

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1.1 Delay in finalising new contracts for duty free shops at four airports

The Authority could not avail of the benefit of higher contract rates by not initiating advance action as envisaged in the provisions of Commercial Manual for duty free shops at the airports which resulted in revenue loss of Rs.5.15 crore.

The Commercial Manual of the Airports Authority of India (Authority) stipulates that the tendering process for the new contract should be initiated at least 180 days prior to the expiry of the existing contract. Audit observed that the tender process for duty free shops at Ahmedabad, Goa, Bangalore and Hyderabad airports which should have begun during September 2004 to April 2005 for the contracts expiring between February 2005 and October 2005¹ was initiated in June 2006. The existing contracts were extended with old rates till the new contracts were awarded in September 2006 which resulted in revenue loss of Rs.5.15 crore, being the difference between the old and the new rates, for the period from the date of expiry of the respective contracts up to September 2006.

The Management stated (April 2008) that the delay was due to time taken on deliberating the request of the existing licensee for extension of contract and fixation/approval of the Minimum Reserve Licence Fee, the representations received from M/s Indian Duty Free Association for changing the Notice Inviting Tender (NIT) conditions for healthy competition and due to the reference received from Central Vigilance Commission for changing some of the tender conditions after floating the NIT. The Ministry endorsed (August 2008) the reply of the Management.

The reply was not tenable as except for the representation received from the Indian Tourism Development Corporation in February 2005 which was not accepted by the Authority, all the other cases pointed out by the Authority were received after the completion of 180 days laid down as per Commercial Manual. Thus, it cannot be construed that because of these representations, finalisation of the contracts were delayed.

2.1.2 Loss of revenue due to non-realisation of licence fee

The Authority's failure to incorporate the actual area occupied in the award letter and delay in rectifying the mistake resulted in loss of revenue of Rs.1.77 crore.

The Indian Tourism Development Corporation (Company) was running Duty Free Shops (DFS) at five airports² on space allotted by the Airports Authority of India (Authority).

¹ Expiry dates of contracts on duty free shops at various airports: Goa-28 February 2005, Ahmedabad-27 July 2005, Bangalore-19 July 2005 (Arrival) and Hyderabad-17 October 2005.

² Mumbai, Delhi, Kolkata, Chennai and Thiruvananthapuram.

The space allotted at Kolkata airport was 70.17 sqm. (59.46 sqm. in departure terminal building and 10.71 sqm. in arrival terminal building) and at Mumbai airport 850.61 sqm. On commissioning of the new arrival terminal building at Kolkata, the Authority allotted to the Company (February 2000) an additional area of 60 sqm. subject to actual measurement of space. The Kolkata airport on actual measurement in September 2000 found that the actual area occupied by the Company in the new arrival terminal building was 108.40 sqm. Thus, the total area under possession of the Company was 167.86 sqm. (59.46 sqm. in departure terminal building and 108.40 sqm. in arrival terminal building). In December 2000, the Authority awarded new licence to the Company to operate DFS for five years from January 2001 to December 2005 showing space of 70.17 sqm. at Kolkata airport and not the area of 167.86 sqm. actually occupied by the Company. Similarly at Mumbai airport the Company was in possession of an actual area of 999.36 sqm. in terminal building against 850.61 sqm. shown in the award letter issued in December 2000. The Authority was raising the bills on the Company according to the area specified in the award letter instead of actual area in its possession.

In August 2004, the Authority requested the Company to pay licence fee for excess area measuring 97.69 sqm. (167.86 sqm.-70.17 sqm.) at Kolkata airport and 148.75 sqm. (999.36 sqm.-850.61 sqm.) at Mumbai airport at the rate of USD 32 per sqm. per month with ten *per cent* annual compounded escalation for the period after 1 January 2001. Bills were accordingly raised in August 2004 and November 2004 for Kolkata and Mumbai airports respectively.

The Company requested the Authority in August 2005 to waive off the claim in respect of excess area at Mumbai and Kolkata airports as it was not mentioned in the award letter and was not tenable legally.

