

PRIVATISATION IN INDIAN AIRWAYS

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ABSTRACT

1991 marked the beginning of a new era for the Indian Economy. This was the era of a free Indian Economy in terms of the government regulations which, more often than not, were a hurdle in its path to glory. The New Economic Policy (NEP), 1991 was the reason behind this change. This policy allowed foreign competition and private players to enter the market and claim ownership to the public sector undertakings (PSUs). It introduced the policies of liberalization, privatization and globalization. In this research work, emphasis has been laid on how the policy of privatization is essential for the growth of the airline industry of India. The airline industry of India is one of the most well-developed in the world and is a major contributor to the Gross Domestic Product (GDP) of the country. The problems it is facing currently and the solutions to those issues have been discussed in this research work. The ailing Air India, the premier Airline of the nation, has been used as an example to show how crucial privatization is for the Indian Airline Industry. The loss-incurring airline was the harbinger of the development of the airline industry of this country. It gave the industry the necessary push or impetus to tread towards the path of success. However, it can no longer survive with the private and foreign players entering the industry. It is about time that its reigns were handed over to the private sector in order to revive its fortunes. This research synthesis also mentions about what the future beholds for the airline industry of India. It discussed the Vision 2030 of the present government. Essentially, this research work advocates for privatization in the airline industry and uses the example of Air India to highlight the problems that the public-sector faces in the modern world.

INRODUCTION

Indian Economy

Indian economy has grown in leaps and bounds over the years. Compared to what it was at the onset of an independent nation, it has certainly shown a largely positive growth rate. But it is still characterised as a developing economy, and rightly so since the economy is still on the path of development and although it has grown immensely, it still has not achieved the desired result.

Indian economy has always been an agrarian economy with agriculture being the primary sector. This is in total contrast to the economic structure of a developed economy. More than 70% of the Indian population is engaged in agricultural activities as a part of earning their livelihood.

High population is another factor which has not enabled the Indian economy to reach the desired levels. India stands at number two among the most populated countries of the world led by China, with a total population of 1368 million.¹ High population has increased the competition in the country with more people vying for a particular job. This results in increased rates of unemployment.

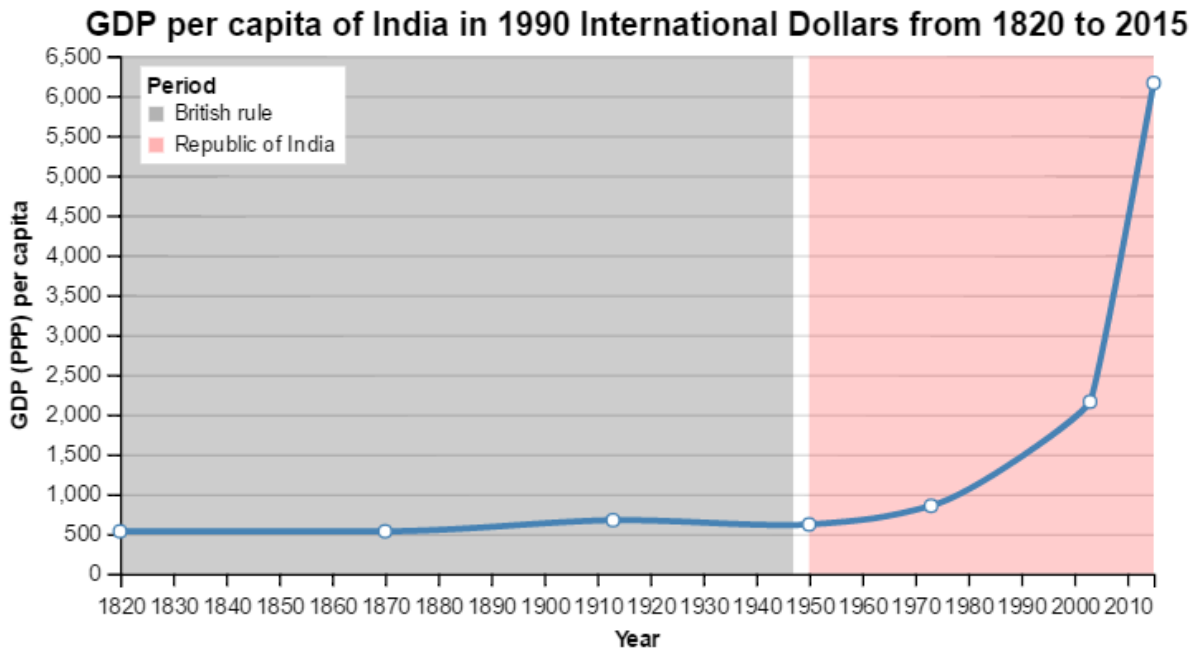
India also suffers from the problems of capital deficiency, lack of infrastructure and technological backwardness. All these factors prove as obstacles in the path of development and halt the development process to a certain extent.

