

AIR-INDIA LIMITED

SPEECH DELIVERED BY THE CHAIRMAN MR. J. R. D. TATA AT THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE COMPANY ON FRIDAY, THE 19TH AUGUST 1949.

LADIES AND GENTLEMEN,

I regret that the financial working of the Company during the year 1948, has not been as successful as in the previous year.

2. Although revenues from all sources were higher by about Rs. 13 lacs than in the previous year, expenditure rose steeply by about Rs. 27 lacs owing mainly to a disturbingly large increase in the item of salaries and wages, which rose from Rs. 54½ lacs (excluding bonus) in 1947 to Rs. 71 lacs in 1948. This increase of over 16 lacs was due both to the substantial rise in the scales of wages and dearness allowance resulting from the settlement with the Employees' Union mentioned in the previous year's report, and to an increase in the number of men employed, some of whom were recruited for Air-India International's work.

3. I regret to say that since the close of the year the burden of salaries and wages has continued to rise, and it has become only too clear that it is now out of proportion to the present scale of the Company's operations, and consequently of its revenues.

4. In my speech at the Annual General Meeting held exactly two years ago today, I foreshadowed the need for retrenchment in the absence of a substantial increase in our operations. The increase did take place in the following year but was accompanied by a large increase in the number of staff employed and particularly in wages and salaries paid. At the end of 1946, the Company's staff totalled approximately 1,670 employees and the monthly salary and wage bill, including all allowances and bonus was of the order of Rs. 3 lacs. The number of men employed was even then in excess of requirements as the organisation had deliberately been built up in anticipation of further expansion.

5. Today the total number of men employed is nearly 4,000 and the wage bill is nearly Rs. 10 lacs per month. After deducting the amount recoverable in respect of wages and salaries from Air-India International, the expenditure on account

of Air-India is about 7 lacs per month. This large increase has put the Company's operations on an uneconomical basis, which can only be remedied either by a large increase in operations without a corresponding increase in staff, or a decrease in the total burden of salaries and wages.

6. I am a firm believer in high wages and in a prosperous and contented labour force. The greatest advances in economic progress have, in other countries, coincided with the upward march of wages in industry, but it, unfortunately, does not seem to have been understood in India that the rapid rise in the earning power of workers in such countries has been rendered possible only by the high level of their productivity *per capita*. Making due allowances for climate, health, inexperience etc., it is an incontrovertible fact that the productivity *per capita* in India is amongst the lowest in the world due to the employment of excessive number of men, particularly in unskilled and semi-skilled jobs. This was not of critical importance in the days when wages in India were extremely low as the labour cost per unit of output also was low. Wages have, however, risen rapidly during and since the war, a rise which we welcome, but which has, unfortunately, not been accompanied by any increase in output per man. On the contrary, in almost every industry, including our own, the number of employees in relation to work performed has continued to rise and *per capita* output to fall. As a result the cost of wages per unit of output has enormously risen. In our own case, for instance, the cost of salaries and wages per ton-mile operated has risen from 5.5 annas in 1946 to 11.2 annas in 1947 and 12.9 annas in 1948. Costs of production have thus risen in all industries and the benefit of higher wages has been nullified by an equal or greater increase in the cost of living.

7. A heavy responsibility rests on the shoulders of both labour and management for bringing about an increase in productivity and a consequential reduction in costs which alone will render possible an increase in the real standard of living of workers. I hope that our own employees will cooperate with us in achieving this highly desirable

objective. I can assure you that, wherever possible, no measure involving avoidable hardship will be adopted by the Company.

8. Causes other than wages contributed, although to a lesser extent, to the steep rise in expenditure in 1948 as compared to 1947. One of them was an increase in the cost of petrol. I am glad to say, however, that substantial relief in this respect is being afforded to the Company in the current year as a result of the rebate of duty which the Government of India have been good enough to grant on aviation spirit.

9. Shareholders may have noticed another item of an apparently large increase in expenditure during the year, namely, that of maintenance and engineering stores. For a true comparison, however, the total of this item and of the item of depreciation and obsolescence should be taken together for the two years. This shows an increase of about Rs. 7 lacs, most of which is explained by the increase in the fleet during the year.

10. While the net earning capacity of the Company has been severely affected by the increasing costs of operations, which we hope gradually to bring under control, the financial position of the Company has remained entirely sound, thanks mainly to the full provisions made up to the present for depreciation and obsolescence which have aggregated more than Rs. 60 lacs in a period of less than $2\frac{1}{2}$ years. It is because of this fact that your Directors felt justified in transferring Rs. 2 lacs from the reserve fund and recommending a small dividend for the year.