The matter was referred to arbitration (May 2006) and the arbitration award (October 2006) upheld the contention of the Company that at no point of time till August 2004, the Authority made any demand for the excess space under occupation of the Company, hence it would be unreasonable for the Authority to demand licence fee for the past period from the date of commencement of the licence. The Authority accepted the award (February 2007).

Audit observed (March 2006) that the actual area in possession of the Company at Kolkata and Mumbai airports was not considered while floating tender in September 2000 and issue of award letter in December 2000. Further the Authority did not raise any demand for excess area till August 2004 despite the fact that the matter was brought to the notice of Corporate Headquarters of the Authority by the concerned airport in January 2001 itself. It was also observed that the Authority failed to substantiate its contention before the arbitrator that the physical measurement of space was done at Kolkata airport in September 2000 and the Company was informed.

The Management stated (April 2008) that the Authority requested the Company to honour the payment of licence fee for the additional space at both the airports retrospectively. The dispute was raised by the Company which was subsequently referred to the Arbitrator and the award was passed.

The reply of the Management was not tenable because the Authority failed to incorporate the actual area under possession in the award letter and took three and half years for raising the arrear bills. Further the claim of the Authority was disallowed by the arbitrator on the ground that the Authority can legitimately claim dues from the date the Company was informed about occupation of the excess area.

Thus, due to failure to incorporate actual space in the award letter and also belated action to rectify the mistake resulted in loss of revenue of Rs.1.77 crore to the Authority during the period 1 January 2001 to 3 August 2004.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

2.1.3 Loss due to failure to insure assets based on current valuation

The Authority did not get insurance cover based on current valuation of its assets at Chatrapati Shivaji International Airport, Mumbai resulting in loss of Rs.1.07 crore.

The Airports Authority of India (Authority) took (July 2005) insurance policy for its premises¹ at Chatrapati Shivaji International Airport (CSIA), Mumbai for Rs.476.19 crore at a premium of Rs.68.97 lakh for the period from July 2005 to June 2006 on current replacement cost basis. Under the current replacement cost insurance policy, the settlement of loss was based on cost of replacement or reinstatement with the property of same kind or type with the value of the new property on date of the loss and therefore, proper valuation of assets at the time of taking insurance cover was crucial to protect the financial interests of the Authority.

The property of the Authority got damaged due to heavy rainfall in July 2005. The Authority lodged (June 2006) a claim of Rs.3.30 crore with the insurance company after assessing the loss but later on agreed to the reassessment of loss for Rs.2.95 crore based on survey done by the insurance surveyor and readmitted the claim henceforth. Subsequently, the Authority accepted settlement of claim (November 2006) for Rs.1.88 crore².

Audit observed (February 2008) that the insurance cover taken by the Authority was based on valuation of assets done in 2001 rather than 2005 despite the directions of its Board of Directors (Board) to reflect the current replacement cost of the assets in the insurance cover. Thus, due to not adhering to the directions of the Board the Authority incurred loss of Rs.1.07 crore due to application of under insurance clause of the policy by the insurer.

The Management stated (May 2008) that as per the policy and the existing practice, valuation of assets was done once in every 3-4 years and in case the valuation was considered on replacement cost basis in July 2005, the Authority would have paid additional premium of Rs.41.05 lakh annually. It was further stated that full facts of the case were brought to the notice of Commercial Advisory Board of the Authority and based on its approval, the matter was placed before its Board for writing off the loss. The

¹ Viz. terminal building, AAI colony, cargo terminal, plant and machinery, furniture and fixtures etc.

² After adjusting Rs. 9.39 lakh on account of policy excess at the rate of five per cent.

Ministry endorsed (September 2008) the reply of the Management.

The reply was not tenable as the purpose of insurance cover was to protect the assets/properties against the risk of loss irrespective of the amount of premium involved. When the assets were insured under the current replacement cost insurance policy, current valuation of assets should have been inevitably done to mitigate the risk. The Management did not inform the Board that the insurance cover was not taken on current valuation of the assets.