Performance Overview

Indian economy has certainly shown growth rate towards the positive side in the past 70 years. This is because India as an economy remained subdued under the British regime. The colonial government exported raw materials from India to England which would then be used in manufacturing finished industrial goods. This made the Indian economy a stagnant economy as finished goods were not able to reach its shores.

After the end of the colonial regime in 1947, the Indian economy did not register a sudden growth rate. The per capita GDP of the economy grew gradually but never showed a sudden spurt. It was after 1970 that the Indian economy started to grow at a much faster rate. Credits

for this growth have to be given to the economic policies adopted by the respective governments.



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Schemes and policies like the Green Revolution, New Economic Policy, introduction of the Planning Commission etc. gave the Indian Economic Structure a new lease of life and after that there was no looking back.

The recently introduced reforms like Goods and Services Tax (GST) and policies like demonetisation might result in the economy registering a better growth rate in the long run. These policies have enabled the inflow of foreign exchange reserves to the economy and it will be interesting to see how the economy reacts to the changes that these policies bring with them.

The combined effect of a modest acceleration in economic growth and a gradual decline in population growth would put the economy on a much faster pace of per capita income growth than experienced in the past.ⁱⁱⁱ

NEW ECONOMIC POLICY 1991

The New Economic Policy (NEP) was launched by the P.V. Narsimha Rao government in the year 1991. This policy enabled the Indian Economy to get direct global exposure in the form of foreign participation and foreign competition. This policy worked on the LPG model of growth i.e. Liberalisation, Privatisation and Globalisation.

The New Economic Policy 1991 included measures like reduced import duties, opening the markets for private and foreign players, devaluation of Indian currency to increase exports and reduction of taxes, to stabilise the Indian economy. Former Prime Minister and then Union Finance Minister Dr. Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. Manmohan Singh introduced the NEP on July 24, 1991.

Need for Privatisation

Privatisation refers to the introduction of private sector participation in the management and ownership of Public Sector Undertakings. It usually implies the induction of private ownership in state-owned enterprises. It is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector, or the government, to the private sector, which generally operates for profit maximisation.^{iv}

Privatisation was the need of the hour during the 1990s as the public sector enterprises were running into huge losses. The public sector enterprises at that time were facing problems like inefficiency, corruption, unskilled workforce etc. which led to them incurring losses. Private enterprises can minimize these cases of inefficiency as they bring with them an efficient workforce. The efficient workforce is due to the lack of job security in the private sector i.e. an inefficient employee can be replaced anytime with a fresh face. On the other hand, job security is quite high in public sector enterprises which makes the workforce inefficient and lethargic and this very workforce continues to run the operations of the particular enterprise.

Also, another argument propounded during the 1990s was that over time private sector industries have achieved a certain level of maturity. The managerial efficiency and investment potential of the private sector industries are no less than the public sector and hence, 1991 was the most opportune time for introducing the policy of privatisation.

Benefits

- Privatisation provided the necessary impetus to the underperforming public sector undertakings. This is because private-sector enterprises usually outshine the state-owned enterprises in terms of both efficiency and productivity. This creates that competitive spirit in the state-owned enterprises which may aid them in increasing their revenues and profits.
- Privatization leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.^v
- The financial health of the sector was previously managed by the State by way of reducing the debts and deficits. Privatisation has enabled the private sector, which incurs much higher profits than the State-owned enterprises, to take the financial health of the economy in its very own hands.
- The lack of job security in the private sector can certainly have a detrimental impact on the employees since their jobs are never secure due to the high levels of performance demanded by the privately-owned enterprises. But, in the long run this shall prove beneficial for the employees as this practice of negative motivation will aid them in realising their skill sets and efficiently manage the enterprise.
- Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.^{vi}

Criticism

- Privatisation is purely profit-based. It focusses more on profit maximisation and the objective of social welfare is usually overlooked in the private-owned enterprises. On the other hand, public sector enterprises have the primary objective in mind of keeping the well-being of the society at large as their first priority.
- Lack of transparency is another criticism which has been expressed by various economists. Due to this lack of transparency prevalent in the private sector, the stakeholders do not receive the full and proper information on the functionality of the enterprise.

