Chapter -5

RE-PRIVATISATION OF AIRLINES

Air travel in India was perceived to be an elitist activity for many years. This view is derived from the ‘Maharajah’ symbol and, due to the prohibitive cost of air travel the only people who could afford it were the rich and the powerful.

Until less than a decade ago, all aspects of aviation were firmly controlled by the Government. In the early fifties, all airlines operations in the country were merged into either Indian Airline or Air India and by virtue of the Air Corporations Act, 1953, the monopoly of these air corporations contributed for the next forty years.

The Directorate General of Civil Aviation controlled every aspect of flying including granting flying licenses to Pilots, certifying aircrafts for flight and issuing all rules and regulations governing Indian airports and airspace. Finally the airports authority of India was entrusted with the responsibility of managing all the National and International airports was incharge of every aspect of air transport operation through Traffic control. With the opening up of the Indian economy in the early nineties, aviation saw some significant
changes. Most importantly, the Air Corporation Act was repealed to end the monopoly of the public sector and private airlines were reintroduced. The air corporation act, 1953 changed the landscape of airline industry in India. It was in 1994 that the air corporation act was repealed and this allowed private operators to operate in the domestic airline and aviation industry.

In 1980’s the Indian economy grew by over five percent on an annual basis, but suffered from chronic shortages of international air cargo capacity. As the export industry demanded on-time delivery of raw material and manufactured goods and as the time-sensitive materials were to be delivered more frequently by air, capacity constraints was regarded as the key obstacle that would hinder the industry from enhancing export and foreign currency exchange earnings. Impacts to the reform of air cargo sector was added in 1986, when the Indian government allowed air taxi operators to provide on-demand services primarily to boost tourism on major routes. In the early 1990s the government announced an industry wide ‘economic – disengagement’ policy, which aimed at moving from a planned closed economy towards a much de-regulated market system.
Need for Re-privatisation policy

In order to promote travel and tourism, India adopted an Re-privatisation policy. The earlier policy restricted the access of foreign airlines. As a result, potential tourists were not offered a choice of airlines or seats while travelling to India. This problem irritated the travelers during the holiday season when it is difficult, if who were unable to get a seat either into the country or out of it. It was reiterated argued therefore, that India should adopt an Re-privatisation approach to any foreign carrier wanting to fly into India, which literally meant allowing them unlimited service, ports of call. Other reasons for Re-privtisation are the promotion of economic efficiency, Reduction of the involvement of the state in the provision of goods and services, The generation of benefits for consumers, The promotion of an enterprise culture and The achievement of wider share ownership. So the re-privatization was both strategic and financial. Government welcomed this in order to reduce their budget deficits. It allowed room for reducing taxes, or shifting the financial burden to the private sector.

Concept of Re-privatisation policy

Re-privatisation is an international policy concept which calls for the liberalization of rules and regulations on international aviation industry with
specially commercial aviations, opening a free market for the airline industry. Its primary objectives are:

- To liberalize the rules for international aviation markets and minimize government intervention- the provisions apply to passenger, all-cargo and combination air transportation and encompass both scheduled and charter services; or

- To adjust the regime under which military and other state based flights may be permitted.

Re-privatisation means unrestricted access by any carrier into the sovereign territory of a country without any written arrangement, specifying capacity, ports of call or schedule of services is in other words an Re-privatisation policy would allow the foreign airline of any country of ownership to land at any port on any number of occasions without restriction on the type of aircraft. There would be no need for certification, no regularity of service and no need to specify at which airport they would land.

**Bilateral and Multilateral Air Transport Agreement**

A **bilateral air transport** agreement is a contract to liberalize aviation services, usually commercial civil aviation, between two contracting states. A bilateral air service agreement allows the airlines of both states to launch
commercial flights that covers the transport of passengers and cargoes of both countries. A bilateral agreement may sometimes include the transport of military personnel of the contracting states.\(^2\) In a bilateral agreement, the contracting states may allow the airlines of the contracting parties to bring passengers and cargoes to the home country or pick up passengers and cargoes from the host country to the home country of the airline or to a third country in which the contracting states have existing Re-privatisation agreement. India signed multilateral air agreement with various countries of the world. A **multilateral air services** agreement is the same as bilateral agreement, the only difference being that it involves more than two contracting states.\(^3\)

On 31\(^{st}\) march, 1992, India had bilateral Air Services Agreement with sixty four countries.\(^4\) During 1992-93, a new air services agreement was concluded with Israel thereby increasing the number of such agreements to sixty five by the end of March, 1993.\(^5\) In addition, the existing agreements with thirteen countries were reviewed. As a result of these talks, the capacity entitlements have been increased by One thousand eight hundred and fifty seats per week from India.

