RAILWAY CONVENTION COMMITTEE

(1998)

(TWELFTH LOK SABHA)

FIRST REPORT

ON

Action taken by Government on the Recommendations contained in the Second Report of Railway Convention Committee (1996) on 'Ninth Plan Perspective—Infrastructural Requirement of Indian Railways'

Presented to Lok Sabha on 16-12-98
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LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE

(1998)

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INTRODUCTION

I, the Chairman of the Railway Convention Committee (1998), having been authorised by the Committee to submit the Report on their behalf, present this First Report on Action Taken by Government on the recommendations contained in the Second Report of Railway Convention Committee (1996) on 'Ninth Plan Perspective — Infrastructural Requirement of Indian Railways'.

2. The Second Report of the Railway Convention Committee (1996) was presented to Lok Sabha on 14 March, 1997 and laid on the Table of Rajya Sabha the same day. It contained 44 observations and recommendations. Action Taken Notes on 43 recommendations and observations were received from the Ministry of Railways on 9 September, 1997. Action Taken Notes on 2 recommendations *viz.* paras 13.34 and 13.35 were furnished by the Ministry of Urban Affairs and Employment on 16 June, 1997. The comments of the Planning Commission on the recommendations contained in paras 13.3, 13.4, 13.14 and 13.21 were received on 28 October, 1997. The Committee considered the replies of the Government at their sitting held on 24 September, 1998.

3. The Committee considered and adopted the Draft Report at their sitting held on 24 September, 1998. The Minutes of the sitting form Part-II of the Report.

4. An analysis of action taken by the Government on the recommendations contained in the Second Report of the Railway Convention Committee (1996) is given at Appendix-II. It would be seen therefrom that out of 44 recommendations made in the Report, 15 recommendations i.e. 34.09% have been accepted by the Government. The Committee do not desire to pursue 13 recommendations i.e. 29.55% in view of the replies furnished by the Ministry. The replies have not been accepted in respect of 4 recommendations i.e. about 9.09%. In respect of 12 recommendations i.e. 27.27% the final replies of the Government are still awaited and the Ministry of Railways have been requested to furnish the same expeditiously.

NEW DELHI;
13 *October*, 1998
21 *Asvina*, 1920 (S)

BIJOY KRISHNA HANDIQUE,
Chairman,
Railway Convention Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the Action Taken by the Government on the Observations and Recommendations contained in their Second Report (Eleventh Lok Sabha) on 'Ninth Plan Perspective — Infrastructural Requirements of Indian Railways'. The Committee's Second Report was presented to Lok Sabha on 14 March, 1997. It contained 44 Observations and Recommendations. Action Taken Notes on 43 Observations and Recommendations were received from the Ministry of Railways on 9 September, 1997 and Action Taken Notes on two recommendations *viz.* paras 13.34 & 13.35 was furnished by the Ministry of Urban Affairs and Employment on 16 June, 1997. The comments of the Planning Commission on the recommendations in paras 13.3, 13.4, 13.14 and 13.21 were received on 28 October, 1997.

2. Replies to the Recommendations and Observations contained in the Report have broadly been categorised as under:

(i) Recommendations/Observations which have been accepted by the Government: paras 13.6, 13.7, 13.8, 13.16, 13.17, 13.19, 13.20, 13.28, 13.36, 13.37, 13.39, 13.40, 13.41, 13.42 and 13.43.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies: paras 13.1, 13.2, 13.10, 13.12, 13.18, 13.22, 13.23, 13.24, 13.27, 13.31, 13.32, 13.34 and 13.35.

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration: paras 13.13, 13.25, 13.29 and 13.38.

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited: paras 13.3, 13.4, 13.5, 13.9, 13.11, 13.14, 13.15, 13.21, 13.26, 13.30, 13.33 and 13.44.

3. The Committee desire that final replies in respect of the recommendations/observations on which only interim replies have been furnished by the Government should be submitted to them expeditiously.

Need for levying electric tariff on Railways by SEBs at par with Bulk Electric Consuming Industries (Para 13.13).