- Privatization results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices.^{vii}
- Conflict of interests among the stakeholders and the management of the buyer private enterprise is a common sight. The initial resistance to change can become an obstacle in the smooth functioning of the enterprise.
- Government usually does not provide subsidies to the private sector enterprises. This creates price inflation which affects the common man at large.

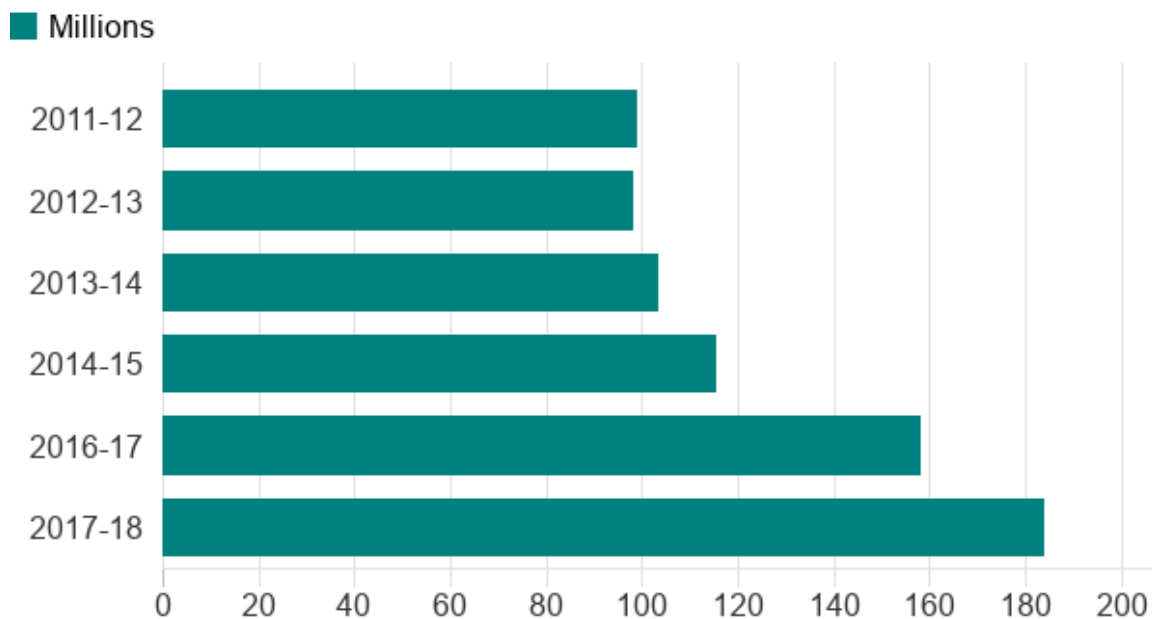
AIRLINE INDUSTRY IN INDIA

The airline industry of India is one of the most sought after and busiest airline industries in the world. India has the third-largest domestic civil aviation market in the world. Talking about international carriers, India has 91 of them, out of which five are Indian and 86 are foreign. This ensures that the nation is well connected with most of the major countries. This connectivity, currently, is with 59 countries through 344 routes.^{viii}

Also, the aviation sector of India contributes \$72 billion to the Gross Domestic Product (GDP) of the nation currently. This is due to the fact that India has a total of 464 airports and airstrips, out of which 125 are owned and managed by the Airport Authority of India (AAI). Apart from that, India's passenger traffic stood at 316.51 million from April 2018 to February 2019. 252.92 million out of this was domestic passenger traffic and 63.59 million was international traffic.^{ix}

India air passenger traffic

International and domestic



Indian Directorate General of Civil Aviation

BBC

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The graph shows how the air passenger traffic in India has risen gradually over the past 7-8 years.

Problems

- **High Costs, Low Yields.** Jet fuel prices in India cost higher than anywhere else in the world. They constitute around 40% of the costs for an Indian carrier. Over the years, Aviation Turbine Fuel (ATF) prices have risen to the extent of 9%. This rise in the price of ATF, when combined with low-ticket pricing that India's price-sensitive market is quite used to, will surely narrow the airline margins further. But the view that Indians don't spend on air travel is quite flawed. A recent report by Google and Bain & Co. said Indian travellers took approximately 2 billion domestic and international trips in 2018, spending nearly \$94 billion on transportation, lodging and consumption during their travels. Of that, they spent \$36 billion on transport in 2018, up from \$25 billion in 2015. About 51% of transport expenditure in 2018 was on airline tickets, compared with 38% in 2015.^{xi} However, the yields continue to be lower than the expenditure.

