

One of the finest success stories of an airlines, wilfully destroyed and now privatised - Case of Air India

To destroy a transport undertaking, privatise its routes and burden it with excessive aircrafts thereby creating unrepayable debt. This is exactly what was done with Air India (and Indian Airlines)

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Rationale for nationalisation

Post-Independence, there was reluctance to nationalise the various private airlines that were running very inefficiently. In 1950, an Air Transport Inquiry Committee (headed by Justice G.S. Rajyadhaksha) was appointed which went into a detailed examination of the working of private scheduled and non-scheduled air operators. The problems and performance of the private scheduled and non-scheduled air operators were documented. Some of areas of concerns listed were:

1. Conditions of permit frequently evaded in practice.
2. Illegal practices like over invoicing and under invoicing of equipment and spares
3. Spare capacity and unnecessary large fleet. High cost of operations
4. Uneconomic competition between scheduled airlines & non-scheduled operators.
7. Intense competition for a limited supply of technical personnel.
8. Multiple and large inventory of equipment, spares & excess capacities of workshops.

The rationale for nationalisation was not simply to overcome the above stated weaknesses of the privately operated system, but to realise some of the national priorities.

1. State organisation without a predominant profit motive, as in the case of private enterprises, to operate and undertake developmental schemes which may not be remunerative but are justified in public interest.
2. A unified organisation would also bring about economies of scale. It could also plan and organise the future of the industry in a comprehensive way, as well as, use the available resources to maximum advantage.
3. Take advantage of technical developments which are rapid in civil aviation transport, equipment & operation techniques. It could maximise benefits of optimal use of equipment, workshop, capacity and technical personnel. Such an overall long-term planning and re-equipment programme would involve considerable capital outlay and only a single state organisation can do so due to low intensity of traffic in India..
4. Need to eliminate financial support to private airlines. It was argued that it is better for Government to run the airlines rather than continuously provide financial and other material support to the private airlines.
5. Advantages from the point of view of defence, if internal services are operated by the state. The advantages are twofold i) availability in emergency ii) utilisation of equipment, workshop and training by the Indian Air Force.

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Did the Government owned airlines justify nationalisation?

Let us just answer this question by examining two issues

Creation of Assets

Despite the fact that Indian Airlines was entirely funded from internal resources, it did

- a) Upgradation of Aircrafts starting with Dakotas to Vicounts to Caravelles to Boeings to the latest state of Art technology. Today, Air India Limited, operates a fleet of Airbus and Boeing aircraft serving 102 domestic and 60 international destinations.
- b) Upgradation of aircraft maintenance facilities, communication facilities, ground support facilities, training facilities all of which are the state of art equipment.
- c) State of Art on-line computerisation for all commercial operations.

Indian Airlines has created assets which do not necessarily give profits on a short-term basis but are in the nature of long-term development of a state of art airlines that is comparable in its potential to the best in the World. Examples of these are the capital-intensive engine overhaul workshops, six axis training simulators for ensuring proper training and thereby maintain high standards of safety. All these were also established from internal funds with no budgetary support or cost to the exchequer.

Air India (with Indian Airlines merged into it) is the only Airlines in India with all the departments that an Airlines needs to have to qualify as an airline. This included, to cater to their crew and transit passengers besides other patrons, setting up Centaur hotels. These were wilfully destroyed during the first BJP Government under Mr. Vajpayee.

Linking up the Nation

In fulfilment of the expectation of nationalisation Indian Airlines has been operating three types of routes.

1. Routes that made profits
2. Routes that made losses but do not constitute cash losses and
3. Routes that make cash losses.

The rationale for operating cash loss routes were:

- a) Operation to tourist destinations such as Agra, Khajuraho, Varanasi, Bhuwaneshwar, Jaipur, Jodhpur, Udaipur, Aurangabad etc. - all these routes are short sector operations and are uneconomical.
- b) Operations to remote and difficult areas such as the entire North Eastern region, Leh, Port Blair, Bhuj etc.
- c) operation to uneconomic destinations which are non-tourist and not remote but in public interest including state capitals and politically important cities like Gwalior, Lucknow, Raipur,
- d) Concessions to students, armed forces personnel, blind persons, Cancer patients etc.
- e) Haj pilgrimage on concessional rates in order to meet social obligations.

The private sector moved in once these destinations were opened (complemented by Indian Tourism Development Corporation opening up the destination).

The Reforms:

Initial reform was based on a violation of the Law. That was with the introduction of Air Taxis, in complete violation of the Air Corporation Act (**Air Taxis have concentrated only on the most profitable routes that touch destinations such as the four metropolitan cities, Hyderabad, Bangalore, Cochin, Trivandrum etc**

These air -taxies Modiflut, East West Airlines, Air Deccan (later, Mr Mallya rebranded Air Deccan as Kingfisher Red) failed simultaneously once they were obliged to obey the law. This was followed by the repeal of the Air Corporation Act and Airlines replaced illegal Air Taxis.