4. Stressing the need for levying electric tariff on Railways at par with bulk electric consuming industries, the Committee had, in para 13.13 of their report, recommended:—

> "The Committee also recommend that the State Electricity Boards/Public Sector Undertakings should be pursuaded to levy

electric charges on the Railways as is being levied on bulk electric consuming industries".

5. In their reply to the above recommendation, the Ministry of Railways stated as under:—

"The tariff fixation in so far as electricity supply is concerned, is done by the State Electricity Boards on their own or subject to such directions as the State Government may give. The Central Government has legally no role in fixation of tariff.

However, this matter has been taken up several times by Ministry of Railways with the Ministry of Power, Chairman, State Electricity Boards and also Chief Secretaries of the States, to bring down the railway traction tariff at par with that charged to High Tension (H.T.) consumers in the States. But the efforts made in this direction have not yielded satisfactory results.

Ministry of power *vide* their letter No. 27/34/90-D (SEB) dated 01.05.91 had issued instructions to all SEBs that the tariff for railway traction should not be more than high tension industrial tariff. But barring few SEBs, the instructions of Ministry of Power have not been implemented by most of the State Electricity Boards".

6. The Committee are distressed to note that despite the efforts made by the Ministry of Railways, the State Electricity Boards (SEBs) are still discriminating against the Railways in regard to levying electricity tariff and that the instructions issued by the Ministry of Power in this regard are not being followed by SEBs. The Committee would like the Ministry of Railways to take up this matter again with the Ministry of Power and at the same time make concerted efforts in pursuading the Chief Secretaries/ Electricity Boards of the States to levy electricity tariff on Railways at par with the H.T. consumers. In case the efforts made by the Ministry do not yield the desired results, the Committee recommend that this matter should be placed before the Cabinet for an early resolution of the issue.

Creation of additional Zones (Para 13.25)

7. While expressing their concern about creation of six additional Zones, the Committee had, in para 13.25 of their Report, observed as under:—

"The Committee note that against the recommendations of the Railway Reforms Committee made in 1984 for creation of four zones at Ajmer, Jabalpur, Bangalore and Allahabad, the Ministry of Railways have abruptly created in August 1996, six Zones at Hajipur, Bhubaneswar, Jaipur, Allahabad, Jabalpur and Bangalore. The Ministry of Railways did not take any action for creation of any zone during the last 12 years and created six zones without any examination at a time when Railways were facing acute financial crunch. What is more surprising to the Committee is the fact that the Ministry of Railways could not notify the areas which will come under the jurisdiction of these zones even after a lapse of six months. In the opinion of the Committee creation of more Divisions instead of creating Zones should have been given weightage with the growth in volume of freight and passenger traffic. The Committee take a serious view of the manner in which these Zones were created and want to have an explanation in this regard".

8. In their Action Taken Note, the Ministry of Railways (Railway Board) submitted the following:—

"The last Zone was created in 1966 when the South Central Railway was set up. After 1966 the following new divisions have also been formed:—

Hyderabad, Sonepur, Trivandrum, Bangalore, Mughalsarai, Malda, Bhopal, Ambala, Tinsukia & Sambalpur. In the year 1995-96, Government had decided to set up 8 new divisions at Agra, Pune, Ahmedabad, Guntur, Ranchi, Raipur, Singrauli & Rangiya.

The subject of railway reorganisation was examined by the Railway Reforms Committee in 1984 and they had recommended creation of new Zones at Allahabad, Bangalore, Jabalpur and Ajmer and 10 new divisions including the ones being set up at that time. However, due to the prevailing resource crunch new zones could not be taken up. With the rapid gauge conversion under Project Uni-gauge since 1992-93, as also the coming up of Konkan Railway, there was a change in traffic pattern. There was also a tremendous increase in traffic volume which reached 330 MT in 1995-96 from 202 MT in 1966-67.

Based on the above and the recommendations of the Railway Reforms Committee as also the Advisers' Committee, a proposal was put up in July '96 to the Cabinet for creation of six new Zones which was approved.

A time frame of 60 months has been fixed for creation of these Zones. The infrastructure and other works for setting up of these Zones is under progress. The detailed territorial jurisdiction of these Zones and Divisions is under finalisation.

The formation of new Zones/Divisions is expected to provide relief to the heavily worked zones/divisions, improve accessibility and enable the Administration to have an efficient control over the compact zones/divisions leading to improved service and customer satisfaction."

