Rough Draft

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1. TO PREPARE AN OUTLINE ON DEREGULATION OF AIRLINE TICKETS PRICE REPEAL OF AIR CORPORATION ACT IN 1994

Low-fare airlines outside India have many features in common– a single type of aircraft to facilitate pilot training, maintenance and aircraft utilization; no free food service to save costs and reduce turnaround times; no inter-line transfer of baggage; direct selling to avoid commissions to travel agents, etc. These features are easy to replicate and are an integral part of the low cost airlines in India. As a result of their replicability, they do not, by themselves, offer a sustainable competitive advantage. The dynamics of a low-cost airline are equally important. Typically, a successful low-fare airline chooses routes that are not already operated by other low-fare airlines. It increases demand for air traffic by cutting fares, and provides frequent services to saturate the route. In contrast, head-on competition between two low-fare carriers on the same route often results in a price war that benefits consumers but is not profitable to the airlines themselves.

The low cost airlines in India are not targeting distinctive routes. Instead, they seem to be moving towards creating huge capacities on the trunk routes. Since short haul services impose other cost disadvantages on an airline, quick turnarounds to achieve high utilization become critical. Clearly, on-time passage is an important value proposition fort his type of service and delays are extremely annoying to passengers.

Running a low-fare airline is a major managerial challenge. In addition, the government will need to improve airport infrastructure quickly if this model is to succeed. The increase in air traffic is not matched with the increase in the infrastructure at the airports. The airlines prefer to halt and ply between only metros and airports which have sufficient landing and parking place, this leads to long halts and waiting of these planes at metro sand also traffic congestion and delays besides loss of precious air fuel.

In India, air fuel and not salaries & wages constitute the largest share in expenses of airlines as the airlines have to procure their Air fuel from oil companies. The under-developed commodity hedging market also puts a stumbling block on these companies to hedge against Fluctuating prices of air fuel.

The cost of procuring new fleet also needs consideration because; they should be able to have at least 80% occupancy of seats to be viable in long run. Now if most of the flights operate on the popular routes chosen due to above reasons, there would surely be a saturation of market sooner or later. Therefore, these airlines must think of exploring low-cost routes, less time

taking routes, rather than hauling on the same popular routes, if they wish to remain viable in long run. For example the north-east region of our country completely remains outside the gamut of competition from these LCC's.
The requirement for trained commanders to operate these flights also is another issue that needs urgent attention. A severe demand supply gap is emerging resulting in price hike by these commanders; this may also lead to increasing cost and defeating the entire spirit of operating a LCC.

2. IMPACT OF REPEAL OF AIR CORPORATION ACT 1994, THIS LEAD TO GROWTH IN PASSENGER TRAFFIC IN AIRLINES

History: -

1912: Indian State Air service and Imperial Airways, UK collaborate to ply on first domestic route, between Delhi and Karachi.

1915: Tata Sons start airmail service between Delhi and Madras.

1932: Tata Aviation's established. It goes to Colombo in 1938.

1948: Designated as flag carrier under the name Air India International with 49% govt. control.

1953: Indian Airlines Corporation formed through Air Corporation Act, 1953, by nationalizing Air India and Indian National Airways.

1994: Air Corporation Act. 1953 repealed and thus allowed private players to come.

2003: Entry of low cost carriers. Air Deccan, Spice Jet, Go Air, Indigo.

To support the growth of the airline industry the Government in 1994-95 permitted direct import of aviation turbine fuel (ATF) under the special import license scheme.

In 1994, the Indian Government, as part of its open sky policy, ended the monopoly of IA and AI in the air transport services by repealing the Air Corporations Act of 1953 and replacing it with the Air Corporations (Transfer of Undertaking and Repeal) Act, 1994.

- The air passengers have been growing at a constant rate.
- Indian aviation industry ranks 4th in the world after USA, China, and Japan in terms of domestic passenger volume
- The civil aviation sector witnessed a slowdown in passenger traffic during 2008 due to a sharp rise in fuel prices coupled with global economic slowdown.
- India's domestic passenger growth is expected to grow at the rate of 9%-10% to reach a level of 150-180 million passengers by 2020.
- It is also estimated that travel of international passenger to and from India would go to 50 million by the year 2015.

Air India has the largest share of the fleet as expected.