- **Government Apathy.** For the last 10 years, Indian airlines have been asking the government to lower the taxes on fuel. However, all this appealing has come in vain. Due to relatively higher tax rates, jet fuel in India is 35-40% costlier than in the rest of the world. In the past one year, the government has inaugurated several smaller airports across the country and auctioned smaller routes for airlines to fly.
- **Pilot Shortage.** CAPA Centre for Aviation, a Sydney-based consultant, estimates the current number of pilots in India at 7,963.^{xii} In the coming 10 years, it is estimated that the airlines will have to hire 17,164 more. The estimated growth in capacity, due to the plane orders, will result in a shortfall in commander pilots to the extent of 14%, which would have to be fulfilled partly by more expensive expatriates, which will raise the wage bill.

Solutions

- Reduce taxes on ATF to sustainable level at internationally accepted level.^{xiii}
- Airlines can reduce their currency risk by using hedging against the dollar.^{xiv}
- Consolidation in the aviation industry, similar to the one in the telecom sector, can strengthen the aviation sector. Air India can be taken as an example in this regard. Disinvestment was proposed in Air India but, due to disagreements over price the government had to postpone the sale. The government should expedite the process of sale of the loss making airline.
- The cap put on the ticket prices by Regional Connectivity scheme needs to be reconsidered in light of escalating cost of airlines.^{xv}

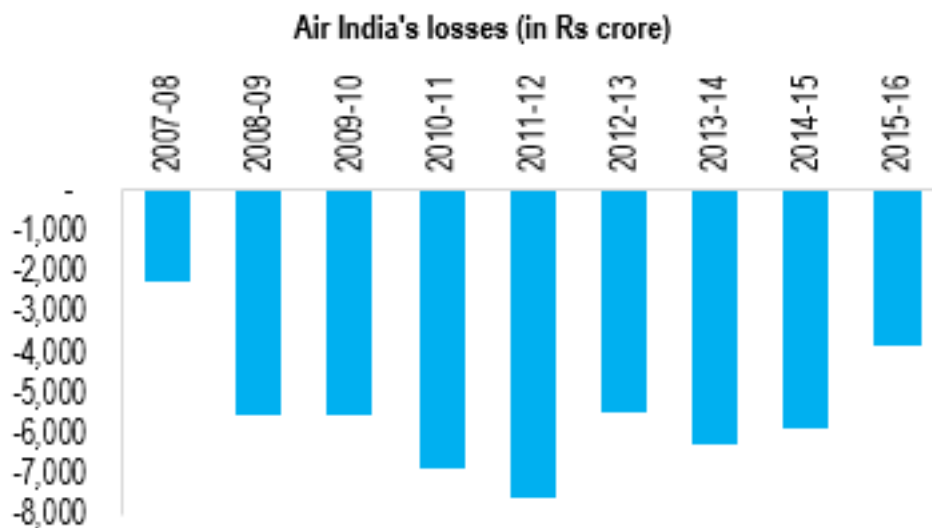
AIR INDIA

Air India is a premier airline of India with its headquarters at New Delhi. It can also be called the flagship airline of the Indian Aviation Industry. It is owned and operated by Air India Limited, a government-owned enterprise. Air India Limited serves 94 domestic and international destinations through its fleet of Airbus and Boeing aircrafts. Indira Gandhi International Airport, New Delhi is its hub. Air India is the largest international carrier out of India with an 18.6% market share.^{xvi}

Origin

Air India was founded by J.R.D Tata, an Indian aviator and business tycoon, in the year 1932. The airline had its origin as Tata Air Services which was later changed to Tata Airlines. Initially, the airline was used to provide airmail services between Karachi and Madras (now Chennai) via Ahmedabad and Bombay (now Mumbai). In its first year of operation, the airline flew 160,000 miles (260,000 km), carrying 155 passengers and 9.72 tonnes (10.71 tons) of mail and made a profit of ₹60,000 (US\$870).^{xvii}

Performance



Sources: Lok Sabha Questions; PRS.

xviii

Air India has constantly incurred losses over the past decade, as is also reflective in the graph provided above. The magnitude of loss varies each year and that too by significant amounts. The main problems for the airline running into losses are inefficient management, inefficient workforce, government restrictions etc.

Problems

Lack of Funds. The national carrier Air India has been running into losses for the past decade. This has led to a huge debt burden on the management of the airline.