9. The Committee do not accept the reply of the Ministry of Railways that due to the prevailing resource crunch, new Zones could not be taken

up as per the recommendation of the Railway Reforms Committee, 1984. The Committee would, therefore like to know specifically whether the resource condition of Indian Railways has improved since then. No doubt with the rapid gauge conversion under Project Uni-Gauge and with the coming up of the Konkan Railway, there will definitely be tremendous increase in the volume of traffic. The Committee feel that this additional traffic could have been judiciously handled by creating additional divisions. The Committee, therefore, conclude that the money wasted on creation of additional Zones could have been utilised properly in areas like procurement of rolling stocks, doubling/renewal of railway lines and in electrification programmes.

Need to abandon the BOLT Scheme (Para 13.29)

10. Observing that the policy of creating assets through Build-Operate-Lease-Transfer (BOLT) have failed, the Committee had, in their Report recommended:

> "The Committee find that the private sector participation through schemes like Build-Operate-Lease-Transfer (BOLT) and Own-Your-Wagon-Scheme (OYWS) has limited success. No money is coming under BOLT as the schemes covered under it are highly capital intensive and the private participants hesitate to invest money in long gestation projects. As the policy of creating assets through BOLT has failed, the Committee recommend that the Railways should immediately be freed from this policy."

11. In regard to both BOLT and Own-Your-Wagon schemes, (OYW6) the Ministry of Railways, have stated as under:—

> "The Build-operate-Lease-Transfer (BOLT) scheme was envisaged by the Railways to supplement the resources for development of rail infrastructure projects by offering certain projects for funding and execution by parties in private sector.
>
> BOLT scheme has not been very successful in respect of infrastructure projects such as Gauge Conversion, Doubling and Electrification of lines. The response has been poor and the bidders are quoting high rates due to unforseen risks such as price escalation, changes in statutory taxes/levies etc. and non availability of adequate benefits under extant tax laws. As a result, a number of tenders have been discharged and some projects have been taken out of BOLT. So far, only four projects (two Gauge Conversion and two Rolling Stock) have been awarded, and even out of these four, one contract for gauge conversion has been terminated as the agency had not been able to adhere to the completion schedule and had practically abandoned the work.
>
> However, it is not considered advisable to abandon the scheme at this stage and efforts are being made to make the BOLT scheme

more investor friendly by incorporating suitable changes in the bid documents, as and when considered necessary, keeping the Railways' interests in view. Ministry of Finance has also been requested to agree to certain proposals so as to make the extant fiscal benefits more attractive to the investments in the projects under BOLT scheme.

The 'Own Your Wagon' scheme was launched by the Indian Railways in 1992 to enhance the rail transportation capacity to meet the needs of various sections of economy by encouraging private participation in ownership of rail wagons and thereby supplement the resources available with the Railways for acquisition of rolling stock. Based on the interaction with the customers and suggestions received, certain features of the scheme were liberalised and a revised scheme issued in 1994.

There has been encouraging response to the scheme. Orders for 5427 wagons (13567.5 four wheeler units) have been received upto March' 97. Out of these, 3719 wagons (9297.5 four wheeler units) have been inducted in the Indian Railways wagon fleet.

In the light of the experience gained so far and in order to attract greater customer participation, an exercise is being undertaken to further liberalise the scheme and make it more customer friendly."

12. From the Railway Budget 1998-99, the Committee observe that the Ministry of Railways are no longer enthusiastic in private investment through the BOLT scheme as is evident from the fact that the projected investment of Rs. 745 crore in the Budget Estimates for 1997-98 were revised to Rs. 308 crore. The projected investment through BOLT scheme is only Rs. 101 crore as per the year 1998-99 Budget Estimates. Keeping in view the above facts, the Committee recommend for a comprehensive review of the BOLT scheme immediately. They would also like to be apprised about the precise steps being contemplated by the Ministry of Railways so as to make the scheme more attractive and investor friendly.