The last twenty-five years have seen significant changes in airline regulation. The U.S began pursuing Re-privatisation agreement in 1979 and by
1982 it signed twenty-three bilateral air service agreements worldwide, mainly with smaller nations. A huge step was taken in 1992 when the Netherlands signed the first Re-privatisation agreement with the United States, in spite of objections policy held by European Union Authorities. India adopted the Re-privatisation policy in 1990, initially for a period of three years, and extended till 1992.

Most of the Re-privatisation provisions are Free market competition, Pricing determined by market forces, Fair and equal opportunity to compete, Computer reservation systems are transparent and non-discriminatory, Cooperative marketing arrangements, Provision for dispute settlement procedures for resolving differences under the agreement, Liberal charter arrangements, carriers, Safety and security and provision for all cargo services.

**Liberalization of regulatory framework**

A policy of Re-privatisation for cargo was adopted in 1990, initially for a three year period, and extended in 1992 on a permanent basis. Under this new policy, any airlines, whether Indian or foreign carriers which meet specified operational and safety requirements were allowed to operate scheduled and non-scheduled cargo services from any airport in India, where custom and immigration facilities were available. In addition to this, regulatory
control over cargo rates for major export commodities had been abolished, so that carriers were free to set their own rates. The government also expressed its “favorable” consideration for the application of foreign airlines for additional passenger flights operated by mixed passenger and freight aircraft. These new policies were consolidated with a package together with further liberalization on domestic air taxi operation and relaxation of the rules on international tourist characters, and were implemented on a unilateral basis without requiring comparable rights for Indian carriers from bilateral patterns in return.

**Impact of open-sky policy in India**

The open sky policy allowed air taxi-operators to operate flights from any airport, both on a charter and a non charter basis and to decide their own schedules, cargo and passenger fares. The operators were however, required to use aircraft with a minimum of fifteen seats and conform to the prescribed rules. In 1990, the private air taxi-operators carried one thousand and five hundred passengers. This number increased to 4.1 lakh in 1992, 29.2 lakh in 1993, 36 lakh in 1994 and 48.9 lakh in 1995. And in 1996, private air taxi operators carried 49.08 lakh passengers which amounted to a 41.14% share in the domestic air passenger traffic. Seven operators namely NEPC airlines, skyline NEPC, Jet Air, Archana Airways, Sahara India Airlines, Modieft and
East west Airlines had since acquired the status of scheduled airlines. Besides this there were 22 non-scheduled private operators and 34 private operators holding no-objection certificate in 1996. The number of plus 120 category aircraft in the private sector was thirty four and the total fleet strength was seventy five in June, 1996. Two out of seven scheduled air taxi operators suspended their operations in 1996 because of the non-availability of aircraft.

**Table.1 No of passengers carried by private Air taxi operators**

<table>
<thead>
<tr>
<th>Year</th>
<th>No.of. Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>15,000</td>
</tr>
<tr>
<td>1992</td>
<td>4.1 Lakh</td>
</tr>
<tr>
<td>1993</td>
<td>29.2 lakh</td>
</tr>
<tr>
<td>1994</td>
<td>36 lakh</td>
</tr>
<tr>
<td>1995</td>
<td>48.9 lakh</td>
</tr>
<tr>
<td>1996</td>
<td>49.08 lakh</td>
</tr>
</tbody>
</table>

Source : Transport India 2000

The details of Cargo traffics at five international Airports in India are as follows;

**Table.2 Cargo Traffics at Five International Airport in India**

<table>
<thead>
<tr>
<th>Period</th>
<th>International Cargo</th>
<th>Domestic Cargo</th>
<th>Total</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>47.4</td>
<td>33.6</td>
<td>81</td>
<td>-</td>
</tr>
<tr>
<td>1982-83</td>
<td>165.4</td>
<td>84.6</td>
<td>250</td>
<td>209</td>
</tr>
<tr>
<td>1992-93</td>
<td>300.5</td>
<td>90.9</td>
<td>391.4</td>
<td>56.56</td>
</tr>
<tr>
<td>1999-2000</td>
<td>494.5</td>
<td>183.6</td>
<td>677.2</td>
<td>73</td>
</tr>
</tbody>
</table>

According to the Indian Government Statistics, the period since the adoption of Re-privatisation policy has seen a strong growth in international air cargo traffic, which increased from about 300000 tonnes in 1991 to over 420000 tonnes in 1998. The traffic increase was mainly due to a sizeable growth in scheduled services operated by foreign airlines most of which were permitted to inaugurate under an “Re-privatisation” policy. For example Lufthansa, Air France and KLM doubled their capacities to India, while most foreign airlines adopted a strategy of selective entry in peak periods without long term commitments carriage on foreign airlines.’ Non-scheduled services also doubled for the first three years, but sharply declined to less than the 1991 level by 1998 because of a marked shift in scheduled services.\(^8\)

