Air Transport: Nationalisation and After

A C Chhatrupati

The change in ownership brought about by *nationalisation is merely the beginning,* The *primary task and indeed the most urgent and also the most difficult, is to put the industry on a sound economic basis through rationalisation. This should be tackled while integrating the domestic anlines into the Corporation so that it can operate on a commercial basis as soon as reorganisation is complete.*

CIVIL aviation in this country entered a new era on the first of this month, when the two State Corporations—Indian Air Lines and Air India International—took over the domestic and international air services. As explained in an earlier article, (issue of October 18, 1952) the need for a drastic reorganisation and rationalisation of the industry had become most urgent because almost the entire industry had been crippled by heavy losses. Most companies could not have continued to operate for long without substantial financial assistance from Government, as nearly one-third of the total invested capital had already been wiped out.

The choice lay between merger of the companies into two or three units, with the active support of Government, and nationalisation. Mr J R D Tata, in his valedictory speech to the shareholders of Air India Ltd, regretted that due consideration was not given to the proposal for a merger of the domestic operators into two semi-State-owned companies on the model of Air India International. But this would have been contrary to the basic Government policy that public transport should be State-owned. The railways are already owned by the Union Government and the State Governments are nationalising motor transport. Therefore, nationalisation of air transport was the obvious choice, especially because Government would have been expected to assist the reorganised private companies with substantial capital to finance re-equipment and also to subsidise subsequent operations, if these resulted in losses.

Apart from opposition from those who consider nationalisation under any circumstances bad, there have been only two major points of criticism. These relate to the terms of compensation and to the need for a separate corporation for the international services. The terms of compensation have been considered unfair on the ground that all aircraft are being taken over at cost, less reasonable depreciation, although their world market prices are two to five times higher. This assumes that market values of individual assets should be considered in determining compensation. Normally, when an industry is nationalised, compensation is determined on the basis of its equity value as measured by mar ket quotations of its shares over a period or by capitalisation of its earnings. In the case of a depressed industry, as its share quotations or earnings would not reflect the value of its assets, the normal practice is to assess compensation on the basis of the book values of its assets and liabilities. In no ease is the principle of cost or market price, whichever is higher, used in the valuation of an undertaking, because all assets and liabilities, good and bad. essential or surplus to the undertaking's require ments, are taken over. The demand for the payment of market prices for aircraft is therefore unreasonable.

WHY TWO CORPORATIONS?

The decision to have two Corporations was severely criticised in Parliament. The Planning Commission had recommended only one Corporation, but Mr Tata successfully persuaded Government to have a separate Corporation for international operations, on the grounds that, " it will simplify the transition to State ownership; it will help to maintain efficiency, safety, service to passengers, etc, all of which might have been affected by the dislocation inevitable, to some extent, in the process of integrating the whole of the Indian air transport industry into one corporation. But even more important, it will retain intact, for the benefit of the new Corporation, the valuable goodwill and prestige of our Company Air India International Ltd) which are clearly identified with its name." With due regard to Mr Tata it should be pointed out that the advantage of continuity claimed is unlikely to be realised in practice, because Air India International Ltd was only a legal entity and Air India Ltd was operating the services of the former as its technical and general managers and chief booking agents. Since Air India has merged into Indian Air Lines, the separate Corporation for Air India International will either have to build up its own organisation or continue to rely on the domestic Corporation for the services previously performed by Air India. In both cases some dislocation is inevitable.

The decision to have a separate Corporation seems to have been interpreted as implying that Air India International should have its own administrative, traffic and technical organisation. Can the cost of this separate organisation be justified by higher efficiency or In the goodwill attached to the name of Air India International? The additional cost of having two Corporations was estimated by the Communications Minister at Rs 6 lakhs. This may prove a serious underestimate because. for the operation of services both to Europe and the Ear East and for providing through services to Delhi, three establishments will have to be created in India itself, at Bombay, Delhi and Calcutta. The financial success of Air India International Ltd was traced largely to its low overheads, which were due to its having a common managerial staff with Air India Ltd. Even then it suffered a loss in 195-- International air transport is a fiercely competitive business and the proposed tourist services, with increased seating capacity and over 35 per cent reduction in hues, will make the task of survival still more difficult. Will the international corporation be able to support the extra burden of a minimum of Rs 6 lakhs? The Communications Munster has premised to review the question after a few vears. If the decision of Air India International to have a separate organisation for traffic and other similar departments is reconsidered, the two Corporations could be merged into one easily, if that was subsequently found necessary.