Adequate compensation for carrying social burden (Para 13.38)

13. Agreeing with the view that the Indian Railways should be provided financial support from the Government for carrying social burden, the Committee, in para 13.38 of their Report *inter-alia* recommended:—

"The Committee have been informed that as recommended by them, a study for carrying social burden by the Railways was made and a copy of the Report was sent to the Ministry of Finance who opined that since the study was an inhouse exercise of the Railways, a working group associating representatives of Ministry of Finance and Planning Commission should be set up for examining the issue in its entirety. The Chairman, Railway Board, informed the Committee during evidence that a Committee of

> Officers as suggested by the Ministry of Finance was appointed and they had submitted a Draft Report on the subject and their final report is still awaited. The Committee recommended that the Committee of Officers should be asked to give their final Report expeditiously so that the Railways could get the much needed financial support from the Government on account of carrying social burden at this crucial juncture."

14. The Ministry of Railways in their Action Taken Note furnished the following:—

> "The Report of the Inter-ministerial Working Group, set up for examining the issue of social burden has since been finalised and is enclosed (Appendix-I)"

15. **The Committee note that the Report of the Inter-Ministerial Working Group on Social Service Obligation of Indian Railways have since been finalised and submitted to the Government. They would, therefore, like to be apprised about the precise action taken by the Government on the findings of the Report. However, the Committee reiterate their earlier recommendation that the Indian Railways must be compensated adequately for carrying social burden as is being done in the case of major world railways.**

The Committee, are of the firm opinion that no enduring turn around in the Railway Finances is possible unless success is achieved on two fronts *viz.* real improvement in operational efficiency and need to take a fresh look at the financial impact of social obligations on Indian Railways amounting to Rs. 2851.62 crore as per the estimate for 1997-98 shown in the Budget for the year 1998-99. In the Committee's opinion an increasing dependence on the market for borrowing at higher rate of interest will only increase pressure on the returns of railway investments.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para 13.6)

The Committee note that the railways are the principal mode of transport for freight and passenger traffic in the country and are the bulk carriers of commodities like coal, raw-materials, steel and mineral oils. Although, there has been more than 300% growth in the traffic carried by the Railways since Independence yet the network expansion has been only 16.7% as is evident from the fact that only 9000 route-kms. could be added in the railways network till 1996. There have been continuous demand for its expansion from tribal, backward, remote and hilly areas still inadequately served by the Railways but its growth has been adversely affected by perpetual shortage of resources.

Reply of the Government

Noted

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.7)

In this connection, the Committee find that upto the VI Plan gap between the size of the Plan and internal resources was wholly financed by the budgetary support which was 34% during the I Plan. It was gradually stepped up, reached a maximum 75% of total plan outlay in the V Plan and then it came down to 58% in VII Plan. However, midway in the Seventh Plan, it was realised by the Government that because of constrained resources, it would not be possible to fund the entire approved plan of Railways through the normal channel of budgetary support which came down to 42%. It was, therefore, decided that a part of requirement of additional assets should be met through market borrowings. With this decision the budgetary support started declining which finally came down to about 16% in 1996-97, the terminal year of Eighth Plan and market borrowings started increasing. The funds mobilised through market borrowings amounted to Rs.6176.67 crs. upto the end of 1994-95 whereas the Railways had to recover dues amounting to Rs.1095.92 crs. from the State Electricity Boards/Public Sector Undertakings as on 30.11.1994. On this amount no interest is chargeable as against the dividend rate of 7% Railways have to pay for budgetary support, around 22% has to be paid to Indian Railway Finance Corporation for the amount mobilised by them through taxable bonds. Had the Central Government helped the Ministry of Railways in recovering the outstanding dues of Rs.1095.92 crs. by adjustment against plan allocations of these States, Railways would have been saved from mobilising funds through IRFC at a very high rate of interest. The Committee are concerned to note further that the lease charges paid IRFC have increased from Rs. 626 Crs. in 1991-92 to Rs.1375 Crs. in 1996-97.

Reply of the Government

Noted

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.8)

The effect of this declining budgetary support, as stated in the Economic Survey 1996-97 has forced the Railways to re-prioritise their on-going projects of line expansion, renewals, gauge conversion, electrification of key routes etc. and has also adversely affected procurement of rolling stock. With the implementation of Pay Commission recommendations, the Committee feel that it would not be possible for the Railways to rely on more on internal generation of resources.