Jet Airways has the second largest fleet share but Kingfisher manages to catch up with it in terms of passenger share

The success of low cost strategy of Indigo Air can be seen in its passenger share which matches up to Kingfisher and Jet despite having a much smaller fleet.

- ➢ Again we can see that Indigo has the highest Seat Occupation ratio
- ➢ Go Air comes a close second in terms of seat occupation mainly because of low cost strategy

National Aviation Company of India Limited (NACIL):- is a company incorporated under the Companies Act, 1956 and has the functions and responsibilities of providing safe, efficient, adequate, economical and properly coordinated international air transport services. It has been set up after the merger of Air India and Indian Airlines in 2007. This merger aims to create the largest airline in India. The name of the new airline is Air India and its logo is Maharaja. NACIL is carrying its operations under two operating permits, viz., NACIL-A and NACIL-I. It has following wholly owned subsidiaries, namely, Hotel Corporation of India Limited, Air India Charters Limited (AICL), Air India Engineering Services Ltd (AIESL); Air India Air Transport Services Limited (AIATSL); and Alliance Air.

Airports Authority of India (AAI):- was constituted in 1995 for creating, upgrading, maintaining and managing civil aviation infrastructure, both on the ground and air space of the country. It aims at providing world class airport services for efficient operation of air transport in the country. It manages 127 airports, which include 16 international airports, 8 customs and 79 domestic airports and 24 civil enclaves at defence airfields. It controls the entire Indian airspace of 2.8 million square nautical miles.

The demand for air travel to the Asia Pacific is rising driven by increased economic activity in emerging Asian countries such as China and India. Traffic is projected to grow at 7% in China and India combined, above the world average of 5%. Further, the share of Asia Pacific region inworld passenger traffic (revenue passenger kilometers) is forecast to risefrom 25% in 2003 to 31% in 2023. Against this backdrop, Air India is well positioned to benefit with its increasing emphasis on Asia-Pacific operations.

It is a phase of rapid growth in the industry due to huge build-up of capacity in the LCC space, with capacity growing at approximately 45% annually. This has induced a phase of intense price competition with the incumbent full service carriers (Jet, Indian, Air Sahara) disk-counting up to 60-70% for certain routes to match the new entrants ticket prices. This, coupled with costs pressures (a key cost element, ATF price, went up approximately 35% in recent months, while staff costs are also rising on the back of shortage of trained personnel), is exerting bottom-line pressure.

The growth in supply is overshadowed by the extremely strong demand growth, led primarily by the conversion of train/bus passengers to air travel, as well as by the fact that low fares have allowed passengers to fly more frequently. There has, therefore, been an increase in both the width and depth of consumption. However, the regulatory environment, infrastructure and tax policy have not kept pace with the industry‘s growth.

Enactment of the open sky policy between India and SAARC countries, increase in bilateral entitlements with the EU and the US, and aggressive promotion of India as an attractive tourism spot helped India attract 3.2 million tourists in 2004-05. This market is growing at 15% per annum and India is expected to attract 6 million tourists by 2010.Also, increasing per capita income has led to an increase in disposable incomes, leading to greater spend on leisure and holidays and business travel has risen sharply with increasing MNC presence. Smaller cities are also well connected now. Passenger traffic has increased and over 21 million seats have been sold, resulting in a growth of over50%. The Indian travel market is expected to triple to $51 billion by 2011 from $16.3billion in 2005-06.

3. MOVEMENT OF TICKET PRICE AFTER DEREGULATION

The Aviation industry has changed during last five years. The market has been a very high level of competition in the field of Aviation many new players entered into this industry. So it becomes very difficult to aviation companies to reduce the cost & earn good profit.

As a consequence, airlines are now trying to find market structures to keep the costs within a limit and therefore create alliances. Within these alliances airlines try to link their route networks to offer an even better connectivity all over the world. A very important fact can also be seen in the negotiating power airlines achieved against other stakeholders, like airports, in the industry by working closely together.