The crowing glory of India's reforms - **The Secretary, Civil Aviation, in his submission to the Standing Committee on 9th June, 1993 admitted that permission could not be given for "Scheduled air transport services" as that would be contrary to law. The said Secretary also admitted that such taxis were operating a schedule and everyone knew about it (Report: 1993 Pr. 2.1-2.2) by quickly added," How does one know about it in the Ministry unless the facts are brought-out that somebody is violating the law?"**

In the domestic sector, domestic routes were opened to several Indian based and foreign airlines. In the international arena India opened its skies, liberally giving away its traffic rights" (mean the right for scheduled and non-scheduled services to operate and/or carry passengers, cargo and mail for remuneration or hire from, to, within, or over the territory of a country). Slowly but steadily India enables foreign airlines to gain traffic rights without any reciprocal advantage (rather positive disadvantage) to Air India.

The slaughter

If there is one person who can claim absolute credit for ensuring the downfall of Govt. owned airlines it is Mr. Praful Patel who in 2004 took over as the Minister of State for Civil Aviation.

Load it with debt

An airline with revenues of Rs 7,000 crore was asked to take on a debt of Rs 50,000 crore in order to purchase a suddenly inflated order for new aircraft from 28 to 68 without a revenue plan or even a route-map.

Merger the Airlines without a plan

Before the merger, Indian Airline's name was changed to "Indian" to enable Jet airways to advertise itself as the best India Airlines. If that is not theft of brand equity what is? Then came the merger of Air India with Indian Airlines as the panacea for all ills. This was done without a plan and without resolving the human resource problems that were to inevitably arise varying cultures and employee costs. The combined losses for Air India and Indian Airlines in 2006–07 were ₹7.7 billion (US\$110 million) and after the merger, it went up to ₹72 billion (US\$1.0 billion) by March 2009.

Hand over Air India's lucrative routes on a platter

The airlines business is extremely capital intensive and both the equipment and fuel require precious foreign exchange. In any transport business the capital costs are overwhelming compared to the variable costs. Therefore, monopoly of a route is very critical and it is the routes that are privatised or nationalised not the vehicles or the transport company.

Flying rights on lucrative sectors in the Gulf to foreign airlines, including Etihad Airways, Qatar Airways, Air Asia, Singapore Airlines and several others. For no logical reason, Air India withdrew from in Kozhikode, Doha and Bahrain - a route in which the airline was making money hand over fist. Very soon, Jet and Etihad stepped in to fill the gaps, and so did Emirates.

The Comptroller and Auditor General (CAG) reported in 2011 that the civil aviation ministry's decision to massively expand bilateral entitlements hampered Air India. The report added: "As an illustrative case of the liberalisation of bilateral entitlements, the sequence of events relating to the Dubai sector, covering the period from May 2007 to March 5, 2010 [when the seat capacity was increased from 18,400 seats/week to 54,200 seats/week and points of call in India were increased from, clearly demonstrates the one-sided nature of benefits to Emirates/Dubai through enhancement of entitlements and additional points of call in India."

Enforce the political culture – private use of public property

Officials and politicians getting regular upgrade for themselves and their family members from economy to business class was very common. According to report published in *Mail Today* on 29 April 2010, Air India deployed a larger aircraft than the scheduled one just to ensure that Mr Patel's daughter Avni, her husband Prashant Deshpande and her in-laws could fly business class to Male, the capital of Maldives.

The Final nail in the coffin

In 2013, when the then-Civil Aviation Minister Ajit Singh proposed privatisation as the key to the airline's survival, the main opposition came from BJP. By 2018 the same BJP was desperate to sell off Air India. In March 2018, the Government issued an Expression of Interest (EOI) to sell 76% stake of Air India, along with low-cost airline Air India Express, and a 50% stake of AISATS, a ground handling joint venture with Singapore Airport Terminal Services (SATS). According to the EOI, the new owner would have to take on a debt of ₹33,392 crore (US\$4.7 billion).

Having failed to sell the airline, the Government on 27 January 2020, released a revised Expression of Interest (EOI) to invite bidders. This time Govt. decided to sell 100% shares of both Air India and its budget carrier Air India Express as well as 50% shares of AISATS and to attract more bidders this time, the government has already decreased nearly ₹30,000 crore (US\$4.2 billion) of debts and liabilities.

Air India's total debt surged significantly over the past two years due to the Covid-19 pandemic and stands at over Rs 40,000 crore as of now. However, the government plans to hand over the airline with a debt of Rs 23,000 crore to the Tatas. However, Tata Group, the front runner may be willing to acquire around 15 percent of the airline's total debt.

Buyers gamble?

Tata group's airlines - Vistara and Air Asia have declared losses of Rs 1,814 crore and Rs 332 crore in fiscal 2020. It is understood that the bid had been submitted by Tata Sons, which has 83.67% stake AirAsia India and holds 51% in Vistara, a joint venture with Singapore Airlines. Since neo liberalisation two airlines – Jet airways and King Fisher turned turtle, a third Spice Jet managed to survive. Why then would TATA want to take over in the midst of a Pandemic. The answer lies in the fact that besides the airlines enterprise (Enterprise value includes the equity value of a company along with short-term and long-term debt as well as any cash on the company's balance sheet) as a dowry it gets **control of 4,400 domestic and 1,800 international landing and parking slots at domestic airports, as well as 900 slots at airports overseas and over 2000 fully trained and licenced pilots**

Would the takeover by Tata be successful? The jury is out on this question.