Standing Committee Report Summary

Issue of Fixing of Airfares

- The Standing Committee on Transport, Tourism and Culture (Chair: Mr. V. Vijayasai Reddy) submitted its report on the 'Issue of Fixing of Airfares,' on August 10, 2023. Prior to 1994, airfares were fully regulated by the central government under the Air Corporation Act, 1953. It was deregulated in 1994, and presently Rules under the Aircraft Act, 1934 oversee airfares. Key observations and recommendations include:
- **Current framework for fixing airfares:** Under the Aircraft Rules, 1937, airlines are required to fix tariffs while keeping in mind reasonable profits and the generally prevailing tariff. The Directorate General of Civil Aviation (DGCA) is responsible for monitoring fares. It can issue directions to airlines which charge excessive or predatory prices, or engage in oligopolistic practices. These directions must be complied with, by the airlines.
- The Committee noted that despite the oversight by DGCA, airlines charge excess, which leads to a surge in airfares. The Committee recommended that the Ministry of Civil Aviation empower DGCA to regulate air tariffs. It also recommended constituting a monitoring body, along the lines of SEBI with quasi-judicial powers to enforce reasonable tariffs.
- **Definition of reasonable profit:** The Committee observed that reasonable profit is not defined anywhere, leading to arbitrary actions. Further, airlines fix prices on a cost-recovery model and do not consider reasonable profits. The Committee noted that reasonable profit must be clearly defined, and airlines must be encouraged to fix tariffs on this basis.
- **Affordability and growth of the sector:** The Ministry highlighted that tariff regulation is not desirable for the growth of the sector. The Committee disagreed and reiterated that passengers must receive a fair deal. It also noted that currently, airlines are free to charge reasonable airfares as per their operational viability, and the government does not monitor seat booking fees. Although most airlines have accumulated losses on account of the COVID-19 pandemic, the Committee noted that there must be a balance between passenger and airline interests. It recommended that the Ministry relook its tariff policy considering surge tariffs during disasters.
- **Aviation turbine fuel (ATF):** ATF accounts for about 40% of the total operating costs of airlines. ATF prices are influenced by international product prices and the value of the rupee. Levy of the Value Added Tax (VAT), customs duty, and excise duty also lead to costlier ATF. This impacts the financial viability of Indian airlines and their global competitiveness. The Committee recommended that taxes on ATF be reduced, and uniform taxes be levied across states.
- **Impact of airport tariffs on airfares:** Airfares comprise various fees/charges levied by airport operators. These include user development fees, passenger service fees, and common-use terminal equipment charges. The Committee noted wide variation in such fees, which is leading to a rise in airfares. For instance, among 12 private airports in the Association of Private Airport Operators, only four charge fuel infrastructure fees. Similarly, the parking charges vary from three rupees per metric tonne/hour to Rs 99 per metric tonne/ hour. The Committee recommended that the Airports Economic Regulatory Authority assess the feasibility of reducing airfare components and that the Ministry establish uniform fees across all airports.
- **Dynamic pricing and unbundling:** Airlines sell a portion of their flight seats at a price lower than the average cost, to attract lower-paying customers. The Committee noted that no fixed model is followed for fixing prices, and vacant seats may be sold at a higher or lower price. Noting the wide variation in seat prices, the Committee noted whether a formula could be devised to regulate excessive surges in fares. It also noted that seat prices vary on the same flight due to unbundling, where the base price is very low and amenities are charged as add-ons. The Committee recommended relooking this mechanism, as it goes against the principle of equity.
- **Prices in low-cost carriers:** The Committee noted that low-cost airlines charge higher fares on the same routes, in comparison to full-service airlines. This is despite low-cost carriers offering fewer services such as free meals on board, comfortable seats, and loyalty benefits. Low-cost carriers do not have a fixed criterion to fix airfares, and they are determined by market dynamics. The Committee noted that the term market dynamics was vast and uncertain, and recommended that the Ministry monitor such fares and remedy them.

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