2.1.4 Loss in the purchase of spare parts for X-ray Baggage Inspection System machines due to poor planning

The Authority incurred loss of Rs.65.58 lakh in purchase and transfer of spare parts of X-ray Baggage Inspection System (X-BIS) machines to private operator at Delhi airport due to poor planning.

The Airports Authority of India (Authority) procured 220 X-ray Baggage Inspection System (X-BIS) machines in September 2002 from M/s Heimann Systems (Asia Pacific) Private Limited, Singapore for its airports in India. In January 2005, while considering the requirement of X-BIS machines, Mumbai and Delhi airports were not considered by the Authority as the proposal for their privatisation was in advanced stage. The Authority, however, approved (7 June 2005) the proposal for procurement of spares based on the requirement of spares of X-BIS machines deployed at various international and domestic airports and placed purchase order on the same firm (28 June 2005) at a total Free on Board (FOB) value of US \$771718 (Rs.3.35 crore-including spares of Rs.65.58 lakh and Rs.85.50 lakh for Delhi and Mumbai airports respectively). The Ministry of Civil Aviation (MOCA) issued directions on 29 June 2005 that no contract be awarded or initiated by the Authority in respect of Delhi and Mumbai airports except emergent operational and safety related items.

It was noticed in Audit that the Authority in contravention of its own instructions (January 2005) as well as Ministry's instructions dated 29 June 2005 placed purchase order for spare parts including the requirement at Delhi and Mumbai airports. Audit further observed (January 2008) that the Authority did not take any action at the time of receipt of material at Delhi and Mumbai airports (second week of April 2006 and 5 May 2006 respectively) to divert the spares meant for Delhi and Mumbai airports to some other airports as these spares were to be utilised in the next six years.

The Management stated (June 2008) that when action was initiated, it was not clear with regard to the time frame by which the airports would be privatised and security of airports could not be compromised. The spares for X-ray machines were required for maintenance of the equipment which was under the category of emergent operational nature and security related item. Further, as the decision of handing over of Delhi and Mumbai airports to private operators was not clear till 3 May 2006, action for diverting the spares to other airports could not be taken. It was stated that action for reimbursement of cost of these spares had already been taken up with private operators.

The reply of the Management was not tenable because when the order for spares was placed in June 2005, the process of privatisation of these two airports was in advanced

stage. Even after knowing that the Government had selected the private operators for running these two airports (4 February 2006) and agreement was signed with these operators on 4 April 2006, the Authority did not divert the spares meant for these airports to some other airports. The contention of the Management that spares procured were items of emergent operational nature and security related was also not acceptable because requirement of spares assessed by the Authority was for six years and not for immediate use. Moreover these machines were maintained departmentally and in case of critical defects whenever there was requirement of spare parts, services of the supplier were sought on need basis till spares arrived.

The Ministry in their reply admitted (October 2008) that after finalisation of agreements with private operators on 4 April 2006, the Authority should have taken action to either divert the spares to other airport or reduced the quantity. It was further stated that Mumbai International Airport Pvt. Ltd. (MIAL) have since settled the payment (Rs.85.50 lakh) and for balance value advised the Authority to fix responsibility.

Pursuant to audit observation, the Authority recovered the value of spares from MIAL (September 2008). However, so far recovery for cost of spares of Rs.65.58 lakh from Delhi International Airport Pvt. Ltd. (DIAL) was concerned, the private operator DIAL had refused to pay.

The purchase of spares for X-BIS machines thus resulted in loss of Rs.65.58 lakh to the Authority and undue benefit to private operator of Delhi airport.

National Aviation Company of India Limited

2.2.1 Extra expenditure due to acceptance of higher rates for catering services

Acceptance of higher rates for catering services for its own flights than the rates for Air India Express flights finalized by the Company with the same caterers on the same dates resulted in extra expenditure of Rs.8.49 crore.