Even though it might seem as if the deregulation of the aviation market only had positive impacts on the airlines, many of them however had difficulties to remain successful in the market, especially legacy carriers. Some of them, not being able to adapt to the necessary structural changes – most importantly cost reductions - even had to file for bankruptcy. To achieve an equal state within the sector only a short while after the deregulation of the airlines, the rest of the industry also became deregulated subsequently. Through the liberalization and privatization airlines particularly hoped for more competition between airports as well as between ground handling providers, resulting in decreasing aeronautical charges and a better service quality. This hope can be backed by the logic of market freedom, which implies that the market would "respond naturally and to the best advantage of all concerned if it is subject to minimal control".

Generally this aviation market liberalization had a huge impact on the business structures of all stakeholders involved in air transportation. Through the evolving competition they were and are under pressure to cut costs and find ways to increase revenues.

AIR INDIA is now competing against more credible low cost carriers such as Spice jet, Go air, Indigo Airline, and Jet lite etc. Indigo Airlines remains Air India strongest competitor because of its competitive cost structure, strong brand name and ambitious growth plans over the next seven years. Air India also faces increased competition from Air Deccan low-fares subsidiary. Moreover, major legacy airlines have been focusing on restructuring costs, which has improved their competitiveness. With costs restructured, the legacy airlines are becoming more formidable competitors in terms of increasing capacity, matching prices and leveraging their frequent flier programs. Increasing competition could adversely affect the company's margins.

4. THE PRESENT CRISIS WHERE TRAFFIC IS GROWING IN DOUBLE DIGIT, BUT AIRLINES ARE INCREASING UNDER FINANCIAL STRESS

"Our crisis is not a crisis of information; it is a crisis of decision of policy and action"- George Walts.

Double-digit traffic growth in India's domestic market continues; 57% up on 2008 levels; Airline Traffic Growth in India remained in the double digits in Dec-2010, traditionally the busiest month of the year for travel in the country. This marked two consecutive Decembers of traffic growth. Passenger numbers are now well above pre-recession levels, aided by higher disposable incomes and increased demand for business travel. Growth has averaged just under 19% in 2010, with passenger numbers totalling about 52 million. The resurgence in traffic provoked a steep increase in air fares in Nov-2010, most notably on capacity-constrained Mumbai and Delhi sectors.

Indian aviation entered negative territory earlier than other Asian nations and the rest of the world, but it has also been one of the fastest to recover, with domestic traffic now 57% above Dec-2008 levels and 30% above Dec-2007 levels. According to the Indian Ministry of Civil Aviation, domestic passenger numbers in India increased 16.2% year-on-year to 5.2 million in Dec-2010 to reach a new record for monthly passenger traffic. Every domestic carrier reported growth in Dec-2010.

Vijay Mallya-promoted Kingfisher was the largest domestic carrier in Dec-2010, after slipping from this position in Nov-2010, with 972,000 passengers. IndiGo, meanwhile, handled 971,000 passengers, becoming the second largest carrier in the domestic market ahead of Jet Airways, with 924,000 passengers. However, in combination with subsidiary JetLite, Jet Airways was the largest carrier in the month, with 1.3 million passengers.

The country’s LCCs grew fastest: GoAir increased 45% year-on-year to 336,000 passengers for the month. Between them, India’s three independent low-cost airlines, IndiGo, GoAir and SpiceJet, accounted for 39% of the domestic market, up from 33% in Dec-2009.

IndiGo reported the highest load factor, of 93.3%, in Dec-2010. SpiceJet, GoAir, Kingfisher, JetLite and Jet Airways also reported load factors of above 80% for the month, with Air India reporting the lowest load factor at 78.8%.

As a whole, Indian carriers have generally been careful in adding capacity back into the market, with growth of about 10% in 2010. For the next financial year, capacity growth is expected to be 12-13%.

India’s airlines have now fully emerged from the global slump that afflicted the industry. But not everyone is impressed, as fares have increased sharply, to the concern of consumers and the government; “exorbitant” fares charged by airlines, stating the aviation industry should keep in mind that the phenomenal growth in the sector has been due to the low fares offered earlier. “For five years, the aviation sector has grown on the back of low fares. The benefits of low fares have gone to the travelling public. The government “cannot be a mute spectator” to the “exorbitant” spot or last-minute fares charged by carriers in the Dec-2010 peak period.

India’s airline industry has grown by 400% in the past six-and-a-half years. The growth trend is expected to continue into 2011, with expansion by LCCs in the domestic and international market. Chastened by overcapacity and rock-bottom fares during the downturn, India’s airlines have recently managed capacity much more effectively, ensuring that load factors and yield improvements continue. But expansion will resume. IndiGo in Jan-2011 ordered 180 A320s, the largest single firm order in aviation history.

