government reply to Recommendation No. 4 and 5.

[Ministry of Civil Aviation & Tourism O.M. No. H 11013/5/88-ACIA dated the 20th January, 1989].

#### **Comments of the Committee**

(Please see paragraph No. 12 of Chapter I of the Report.)

#### **Recommendation Serial No. 9 (Paragraph No. 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.

### **Reply of the Government**

The question of amending Section 34 of the Air Corporations Act, 1953 is being processed by Government in consultation with the various Ministries concerned.

[Ministry of Civil Aviation & Tourism U.O.NO.H. 11013/5/88- ACIA dated the 20th January, 1989.]

### **Comments of the Committee**

(Please see paragraph No. 21 of chapter I of the Report.)

### **Recommendation Serial No. 10 (Paragraph No. 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.

### **Reply of the Government**

Any concessional fares, based on socio-economic considerations, should be continued or introduced only if the Government desire Indian Airlines to introduce or to continue such concessional fares.

[Ministry of Civil Aviation & Tourism U.O. No. H. 11013/5/88-ACIA] dated the 20th January, 1989.]

### **Comments of the Committee**

(Please See paragraph No. 24 of Chapter I of the Report.)

#### **Recommendation Serial No. 11 (Paragraph No. 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.

#### **Reply of the Government**

The recommendation of the Committee has been accepted and Indian Airlines is in the process of implementing the recommendation.

[Ministry of Civil Aviation & Tourism O.M. No. H. 11013/5/88-ACIA dated the 20th January, 1989].

#### **Recommendation Serial No. 13 (Paragraph No. 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 maximum revenue therefrom.

### **Reply of the Government**

Airbus aircraft was selected for induction into the fleet of Indian Airlines in 1976 as techno-economically the most suitable aircraft for operation on its high density trunk routes. Indian Airlines primarily being a passenger oriented airline, cargo revenue is considered only incidental to the carriage of passengers. The Airbus was found to be techno-economically suitable on the basis of overall capacity i.e. passenger and cargo.

2. Since induction of Airbus aircraft, overall load factor achieved on this aircraft has always been higher than its breakeven load factor i.e. load utilisation required to meet the cost of operation. The load factor achieved on airbus aircraft during 1987-88 was 73.9% as against the breakeven load factor of 61.2%.

3. With the induction of Airbus aircraft, there has been significant growth too in the carriage of cargo as well. The cargo tonnage carried went up from 25,718 tonnes in 1976-77 to 1,10,403 tonnes in 1987-88 registers an increase of over 400% and 60% of the cargo carried by Airbus along.

4. Reasons of low carriage of cargo on certain routes are:—

- Low surface transport rates.
- Strong competition by surface transport with facilities like door to door service, guaranteed delivery, etc.
- Requirement of cooling period of 24 hours for cargo.

5. As recommended by the Committee, Indian Airlines is already following an aggressive marketing policy for promotion of cargo.

The measures adopted by Indian Airlines towards promotion of cargo traffic are:—

- Special promotional cargo rates
- Regular meetings with agents/shippers
- Strong publicity campaign
- Grant of incentive passages to agents
- Use of X-ray machines at Delhi and Bombay to overcome the requirement of the cooling period.

[Ministry of Civil Aviation & Tourism O.M. No. H.11013/5/88-ACIA dated the 20th January, 1989.]

**Recommendation Serial No. 14 (Paragraph No. 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.

**Reply of the Government**

Airbus A-320 aircraft which will join the fleet of Indian Airlines during 1989-90 would largely meet this requirement. This aircraft does not have much surplus cargo capacity. The cargo capacity of this aircraft with a full complement of passenger load, will not exceed five tonnes and is expected to be around three and a half four tonnes at an average. The comparison of available cargo capacity between A-300 and A-320 is given below:—

	<u>A-300</u>	<u>A-320</u>
Average total payload	32 tonnes	19 to 20 tonnes
Average Cargo capacity with full passenger load	10 tonnes	4 tonnes
Percentage	31%	20%

[Ministry of Civil Aviation & Tourism O.M. No. H.11013/5/88-ACIA dated the 20th January, 1989.]

**Recommendation Serial No. 17 (Paragraph No. 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.

### **Reply of the Government**

As against an actual growth rate of 10 to 11%, the Planning Commission have imposed a ceiling of 8% on the capacity growth of Indian Airlines. The shortage in capacity is, therefore, inevitable till such time the ceiling on capacity growth is done away with. Efforts are afoot with the Planning Commission to remove this ceiling for the next Plan period.

Regarding curtailing/shorthaul of routes and concentrating on long haul routes, the position has been explained in Government reply to Recommendations No. 4 and 5.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

### **Recommendation Serial No. 19 (Paragraph No. 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.

### **Reply of the Government**

As regards phasing out of turbo-prop aircraft, utilisation of these aircraft will be continued till the existing turbo-prop airfields are upgraded for jet operations on the 30th of June 1990, whichever is earlier. Indian Airlines will operate only a few turbo-prop aircraft for transportation of men and material for maintenance and as standby aircraft. The turbo-prop aircraft are airworthy.