Air India, a state – owned national carrier, faced a stiff competition from foreign airlines. Air India’s market share of international cargo tonnage declined from twenty three percent in 1991 to sixteen percent in 1992. To recover its market share and augment its capacity Air India submitted a flat acquisition programme, for which the government had expressed support, and new wet-based freighter operations. Indian Airlines, another state owned carrier serving domestic and short- level international routes, tripled its cargo operation from 1991 to 1998.\(^9\) The revenue from cargo reached about ten
percent of Indian Airlines revenue, but its market share for international cargo was still about three per cent, compared to ten percent in passengers. The details of the Government share holdings (percent) in top twenty international airlines is found in the Annexure No. IV.

The announcement of reprivatization for designated airlines of ten ASEAN nations to fly unhindered into the Indian cities affected the earnings of Air-India and Airlines. However, in order to prevent any adverse impact on the revenue of Air-India earned through bilateral air traffic rights, the government has allowed the airlines of these southeast Asian nations to operate freely to certain places like Goa, Cochin, Amritsar, Gaya and Khajuraho. These foreign carriers were not allowed to use the open sky policy for metro cities. Only three ASEAN nations operated their flights to India. Both Air-India and Indian Airlines faced heightened competitions. The foreign carriers reached the important tourist destinations. Air- India earned revenue through the bilaterals with which the agreements have been signed by the government. The designated carriers of these nations entered into a commercial agreement with Air India for carrying out their operations in India and it is an undeniable fact that the open-skies policy highly promoted the export, import trade and tourism industry in India. Relatively speaking it has enhanced the economy of
the nations and brought mutual understanding among nations. The details of the operations of the Air craft operated by Foreign airlines is shown in Annexure. No. V.

Reprivatization introduced nine aspects of the air policy for those states that have adopted the convention and enter into bilateral treaties that may grant any of the following rights, or privileges for scheduled international air services. The privatization had salutary benefits granting rights to fly areas over the territory of either state without landing, to land in either state for non-traffic purposes for example refueling without boarding or disembarking passengers, to land in the territory of the first state and disembark passengers coming from the home state of the airline, land in the territory of the first state and board passengers travelling to the home state of the airline, land in the territory of the first state and board passengers travelling on to a third scheduled flights from the U.S to France and on the way pick up traffic in the U.K and back France, transport passengers moving between two other state via the home state of the airline, to transport passengers between the territory of the granting state and any third state without going through the home state of the airline and transport cabotage traffic of the granting state on a service performed entirely within the territory of the granting state.
REVOLUTION IN THE AVIATION INDUSTRY

Indian Aviation Industry witnessed a major change in 2003, when Air Deccan introduced budget flying by lowering the fare to a mere seventeen percent of what the other airlines were charging. The Aviation Industry considered this to be a revolution. Airlines which were considered to be the luxury of the Maharaja have now become affordable to the common man. The low cost air rides have made great strides in the aviation and tourism industries. The Managing Director of India’s first low-cost carrier Air Deccan, Captain G.R.Gopinath said that a country like India which has a population of a billion has only fifteen million air passengers. According to him this is the right time to introduce the changes. If one billion people could fly, with a miniscule percent of the market, still the income will be high. But it is not an impossible dream, He made the dream come true by adopting a simple method cutting cost by introducing paper tickets, no frequent flyer programmes, bookings on internet. This has been faithfully followed.

The Indian aviation sector was exposed to intense competition with the advent of a low-cost airline - Air Deccan back in 2003. The success of Air Deccan spurred the entry of other Low cost carriers (LCCs) like SpiceJet, Indigo, Go Air and subsequently low fare offerings from Jet airways and
Kingfisher airlines. As a result, the sector which was completely dominated by full-service airlines till a decade ago is now dominated by low-cost airlines. The Airport Authority of India (AAI) was the only major player involved in developing and upgrading airports in India for a long time, but private sector participation has increased post liberalisation. Major private sector players in aviation are GMR Infrastructure, GVK, Siemens, Larsen & Toubro Ltd., Maytas Infra Ltd., and Unique Aviation Services Pvt. Ltd. Indian aviation sector has witnessed a phenomenal growth chart in the last decade. Today, India is the 9th largest civil aviation market in the world and ranks fourth in domestic passenger volumes with a market worth of US $12bn.
**END NOTES, Chapter-5**


3. Ibid, p.95.


5. Ibid, 50.


10. [www.wikipedia.com](http://www.wikipedia.com)