Almost all the airlines in India are facing financial difficulties. There are couple of factors that account for this. One factor is the inability of the airlines to reduce costs, and the other is the irrational‖ pricing that set in after the advent of LCCs. They have chased market share, i.e., revenue maximization and forced the incumbents to match their low prices. They have been successful in taking the market share from the Full Service Carriers (FSCs). While revenue maximization may seem like a good short term strategy to enter the market, sooner or later, the LCCs have to be become profitable. These depressing financial conditions can lead only to two types of outcomes for the airlines either some of them go bust in a market shake-out or they merge/get acquired by other airlines or business groups. 2007 became a landmark year in the industry because of the major consolidations that took place during the year. The airlines ‘plans to expand capacity and replace ageing fleet aggressively should enable them to meet this growing demand more efficiently. But in the near term, they have to face significant challenges such as: Realizing the benefits of the consolidations, Realigning their competitive strategies to become profitable, Pursuing aggressive cost reduction, The availability of capital & Constraints due to poor infrastructure for aviation in India.

5. IS FREE OR OPEN PRICING GOOD OR BAD FOR CONSUMERS?

Price and quantity are determined by the interaction of demand and supply in the market. However, given the large number of buyers, firms can decide prices at which they will sell tickets. In fact, in the airlines sector, firms go in for third degree price discrimination and segment the market, charging a higher price to the market with a relatively inelastic demand (such as fares between business and economy class travellers, or between emergency travel and leisure travel by providing apex fares). The low cost airlines follow this different pricing strategy. Customers booking early with carriers such as Air Deccan will normally find much lower prices if they are prepared to commit themselves to a flight by booking early, on the justification that consumer‘s demand for a particular flight becomes more inelastic the nearer to the time of. The term revenue management is commonly used to describe most aspects of airlines pricing and seat-inventory control decisions; but in reality, revenue managers primarily practice seat-inventory control. Formally, revenue management describes a process of setting fares for each route origin.

According to a survey conducted by Center for Asia Pacific Aviation (CAPA), 67% of Full Service Carrier (FSC) passengers and 51% of Low Cost Carrier (LCC), passengers would still have travelled by air if the fare had been double and, 57.5% of FSC passengers would fly with an FSC rather than an LCC even if the trip was personal and self- financed.

In India, the airlines that offer low fares are in reality not low cost operations. They are Low cost carriers (LCCs) in name only. Among the LCCs in India, Spice Jet has the lowest unit cost at 6.2 cents per ASK, which is comparable with Southwest, Easy Jet, and Jet Blue. But this is more than twice that of the best performer, Air Asia with unit cost of slightly over 3 cents per ASK. There were operating losses for Air Deccan in 2007-08. Typically, LCCs provide point-to-point service avoiding connecting flights and baggage transfers while FSCs base their operation on a hub-and-spoke system. Air Deccan has deviated from the LCC business model in the sense that it has a hub-and-spoke type operation to connect metros with smaller towns. It also provides point-to-point service between metros and large cities. Industry analysts have pointed out that this has increased the costs for Air Deccan. There are serious doubts about whether LCCs (as we know them elsewhere in the world) exist in India. According to Bill Franke, the Managing Director of leading airline investment firm Indigo Partners, ―There is not a single airline in India that operates a true low cost structure, only low-fare and low-margin.

6. AIRCRAFT ACT 1934 EMPOWERS DGCA (DIRECTOR GENERAL CIVIL AVIATION) TO LOOK WITH PREDATORY & EXCESSIVE PRICING IS HE OBLIGED UNDER SUBSECTION 4 OF RULE 135?

Directorate General of Civil Aviation (DGCA) is the regulatory body responsible for regulation of air transport services to/from/within India and for the enforcement of civil air regulations, air safety and airworthiness standards. The regulations are in the form of the Aircraft Act, 1934; the Aircraft Rules, 1937; the Civil Aviation Requirements; and the Aeronautical Information Circulars.

The DGCA is headed by the Director General of Civil Aviation. It has its headquarters in New Delhi.