Reply of the Government

Noted

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.16)

The Committee however note that the performance of the wagon industry has been poor in the past and against their manufacturing capacity of about 36000 wagons per annum, the industry could not supply more than 26000 wagons in a year. They also desire the wagon industry to gear up their production to the rated capacity by removing the bottlenecks in the production line. Simultaneously, the Ministry of Railways should also ensure to place orders for wagon supply well in advance so that the wagon industry may be prepared to meet the challenges ahead.

Reply of the Government

Committees' recommendation for placement of wagon orders by the Railways well in advance is noted.

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.17)

The Committee also note that the manufacturing capacity of diesel (DLW) and electric locomotives (CLW & BHEL) is 150 and 170 per annum respectively. The Committee are of the firm opinion that the production capacity of these units would have to be expanded by providing marginal inputs for meeting the projected requirement of locomotives.

Reply of the Government

Keeping the IX Plan projections in mind, both DLW and CLW have been asked to argument their production capacity to 170 per annum by providing marginal inputs.

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.19)

The Ministry of Railways have informed the Committee that they had targeted to achieve 525 million tonnage of originating revenue loading (323 btkms), 2988.87 million of originating suburban and 1793.25 billion of originating non-suburban passengers during the terminal year of Ninth Plan i.e. 2001-02.

Noted

Reply of the Government

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.20)

The Ministry of Railways have also stated that if the rail share in the overall transport system is to be increased by 3% as recommended by the Planning Commission, the rail freight traffic to be lifted in the terminal year of the Ninth Plan, calculated on the basis of modest GDP growth rate of 6% works out a staggering 427 btkms. The historical rate of growth of passengers traffic has been 4% per annum against the expected demand of 6% per annum during the Ninth Plan and at this rate of growth 429 bpkms will be required to be generated by 2001-02.

Noted

Reply of the Government

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.28)

The Indian Railways is a departmentally run organisation falling under the jurisdiction of Ministry of Railways. The Ministry is under the charge of a Minister of Cabinet rank who is associated by Minister of State/ Dy.Minister. Indian Railways being a part of the Government of India have undertaken a number of social obligations, which they have been discharging for a long time within the constraints relating to availability of resources. It has been assigned the dual task of providing a modern railways transport system at least cost to the society while maintanng its financial viability. It also has a deep social obligation to subserve the national objective by providing the basic and necessary transport infrastructure for promoting economic development and rapid industrialisation of the country. To meet the growing demands for expansion of railway network from every corner of the country, the

Railways require major investments for expansion/upgradation of their system. The Committee find that the budgetary support which was about 70% of the total plan outlay in the Fifth Plan came down to 16% in 1996-97, terminal year of the Eighth Plan. The decline in the budgetary support has adversely affected the growth of Railways as against the dividend rate of 7% on budgetary support, it has to pay around 22% to Indian Railway Finance Corporation (IRFC) for the amount mobilised through market borrowings. Since 1987-88, the funds mobilised by the Railways through IRFC amounted to Rs. 10553 crs. on which Railways have so far paid Rs. 7284 crs. as lease charges to IRFC.

Reply of the Government

Noted

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.36)

The Committee note that the magnitude of social burden of Indian Railways used to be assessed including cost of staff welfare measures and law and order cost till 1991-92 and it consisted of (a) losses on freight services for carrying essential commodities at rates much below the cost, (b) losses on suburban passenger services, and (c) losses on suburban coaching services. However, after the matter was raised during the course of a meeting of the Consultative Committee of Members of Parliament for the Ministry of Railways in February 1993, it was decided, after examination by the Railway Board, that the expenditure on health, housing, education and law and order costs should not be considered as social costs. After deducting staff welfare and law and order costs, the railways have been made to bear social burden of Rs. 5145 crores from 1992-93 to 1995-96. From the analysis of the loss suffered by the Railways, the Committee find that the maximum losses are being suffered on suburban and non-suburban coaching services. Against a cost of Rs. 25.18 per passenger km. the Railways have been charging Rs. 16.51 in 1993-94. Similarly, a review of financial results of uneconomical branch lines for the year 1993-94 shows that on an original investment of Rs. 64 crores the losses added upto that period were Rs. 146 crores on as many as 117 branch lines.