Air India Limited (now amalgamated into National Aviation Company of India Limited)* had been availing of catering services from M/s. Saj Flight Services Private Limited (SFSL) and M/s. Muthoot Skychef (MS) for its flights at Kozhikode and Thiruvananthapuram respectively since May 2005 under a Memorandum of Understanding (MOU) signed between the parties. The Company entered into MOUs with M/s. SFSL and M/s. MS for a period of three years effective from 1 May 2005 on 13 May 2005 and 18 May 2005 respectively. As per the MOUs, the rates for catering for the first year (2005-06) were 10 *per cent* above the rates applicable for 2004-05 under the previous MOU, with a cumulative annual increase of 10 *per cent* for the rates for second and third year.

The flights of Air India Charters Limited (AICL), a subsidiary of the Company with a brand name 'Air India Express,' also started operations from Kozhikode and Thiruvananthapuram stations effective from 29 April 2005. As there was no separate In-flight Services Department with AICL, the Company also handled the matters relating to

* Hereinafter referred to as the Company

In-flight Services of AICL. For AICL, the Company signed (13 May 2005 and 18 May 2005 respectively) separate MOUs with M/s. SFSL and M/s. MS for Kozhikode and Thiruvananthapuram stations respectively for a period of three years. In terms of MOU, the rates for the first year (2005-06) were arrived after allowing reduction of 34.5 *per cent* from the quoted rates, with a cumulative annual increase of 8 *per cent* for the second and third year.

Audit observed (February 2008 and April 2008) that the rates agreed for identical menus/ancillary items for catering services for the Company's own flights were higher and ranged between Rs.7.09 and Rs.38.96 *per plate/item* as compared to the rates agreed for the catering services for AICL flights in respect of 10 items test checked at Kozhikode station (M/s. SFSL). Similarly, the higher rates paid to M/s. MS ranged between Rs.4.25 and Rs.48.51 *per plate/item* in respect of 10 items test checked by Audit at Thiruvananthapuram station. Though the MOUs for both - the Company and the AICL were signed by the same Committee on the same date with the same contractors, the higher rates for the Company's flights were not negotiated with the caterers in order to bring uniform rates for identical menus/ancillary items in comparison with AICL. Thus, the Company availed of the catering services of M/s. SFSL and M/s. MS with unreasonably high rates as compared to the rates agreed for AICL, a new entrant in the business.

Failure to insist on reduction in rates for the catering services of Company's own flights equivalent to AICL flights resulted in extra expenditure of Rs.8.49 crore towards catering services at Kozhikode and Thiruvananthapuram during April 2005 to March 2008.

The Management stated (July 2008) that comparison between Air India and AICL would not be appropriate as the matter related to two separate companies. It contended that Air India was an established full service airline as compared to AICL which was a low-cost/low-frill airline having difference in menus. It added that quantum of hot meals required for AICL was much less compared to bulk requirement of Air India due to which prices of menus were different.

The reply of the Management was not tenable. Even though both the companies were separate entities, they were in the same industry and had availed of the catering service from the same caterer in the same period. Hence, rates paid by the two companies for the same menu items should be comparable. Even if the menu composition was different, the price paid by any airline for the same item without any change in quality was expected to be similar irrespective of the fact, whether it was full service airline or low frill airline.

Further, as quantum of meals required by the Company was much higher as compared to AICL, the former should have got benefit of lesser rates due to economy of scales for the bulk orders placed by the former on the caterers.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

2.2.2 *Extra expenditure on excess electricity load*

The Company got additional electricity load without proper assessment of present and future demand which resulted in extra payment of electricity charges of Rs.4.89 crore.

The National Aviation Company of India Limited, erstwhile Indian Airlines Limited (Company) was provided (September 1993) electricity load of 3125 KVA by the Airports Authority of India, the airport operator, to cater to the electricity needs of its Jet Engine Overhaul Complex (JEOC). The electrical load for Avionics complex and A-320 Hangars unit was initially energised from the available electrical load of JEOC. In view of the expansion plan¹ envisaged by the Company for JEOC, an additional electricity load of 3649.34 KVA² was demanded for Avionics complex and A-320 Hangars unit which was released by the airport operator in October 1998 at a surcharge of Rs.150 per KVA per month in addition to the normal unit charges. Subsequently, the Company surrendered (September 2006) excess 2000 KVA electricity load to the airport operator.