DGCA, under the provisions of Rule 134 of the Aircraft Rules, 1937 grants permission to persons to operate an air transport service to, within and from India.

The air transport services offered are the:

Scheduled Air Transport Services (Passenger) (Civil Aviation Requirements Section 3 Series 'C' Part II)

Non- Scheduled Air Transport Services (Passenger) (Civil Aviation Requirements Section 3 Series 'C' Part III)

Air Transport Services (Cargo) (Civil Aviation Requirements Section 3 Series 'C' Part IV)

Non-Scheduled Air Transport Services (Charter Operation) (Civil Aviation Requirements Section 3 Series 'C' Part V)

These permits are equivalent to the Air Operator's Certificate required to be granted by ICAO member States in accordance with the provisions of Annex 6. Permits for any other special type of operation can be granted subject to the applicant showing satisfactory capability to undertake the type of operations.

7. WHAT ARE THE ROLE OF COMPETITION LAW & COMMISSION IN CASE EXCESSIVE OR PREDATORY PRICING OF AIRLINE TICKETS.

Most businesses charge different prices to different groups of consumers for what is more or less the same good or service! This is price discrimination and it has become widespread in nearly every market.

Predatory pricing refers to a situation where a firm charge a price below its cost of production, with the intent of forcing its competition to either immediately exit the market, or to exit the market after facing losses for a while. Once the competition exits the market, the predatory firm raises prices.

Under the Indian Competition Act, “directly or indirectly imposing unfair or discriminatory price in the purchase or sale (including predatory pricing) of goods or services” has been specified as amounting to an abuse of dominance if engaged in by a dominant enterprise. The traditional theory of predatory pricing is that the predator, already a dominant firm sets prices so low for a sufficient period of time that its competitors leave the market and others are deterred from entering and the losses incurred due to the low prices, which like any investment, will be recovered by future gains. This theory was later supplemented by the argument that the benefits of predation were not limited to the market where it predated.

Under the Indian Competition Act, though no exclusions have been provided for as such, the definition of “enterprise” in section 2 (h) specifically provides that enterprise does not include any activity of the government relatable to the sovereign functions of the government including all activities carried on by the departments of the Central Government dealing with atomic energy, currency, defence and space.

The low cost airlines follow a different pricing strategy to the one outlined above. Customers booking early with carriers such as Easy Jet will normally find lower prices if they are prepared to commit themselves to a flight by booking early. This gives the airline the advantage of knowing how full their flights are likely to be and a source of cash-flow in the weeks and months prior to the service being provided. Closer to the date and time of the scheduled service, the price rises, on the simple justification that consumer's demand for a flight becomes more inelastic the nearer to the time of the service. People who book late often regard travel to their intended destination as a necessity and they are therefore likely to be willing and able to pay a much higher price very close to departure.

Airlines call this price discrimination yield management – but despite the fancy name, at the heart of this pricing strategy is the simple but important concept – price elasticity of demand!

8. CONCLUSION

Consolidation in aviation sector:

- The rise in the number of alliances in aviation industry will help in further growth of aviation sector in India.

Number of passengers is on the rise:

- With passenger boarding's expected to double by 2025, and aircraft operations expected to triple by the same time

Price is paramount in selecting carrier:

- Due to the Internet and round-the-clock search capability, airfares are fully transparent to the public and travellers are choosing the lowest price option. Air travel is now a commodity business, and legacy carriers will have to adapt further to a low-cost/low-fare environment in order to survive

Growing Capacity:

- Indian carriers are placing orders for new aircraft for delivery in the coming period, without clear plans to retire older planes. They are also adding significant numbers of regional jets. The air taxi fleet is also expanding rapidly

Oil prices are not expected to fall:

- The public sector oil marketing companies (OMCs) have raised the prices of Aviation Turbine Fuel (ATF) by 3.5 per cent, in line with the rise in international oil prices. This is likely to trigger a marginal increase in airfares.

Outsourcing:

- Private airlines are known to hire foreign pilots, get expatriates or retired personnel from the Air Force or PSU airlines, in senior management positions. Further, they outsource such functions as ground handling, check-in, reservation, aircraft maintenance, catering, training, revenue accounting, IT infrastructure, loyalty and programme management. Airlines are known to take on contract employees such as cabin crew, ticketing and check-in agents.