[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

**Recommendation Serial No.21 (Paragraph No. 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.

**Reply of the Government**

Government agree that there should be physical norms for fuel consumption for various aircraft taking into consideration various factors like the route to be operated, weather to be encountered, flying altitude, etc. Indian Airlines is being asked to work out norms and fuel consumption should be monitored on the basis of the norms arrived at and cases of excess fuel consumption should be examined for remedial action.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

**Recommendation Serial No. 22 (Paragraph No. 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.

### **Reply of the Government**

A new Jet Engine Overhaul Shop is coming up at Delhi and is expected to be operational in a few months from now. Considerable foreign exchange, hitherto incurred on repair and overhaul of JT&D engines abroad would be saved on commissioning of the Shop. The Shop, at the second stage, will be equipped to facilitate testing, repair and overhaul of other types of jet Engines too. The Construction of the shop is in full swing and is expected to be operational by this year end.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

### **Recommendation Serial No. 24 (Paragraph No. 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.

### **Reply of the Government**

Government agree with the recommendations of the Committee. Indian Airlines has been advised to negotiate with the Unions of the cabin crew and persuade them to stay in public sector hotels wherever such hotels of prescribed standard are available.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

### **CHAPTER III**

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

### **Recommendation Serial No. 23 (Paragraph No. 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 not escalate beyond the bare minimum.

### **Reply of the Government**

As against the total assessed strength of officers and staff of 21,960 in March,1988, Indian Airlines as on date has an actual strength of 20,108 which is less by 1,852 or 8.5%.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

### **Recommendation Serial No.25 (Paragraph No.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 spend 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 information to the Committee.

### **Reply of the Government**

The observations of the Committee have been Noted. However, the reply of the Govt. to recommendation no.8 included in the report of COPU (1982-83) 57th Report on action taken by the Government on the

recommendations in the 42nd Report on Public Sector Undertakings (7th Lok Sabha) on Indian Airlines was given in the context of the fact that there were several constraints in accommodating the cabin crew at some of the stations in the public sector hotels. These constraints were explained to the Committee during the oral evidence. The main constraint which had been pointed out earlier also related to the fact that the management of Indian Airlines had an agreement with the pilots' association and it was, therefore, not possible to decide unilaterally, without revoking the agreement with the unions, in the matter of stay of pilots in public sector/private sector hotels. The government reply, therefore, had specified "as far as possible", which meant that all the crew cannot be accommodated in public sector hotels due to this and other above constraint. It is submitted that there was no effort on the part of the Government to hold back information or to give incorrect information to the committee.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

## CHAPTER IV

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

#### Recommendation Serial No. 3 (Paragraph No. 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.

#### Reply of the Government

Till 1979, Indian Airlines used to offer point to point fares when a passenger could travel by a combination of services. However, in 1979 this practice was discontinued by Indian Airlines as it was found that it resulted in complications from the administrative point of view since point to point fares were creating problems due to the large number of combinations and permutations of city-pairs that were being possible. Point to point fares were also not realistic from the view of cost of operations, as the passenger made use of more than one service. Indian Airlines keeping this logic in view, decided to discontinue this practice and introduce a system of charging the sum total of sector fares according to the itinerary of the passenger.

The through fare is charged by Indian Airlines irrespective of the fact of whether the passenger make use of a direct service or a hopping service between two points. For example, the same fare is charged from a Delhi / Bombay passenger whether he travels on a non-stop Delhi / Bombay service like IC-405 or by a hopping service like IC-433 via Gwalior, Bhopal and Indore. However, if a passenger desires to travel between two points by a combination of services, instead of a direct service, the sum total of the sector fares concerned is charged due to the extra expenditure involved as a result of additional operating cost.

[Ministry of Civil Aviation & Tourism O.M. No.H. 11013/5/88-ACIA  
dated 20th January, 1989.]

#### **Comments of the Committee**

(Please see paragraph No. 7 of Chapter I of Report.)

#### **Recommendation Serial No. 4 (Paragraph No. 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.

#### **Reply of the Government**

Government agree with the recommendation of the Committee that:

- i) Uneconomic routes should not be operated by Indian Airlines unless there are compelling circumstances and special considerations.

- ii) Some of the short haul operations, presently being operated by Indian Airlines, could perhaps be substituted by better surface transport with all the facilities presently being provided by Indian Airlines to the passengers.
- iii) Where Indian Airlines is operating on the uneconomic routes because of socio-economic considerations or to far flung area on national considerations, such operation should be reviewed and if the Board of Indian Airlines is satisfied that these are not being operated on business principles as enunciated in Section 9 of the Air Corporations Act, 1953. Indian airlines should place the facts before the Government and if Government desires that Indian Airlines operate services on such routes, then directions should be issued.

[Ministry of Civil Aviation & Tourism O.M.No.H. 11013/5/88-ACIA dated the 20th January, 1989.]

#### **Comments of the Committee**

(Please see paragraph No. 9 of Chapter I of Report.)