Audit observed (April 2008) that the peak electricity demand of the Company for all the units was 2865 KVA which could have easily been met out of the existing sanctioned electricity load of 3125 KVA. But, the Company demanded and got released (October 1998) additional electricity load of 3649.34 KVA based on incorrect assessment of present and future demand. This resulted in avoidable payment of Rs.4.89 crore (October 1998 to March 2006³) towards surcharge on unutilised additional electricity load.

The Management stated (May 2008) that the electricity load of its Avionics complex and A-320 Hangars unit was reviewed and keeping in view the future expansion plan, the electricity load of 1650 KVA was retained.

The reply was not tenable as the peak load requirement of JEOC was only 1500 KVA and the load requirement of 1365 KVA for Avionics complex and A-320 Hangars unit could have been met from the existing load sanctioned for JEOC. Sanctioning and retaining additional electricity load in the absence of any concrete expansion plan led to the additional expenditure.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

¹ *The seven projects planned with requirement of 1219 KVA were completed between August 1998 and March 2007.*

² *Documents showing detailed working of electrical load requirement of 3649.34 KVA were not available with the Company at present.*

³ *The bills for electricity demand charges were received by the Company only up to March 2006 from the airport operator.*

Pawan Hans Helicopters Limited

2.3.1 Delay in mid life upgradation of helicopters leading to loss of revenue

The Company could not complete the mid life upgradation of helicopters within the time stipulated by the ONGC and thereby could not claim higher charter hire charges resulting in loss of revenue of Rs.42.51 crore.

Oil and Natural Gas Corporation Limited (ONGC) awarded a contract (March 2006) to Pawan Hans Helicopters Limited (Company) for hiring eight Dauphin N and four Dauphin N3 helicopters for a period of three years. Such helicopters were required to have upgraded safety standards (AS-4) and were to be provided within 150 days from the date of award of contract i.e., by 29 July 2006.

The Company awarded (August 2005 to July 2007) three piecemeal contracts to M/s Sofema, an authorised representative of M/s Eurocopter France, on nomination basis at total cost of Rs.73.81 crore for upgradation of its existing fleet of Dauphin helicopters to AS-4 specifications. As per the agreement, one Dauphin N helicopter was to be upgraded by Eurocopter in France and two helicopters were to be upgraded at Company's facility in Mumbai. Remaining helicopters were to be upgraded by the Company utilising the kits to be supplied by Eurocopter. First three helicopters were scheduled to be delivered by November 2006, April 2007 and July 2007. There was delay of 39 days, 102 days and 84 days in upgradation of the helicopters. There was also delay in supply of kits by Eurocopter, as a result of which upgradation of the remaining nine helicopters were delayed. The Company could upgrade them only by January 2008 (a delay of approximately one year).

It was seen that the Company failed to synchronise upgradation with requirements leading to wide gap in the delivery schedule due to which it continued to utilise non upgraded Dauphin helicopters for offshore services. As a result the Company could not derive the benefit of enhanced new contract rates which could have given an additional revenue of Rs.42.51 crore for the period from August 2006 to December 2007. It was also seen that the Company has not levied any liquidated damages (LD) on Eurocopter till date (June 2008) for delay in upgradation of helicopters, while it had paid Rs.15.76 crore to ONGC towards LD for delayed supply of AS-4 compliant helicopters.

The Management while accepting the loss of revenue of Rs.42.51 crore stated (June 2008) that the contract was awarded on nomination basis in piecemeal to Eurocopter as the proposal from Eurocopter was received in phases and the work was being done for the first time. Eurocopter had assured about the reasonableness of the rates charged. The thrust was on completion of eight Dauphin N helicopters first as against the four N3 helicopters. LD would be recovered on the delivery of completed retrofit kits.

We were unable to accept the Management's reply regarding the reasonableness of the value in the absence of a competitive open tender. The Company did not obtain rates for certain items directly from vendors for comparison as directed by the Board of Directors. The Company should have initiated action for levy of penalty and recovered the same while releasing the payments.