11. While the general financial position of the Company is sound, it is clear from a study of the balance sheet that the Company is now seriously under-capitalised. As against a share capital of $11\frac{1}{2}$ crores, the Company has financed a gross bloc of Rs. 1 crore 40 lacs, spare parts and consumable goods worth Rs. 47 lacs and an investment of Rs. 20 lacs in Air-India International shares. While, therefore, an increase in capital would be fully justified in order to bring it up to a level more in proportion to the assets of the Company, the present state of the investment market does not permit of a further issue of capital at this stage, and any additional finance required will be obtained in the form of borrowings, part of which will possibly

be in the shape of debentures issued for investment or pledged against bank advances.

12. During the last two years I have drawn your attention to the unsatisfactory policies followed by the Government of India, which permitted, and in fact encouraged, the creation of a grossly excessive number of air transport companies resulting in a scramble for routes, equipment, trained personnel etc., and in highly uneconomical operations for the industry as a whole. Subsequent events have shown only too well the validity of our warnings as to the inevitable consequences of such a policy, although, unfortunately, not before much avoidable harm was done. No less than three air transport companies have had to cease operations since we last met. While we regret the economic waste and the sacrifice of investors' monies and confidence which was found necessary to prove what should have been obvious from the start, I am glad to say that the present administration in charge of Civil Aviation seems fully awake to the realities and dangers of the situation and to the needs of the industry, both of which were so wantonly disregarded in the past.

13. Uncertainties as to the future have been set at rest at long last by the issue of ten-year licences in place of the provisional licences on which the industry had to operate for nearly three years. The question of nationalising the industry has been shelved as is clear from the issue of long term licences and the fact that last year's declaration of economic policy excludes air transport from amongst the industries to be nationalised in the foreseeable future.

14. Government have sanctioned, with effect from March 1949, a refund of Rs. 0/9/0 per gallon on aviation petrol consumed by air transport companies. As at the same time, Government had increased the duty by As. $3\frac{1}{2}$ per gallon and the petrol companies had increased the price by 1 anna per gallon, the net saving will be As. 5/- per gallon. On the present scale of operations this will bring relief to the Company to the extent of Rs. 6 lacs per year.

15. Finally, Government have introduced an all up air mail scheme which has made available considerably larger mail loads for the various companies to carry. The benefits which might

have accrued from this scheme have, however, been seriously curtailed by a simultaneous and heavy reduction in the rate of payment for mails carried.

16. The industry welcomes these concessions and reliefs, and is grateful to Government for them as it can now plan for the future with greater confidence than in the past.

17. I should like, however, to sound a note of warning against any policy of enforcing a general reduction of fares and freight rates on the industry before it has had a chance to recover from its past and present difficulties, to reduce its cost of operations, and to make provision for the purchase of new aircraft which, by virtue of their greater efficiency and economy in operation, will themselves help to make it possible as well as advantageous to reduce fares.

18. Mention has been made in the present and previous Directors' reports of the work performed by your Company in the formation and operation of Air-India International. We have every reason to be proud of the results achieved up to now. Air-India International have, in the short period of their existence, established a deservedly high reputation amongst the international travelling public for safety, speed, regularity and courteous service. A substantial expansion of that Company's operations has been decided upon and will come

into effect towards the end of this year. Provided that its operation efficiency is correspondingly raised and its costs reduced, in both of which objectives your own Company will be largely concerned, Air-India International has a hopeful future before it in which it should fully justify the hopes of its sponsors and the confidence placed in it by Government and its shareholders.

19. Proposals for the creation of an air transport association, formulated and discussed during 1948, came to fruition in April of the current year, when The Air Transport Association of India, of which all the Indian air lines are members, came into being. The Government of India encouraged the formation of this association and gave it their blessing once formed. Sir Gurunath Bewoor is the President of this association which serves a valuable purpose in promoting the common interests of the various companies and, wherever possible, in unifying their policies and activities.

20. In closing I would like, on your behalf, to thank the General Manager, the Departmental Heads and the whole personnel for their good work during the year, and at the same time to express the hope that with the completion of the large and rapid expansion of the organisation during the last two years, they will now devote their energies to increasing efficiency and reducing costs, for in that direction chiefly lie any hope of continued prosperity for the Company and for themselves.