#### **Recommendation Serial No. 8 (Paragraph No. 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.

#### **Reply of the Government**

Section 9 of the Air Corporations Act, 1953 reads as follows:—

“Corporation to act on business principles – In carrying out any of the duties vested in it by this Act, each of the Corporations shall act so far as may be on business principles”.

2. While it is agreed that the Corporation should operate on business principles and any deviation from business principles in the matter of operation of uneconomic routes on socio-economic considerations should be on specific direction of Government, the subject

has to be viewed in the context of overall operations of Indian Airlines and not interpreted in isolation to individual routes. Indian Airlines has to decide its operating pattern keeping in view various factors such as traffic potential, origin-destination affinity between various city-pairs, suitability of the aircraft type for a particular route, technical/operational considerations etc. It is true that certain individual routes, particularly feeder routes are not profitable in isolation nevertheless they do contribute to overall revenue generation and profitability. It is, therefore, considered necessary that while applying the concept of business principles, Indian Airlines has to take a macro view while deciding its operating pattern.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

### **Comments of the Committee**

(Please see paragraph No. 18 of Chapter I of Report.)

### **Recommendation Serial No. 20 (Paragraph No. 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.

### **Reply of the Government**

Apart from the delayed implementation of fares, the main reason for increase in the operating ratio is the increase in expenditure viz. material consumption, outside repairs, landing charges, navigation fees, obsolescence of spares, rent, rates, tariffs, etc. which are beyond the control of Indian Airlines. Material consumption during these years went up on account of escalation in cost of spare parts and upward revision in the Foreign exchange rates. Expenditure on Outside Repairs went up mainly on account of the upward revision in the Foreign Exchange Rates and increased repair and overhaul of aircraft modules and components due to



increased operations. Landing charges have been steeply increased over the years by the Airport Authorities. Navigation fees were increased by 50% in 1986-87 by the National Airports Authority. More and more spares are provided as obsolete due to increase in inventory and aging of the aircraft. Some other expenses like Grant-in-Aid contribution to Indira Gandhi Rashtriya Uran Akademi, Electricity, Telephone, etc. involving substantial amounts are also beyond the control of the Corporation. Despite all these increases, the Corporation has been striving to ensure economy by adopting various measures to control expenditure, especially the controllable expenses, and improving the productivity.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88—ACIA  
dated the 20th January, 1989.]

#### **Comments of the Committee**

Please See paragraph No. 30 of Chapter I of Report.)

## CHAPTER V

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

#### Recommendation Serial No. 12 (Paragraph No. 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.

#### Reply of the Government

The planning Commission have set up an independent Committee to go into the fares and freight rates of Indian Airlines as well as the cost of inputs. The terms of reference of this Committee, *inter-alia* include:

— Examining the present tariff structure of domestic air carriers and infrastructure facilities and recommending a rational framework for revision of tariffs, keeping in view the service and other considerations including the special importance of air transport in certain remote and backward areas.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA  
dated the 20th January, 1989.]

#### Comments of the Committee

(Please See paragraph No. 27 of Chapter I of Report.)

**Recommendation Serial No. 15 (Paragraph No. 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 correlation 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.

**Reply of The Government**

The Standard Costing system is mainly meant for production oriented organisations with repetitive manufacturing processes. Such a system cannot be gainfully employed in a maintenance and service oriented organisations like Indian Airlines. However, the Committee appointed by the Planning Commission with a view to examining the traffic structure of domestic air carriers will go into all relevant aspects of fare structure.

[Ministry of Civil Aviation & Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

**Recommendation Serial No. 16 (Paragraph No. 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 or 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.

### Reply of the Government

The question of setting up or otherwise of the Air Transport Council is being examined by Government in depth.

[Ministry of Civil Aviation and Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

#### Recommendation Serial No. 18 (Paragraph No. 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 air craft, 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.

#### Reply of the Governmnet

The recommendation of the Committee is under consideration.

[Ministry of Civil Aviation and Tourism O.M.No.H.11013/5/88-ACIA dated the 20th January, 1989.]

VAKKOM PURUSHOTHAMAN,

NEW DELHI;  
February 21, 1989

Phalgun 2, 1910 (Saka)

Chairman,  
Committee on Public Undertakings.

Corrigenda to the 53rd Action Taken Report of  
 Committee on Public Undertakings(1988-89) on  
 Indian Airlines - Fare and Cost aspects

<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
3		The caption "C - Review of Uneconomic routes" appearing after para 10 should be read as caption for paras 10 to 12.	
11	19	Increasing in the U.O. No.	Increasing the O.M. No.
15	8 from above & 2 from bottom		
16	2 from bottom	beer	bear
17	18	registers	registering
17	19	along	alone
18	12	half four	half to four
19	11	/shorthaul of	of shorthaul
22	8-9	with in	within
22	9	head not	head does not
22	24	spend	spent
25	25	upto	up to
30	7 from bottom	Question	question
30	6 from bottom	question or	question of
30	1 from bottom	member.	members.