Thus, due to such adhoc decision making, the Company was deprived of additional revenue of Rs.42.51 crore from August 2006 to December 2007 and also had to pay Rs.15.76 crore as LD to ONGC for providing AS-4 compliant helicopters at a date beyond that was agreed to.

The matter was referred to the Ministry in June 2008; reply was awaited (November 2008).

2.3.2 Delay in overhaul of helicopters

Delay in overhauling of helicopters led to cancellation of agreement which resulted in loss of revenue of Rs.9.52 crore.

Pawan Hans Helicopters Limited (Company) regularly entered into agreement with Arunachal Pradesh Government (Lessee) to deploy one of its Mi-172 helicopters for ration sortie operations to far flung areas. The Company entered into such agreement for two years from 20 August 2004 to 19 August 2006. The Company was to be paid a fee of Rs.37.28 lakh *per* month and hourly flying charge of Rs.98,000. While entering into agreement, the Company had a fleet of three Mi-172 helicopters viz. VT-PHF, VT-PHG and VT-ASM. The third helicopter VT-ASM perished in fire accident at ONGC offshore platform in July 2005.

The Helicopters (VT-PHF and VT-PHG) were due for overhauling in July and November 2005 on completion of 4500 hours of flying. Although the process of selecting overhauling agency started in March 2004, the Company could invite tenders only during April 2005. The Company entered into agreement with M/s. Aviaexport, Russia (Avia) on 21 July 2005 for overhauling of helicopters at Kazan Helicopter Plant in Russia. Under the agreement the overhaul of each helicopter was to be completed within 120 days from the date of custom clearance of the helicopters in Russia.

The VT-PHF helicopter deployed with Arunachal Pradesh Government was withdrawn on 8 July 2005 but the same could be sent to Avia on 22 October 2005 after delay of three months. The delay in sending the helicopter to Avia was due to opting for transportation of helicopter to Russia by the Company on its own and belated invitation of tenders for transportation (7 July 2005). A substitute helicopter VT-PHG was provided to the lessee on 22 July 2005 which was also due for overhauling and thus was subsequently withdrawn from the services on 1 November 2005 and sent to Avia on 29 December 2005. While the overhaul was still in progress in Russia, the Company decided (December 2005) to procure certain avionics equipment by themselves and dispatched them to Avia in March 2006 to be fitted in the helicopters. As against the scheduled delivery time of February 2006 for VT- PHF and April 2006 for VT-PHG, helicopters were delivered on 21 July 2006 and 24 November 2006 respectively. Thus, there was further delay of five months for VT-PHF helicopter and seven months for VT-PHG helicopter. Due to failure of the Company in providing helicopter services to lessee as per lease agreement, the lessee cancelled the agreement in July 2006.

Audit observed that although the Company was aware that both Mi-172 helicopters were due for overhauling in July and November 2005 but it failed to take timely decision with regard to selection of overhauling agency, transportation of helicopters and supply of

avionics equipment, which led to delay in overhauling and cancellation of the lease agreement and consequent loss of revenue of Rs.9.52¹ crore for the period from December 2005² to August 2006.

The Management, stated (May 2007) that the delay was due to finalisation of transport contract, lack of coordination among various agencies involved and delayed supply of avionics equipment by the Company.

The reply of the Management was not tenable as indecisiveness on its part whether to have overhauling in Company's premises or manufacturer premises, led to delay in selection of overhauling agency. It took 15 months (March 2004 to July 2005) to finalise the agency for overhauling. The Company's decision to go for transportation on its own resulted in delay without any saving in the transportation cost as the Avia demanded Rs.1.87 crore and the Company paid to transport agency Rs.1.89 crore. The savings in procurement of avionics equipment was also far less compared to revenue foregone.

Thus, indecisiveness and lack of proper contingency plan coupled with belated action on planning and execution of overhaul programme of its helicopters led to revenue loss of Rs.9.52 crore.

The matter was referred to the Ministry in June 2008; reply was awaited (November 2008).

¹ *After excluding Rs.2.65 crore on account of saving of Aviation Turbine Fuel due to non operation of helicopters.*

² *After taking into account four months for overhauling and one month for dismantling and dispatching of VT-PHF helicopter.*