Non-payment of Salaries. Due to the lack of funds the airline is unable to pay its employees' salaries. This leads to employee shortage as the airline is forced to fire some of its workforce while some leave on their own due to the non-payment of salaries.

Lack of Buyer Interest. The sale of Air India is in jeopardy due to a lack of interest in buying the airline. The centre had even approved the sale of a 76% stake in the air carrier but to no avail. Private carriers like IndiGo and Jet Airways did show some interest at one point but have opted out of the race since. The primary reason for the lack of interest is Air India's poor financial condition. As discussed before, the airline has been running into losses for the past decade. The airline had a debt burden of around ₹48,781 crore as of March 2017, which poses a huge financial risk to a buyer.^{xix}

Eight out of the 20 A321 aircraft are currently unable to operate. This amounts to 40% of the fleet which is unable to operate. Out of the 22 A319 aircraft, four are grounded. The Boeing fleet, too, is not fully functional. Of the 15 B 777-300 aircraft, five (33% of the fleet) are grounded for one reason or the other.^{xx}

WHY PRIVATISATION IS THE ONLY SOLUTION?

The debate on whether privatisation is the one and only solution to Air India's problems has been going on for years and is not something which has started over the past few days. This debate, however, has not led to any viable solution to the airline's problems.

Arguments in favour

- The government has been doing its best to provide funds and infuse money into the debt-ridden airlines. It infused almost ₹12,200 crore of equity in 2014. Even then, there was no change in the performance of the airline.

- Apart from the losses incurred over the past decade, the airline also has a huge debt on its head of more than ₹49,000 crore. This condition can only be changed through a bold action by the management.
- Government can start the privatization process by diluting a part of Air India's stake so that it can cover up a part of its losses made in the airline company.^{xxi}
- Competition is ever-increasing in the airline industry due to the high number of private carriers. The government does not have the adequate amount of funds and resources to bring in a change that can enable the airline to compete with the private players.
- Other sectors like railways, infrastructure, economy etc., also require funds and hence, it makes no sense infusing money in a state-run airline.

Arguments against

- More effective reforms can be adopted. The government should try and get open access to ATF. It is eating up the company's profits.
- Air India made an association with Start Alliance that will increase the company's revenue by 4-5%. Government should look for more such associations.^{xxii}
- Government will have to lose all the funds and resources that it invested on the revival of the Airline Company, if it opts for privatisation at this moment.
- Privatisation alone might not enable the airline company to revive its fortunes. Privatisation alone cannot bring about any miracle in its position. The problem, in this case, is not funds but the mechanism through which the airline is handled.

WAY FORWARD

Future Growth

Due to privatisation, the aviation industry of India has shown considerable amount of growth. The Indian Aviation Sector is growing due to the introduction of low-cost carriers, expanding connectivity to regional airports and Foreign Direct Investments (FDIs). The recent developments in the infrastructure and the up-to-date technology are saving costs for the

smooth operation of the airlines while providing customers with the convenience features to encourage flying.

India Vision 2030

Privatisation in Indian Airways is the way forward for Vision India 2030. As per a report by leading passenger airline manufacturer Boeing, by 2034, in terms of airline traffic, the airlines in the Asia Pacific and the Middle East will become major players in global aviation.^{xxiii} According to insights by Airports Authority of India (AAI), by the year 2032, the Airport Freight Traffic is expected to exceed 11.4 million tonnes in India.^{xxiv} 30% of the import/export trade takes place through airlines which would certainly benefit the aviation sector.

The latest FY2017 Indian Aviation industry figures show that passenger traffic growth rate has reached 22%.^{xxv} Plus, India's aviation industry statistics show that India is set to become the 3rd largest market for aviation by 2020 and hopefully, the largest aviation market by 2030.

CONCLUSION

Privatisation is surely the way forward for the Indian Aviation Industry. The example of the ailing Air India certainly proves this point. When compared to the performance of the private-carriers like SpiceJet, IndiGo, Vistara, GoAir etc., Air India lags behind by quite a fair margin. This is because being a State-owned enterprise, the government cannot allocate adequate funds to the Airline and hence, it experiences problems in its management and operations. The lack of funds and the huge debt crisis has given rise to more and more issues, non-payment of employees' salaries being one of them.

Since the advent of the New Economic Policy of 1991, Indian aviation sector has been on the rise with Air India being the lone exception. The policy of privatisation helped introduce foreign competition and also competition from private players. This helped the economy in many ways as it led to more and more foreign investments. Also, regional and international connectivity has increased for India over the years with private airlines reaching new destinations. Therefore, privatisation is the need of the hour and should be continued with.

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