R ATIONALISATION NECESSARY

The change in ownership brought about by nationalisation is merely the beginning The primary task, and indeed the most urgent and also the most difficult, is to put the industry *on* a sound economic basis through rationalisation. This should be tackled while integrating the domestic airlines into the Corporation so that, when the reorganisation is complete, the new Corporation can operate on a commercial basis. Integration itself should brine; about considerable economy through climination of duplication in booking offices, airport traffic handling, surface transport and engineering facilities. A single booking office in each city and a single traffic handling organisation at airports would save large amounts in rent and other establishment charges. The new Corporation would also be able to operate all the services with engineering bases in four major cities—Bombay, Calcutta, Delhi and Madras—from which all services originate or terminate, instead of eight as at present.

After integration, Indian Air lines will have to face a number of problems. With more than one company operating on trunk routes, there is considerable duplication in services and consequent excess capacity. Thus on the Bombay Calcutta route, not less than four companies (Air India, Air India International, Airways India and Deccan Airways) were operating. Similarly, between Bombay and Madras-Bangalore there were three operators. It should be possible to reduce if he frequency of services operated, and still meet the traffic needs by variations in traffic stops or by using larger aircraft. To illustrate, the two Vikings operating the Bombay Calcutta day service could also operate the Bombay-Nagpur-Calcutta night service on winch the mail as well as passenger load is high. The Bombay-Nagpur-Calcutta Dakota day service may then be discontinued or operated at a lower frequency as there is not enough traffic. Such an arrangement would also help to improve aircraft utilisation.

Indian Air Lines will inherit 106 aircraft—91 Dakotas, 12 Vikings and 3 Skymasters. If the 4-engined Skymasters are handed over to the sister Corporation, there will still be 103 aircraft for the operation of about 105,000 flying hours. To achieve economic utilisation of its fleet, at least 50 Dakotas will have to be eliminated, otherwise the cost of servicing will itself be a serious financial drat;. The best thing to do would be to hand them over to the Indian Air Force for maintenance, as they might be useful in a national emergency.

The Corporation will have to consider purchase of new aircraft for the trunk routes connecting the four major cities almost immediately, as the delivery period for Viscount and Convair airliners, which were considered suitable for Indian conditions by a committee of experts in 1952, is about two years. Since the inability of the private companies to finance purchase of the new aircraft was one of the principal reasons for nationalisation, and the Planning Commission has provided the necessary finance for the purpose in the Five-Year Plan, it is unlikely that re-equipment will be postponed for long. When the new aircraft, with nearly twice the pay load capacity and with considerably more speed arrive, they will replace another twenty to thirty aircraft. The 'problem of disposal of the surplus should, therefore, be carefully examined by the Corporation and Government.

LABOUR PROBLEM

Perhaps the most difficult problem will be the elimination of surplus in personnel and standardisation of the terms and conditions of employment. Out of over 9,000 employees nearly one-third might become surplus with the merger of different traffic, administrative and engineering organisations into one and the disposal of the surplus aircraft. It will be possible to absorb surplus technical staff in the Indian Air Force for the maintenance of surplus equipment but in the present employment situation the absorption of the administrative staff elsewhere will be almost impossible. Yet, such a large surplus cannot be retained. By offering liberal compensation and priority for employment, in Government undertakings elsewhere to the retrenched, Government may help to solve the problem. When Government is exhorting private industry not to retrench staff such a policy might appear contradictory, but there appears to be no alternative, if the new Corporation is to function efficiently.

In standardising service conditions, the first need is to eliminate the wide disparities in the remuneration of staff in each category. The minimum basic salary of a mechanic varies from Rs 55 to Rs 90 and there arc similar differences in dearness allowance as well as other employee benefits. The Corporation cannot afford to be very liberal, by adopting for all employees the highest scales and best amenities existing, and many of them will, therefore, have to suffer financially. Unless their confidence is won by a sincere, honest and realistic approach to this question, their low morale will prove a serious handicap. It is possible that the committee entrusted with the task of examining this problem may take the line of least resistance, because the losses will ultimately be borne by the tax-payer. It would be well, however, to remember, in this connection, the experience of Air India that, despite payment of the highest wages in the industry, there was little industrial peace in that concern.

The question of revision of passenger fares and freight rates is not of immediate importance as it will be possible to estimate the cost of operations under new conditions accurately only after integration and rationalisation are complete. The Air Transport Inquiry Committee had found the prevailing fares uneconomic. Since then costs of aviation fuel and stores have increased. It would therefore be imprudent to expect lower fares unless the Corporation is able to cut costs so drastically that a margin is left after the losses of operations are eliminated. Let us hope the new Corporations will prove that nationalised undertakings can operate efficiently and economically to provide cheaper services.