Reply of the Government

Noted

[Ministry of Railways (Railway Board) O.M. No.96/RCC/206/2, dated 9-9-1997]

Recommendation (Para 13.37)

In this connection, the Committee find that the practice of bearing social obligations is a built-in feature of Railways systems the world over and to cover such deficits grants are sought by Railways and sanctioned by Governments in many countries. In the United Kingdom, British Railways were given Public Service Obligation Grant of 808.9 million ponds in 1993-94 to sustain the quality and level of passenger business on Provincial services and Network South East. The Swiss Federal Government contributed SWFr. 2439 million in 1993, as federal compensation towards regional passenger and freight services. Similarly, the Federal Republic of Germany, in 1992, granted the German Railway DM 22683 million towards compensation for social services, payment for welfare activities, investment grants etc. The French Government also granted to the French National Railway an amount of F. Fr. 42900 million in 1993 towards infrastructure, pensions, compensation for socially reduced tariffs and regional passenger services. The percentage of subsidy to total revenue in these countries has been 40 to 68%. The Railway Convention Committee (1991) in their Fifth, Ninth and Twelfth Reports on Rate of Dividend for 1994-95, 1995-96 and 1996-97 respectively had also recommended that when the Ministry of Railways are facing acute resource crunch due to dwindling budgetary support, they should adequately be compensated for carrying social burden. The payment of compensation for carrying social burden also assumes greater importance as for meeting their requirements, Railways were forced from 1987-88 to 1996-97 to raise an amount of Rs. 10553 crores through market borrowings for which they had to pay Rs. 7284 crores as lease charges.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9-9-1997]

Recommendation (Para 13.39)

In order to have a view of the financial performance of the Indian Railways *vis-a-vis* that of other Railways in developed/developing countries, the Committee want to share the experience of those countries. In Germany the size of Railway network is 40,000 kms. for a population of 80 millions whereas Indian Railways, network is 62915 kms. for a population of 900 millions. In spite of that the German Government has been providing support to their Railways in order to expedite its full potential as a mode of transport due to its inherent advantages. Even after privatisation of their railway with the consent of all political parties w.e.f. 1.1.1994, the support the German Government gave to their Railways amounted to DM 12996 million against generation of internal resources to DM 30723 million. At the same time, the responsibility for infrastructure development continued to be with the Government which provided funds in the form of grants and interest free loans. If a new unprofitable line is to be constructed, the investment is done by the German Government and its treated as grant. Investment on profitable line is also funded by the Government but treated as interest free loan to be returned in agreed terms. Similarly, for closure of any unprofitable line, if a decision is taken to continue the line, the Railway is suitable compensated by the Government.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.40)

French Railway is a Government Undertaking having an integrated structure, with considerable autonomy in functional management. The internal structure continues to be mostly departmental oriented. Unprofitable projects, if imposed on that Railway, are to be financed wholly by the Government. Similarly, unprofitable local services and branch lines are subsidised by the local Government. However, the Railway is expected to run profitably in regard to freight, long distance passenger operations etc. In spite of the above provisions, the Committee find that the French Railway was not able to make profit and on the contrary it has been incurring heavy losses. The loss suffered by the French Railway was 6.5 billion FF in 1995 even after getting operating subsidy of 14.51 billion FF and infrastructure subsidy of 12.4 billion FF. However, *w.e.f.* 1.1.1997, a new system has come into existence which brought about major structural changes but there has been no attempt to privatise French Railways as unions are very strong in France and are not in favour of it.

Reply of the Government

Noted.

Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9-9-1997]

Recommendation (Para 13.41)

The British Railways were also given service obligations grant of 808.9 million Pounds in 1993-94 to sustain the quality and level of passenger business on Provincial Services and Net Work South East.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.42)

The Peoples Republic of China is a Country with a extensive territorial expansion and where the distribution of natural resources and the economic development is uneven. The operating network of Chinese Railway has increased from 21,000 kms. in 1949 to 60,000 kms. by the end of 1995 with 29.6% being double track. The diesel and electric traction amounting to 32.2% and 13% respectively in 1990 has increased to 40% for diesel and 18.3% for electric by 1995. Although the diesel and electric locomotives account for 69% of all locomotives in stock, yet they carry

85.9% of all transportation traffic. By 1994 passenger and Cargo transportation reached 57.9% and 68.8% respectively of the entire transportation volume.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9-9-1997]

Recommendation (Para 13.43)

During evidence the Expenditure Secretary had admitted that the Chinese Railway does not pay any dividend on the capital invested as they do not have any surplus. However, both the Expenditure Secretary and the Special Secretary, Planning Commission stated that the Chinese Railways are more efficient than the Indian Railways and there is a large scope for improving the efficiency in the Indian Railways. Refuting the above statement, the Chairman, Railway Board informed the Committee during evidence that the Chinese Railway had suffered an overall operating loss of 10 billion in 1985 and that included an operating loss of 6.5 billion for passenger services, whereas the Indian Railways have always been making profit.

Reply of the Government

Noted. The losses pertain to the year 1995.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9-9-1997]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Para 13.1)

The Railways are today an integral part of our socio-economic life. From a modest beginning in 1853 with a route of 21 miles, the Railways have blossomed into a gigantic organisation with a network of over 62915 route-kms. of all the three gauges. The Indian Railways are the largest network in Asia and the second largest network in a single management in the world. This can be judged by the fact that it employs more than 16 lakh persons; have a holding of 6909 locomotives, 39104 coaches and 28079 wagons; carries more than 1.1 million tonnage of originating freight traffic and 11 million passengers per day; maintains 40671 level crossings; owns 4.19 lakh hectares of land. The Capital at charge at the end of financial year 1995-96 was Rs. 22249.82 crs. Inspite of this heavy investment in Railways, its market share has declined in freight and passenger traffic from 89% and 72% in 1951 to 40% and 20% respectively in 1995. The Committee are of the firm opinion that this trend will have to be reversed if the Indian Railways are to survive.

Reply of the Government

Ministry of Railways agree with the opinion of the Committee. However, increase in market share of railways in total transport would not be possible without very heavy investments in capacity generation projects for which budgetary support from the Union Government to the Indian Railways would have to be increased substantially. Continuous efforts are being made by the Railways to get as much Budgetary Support as possible.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.2)

The need for heavy investment for the Railways was visualised as early as in 1924 when Acworth Committee was appointed to give its recommendations. That Committee disapproved the faulty system under which the Financial Department of the Government controlled the Railway Finances. In the opinion of that Committee it was absolutely necessary to treat Railways "as a continuously growing concern with a carefully thoughtout programme both of revenue and of capital expenditure for years ahead with provisional financial arrangements to correspond". Keeping in view the recommendations of Acworth Committee, the then

Commerce Minister moved a Resolution in the then Legislative Assembly for Separation of Railway Finances from General Finances on 17th September, 1924 which was adopted by a Resolution of the House on 20th September, 1924 and was approved by the Secretary of State. The working of the Separation Convention was reviewed from time to time by Committees appointed by the Legislative Assembly. The Railway Convention Committee 1949, which was the first to be set up after Independence, assured a steady return to General Revenue and also enabled the Railways to strengthen their reserves for discharging their obligations towards rehabilitation, increasing operational efficiency and provision of adequate amenities. It also arrested the growth of over capitalisation in the Railways.

While the Railway Committees of 1949, 1954, 1960 and 1965 confined themselves only to the question of determining the Rate of Dividend payable by the Railways, the Railway Convention Committee (1971) for the first time selected some subjects which had bearing on the finances of the Railways for their detailed examination and presented Reports on those subjects to Parliament. The subsequent Committees have also, in addition to the reporting on the Rate of Dividend payable by the Railways to General Revenues been examining and reporting on the various aspects of working of Railways and Railway Finances.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9.9.1997]

Recommendation (Para 13.10)

Doubling of lines in another area for augmenting the traffic carrying capacity. The Committee find that out of a total route of 62915 kms. 47758 kms. consists of single line and only 15157 (23%) route kms. has double/multiple lines. In this connection, the Committee have been informed that proposals for doubling are initiated by the Zonal Railways taking into account the traffic pattern and existing line capacity. Traffic projections are made for each Five Year Plan in consultation with the actual user sector and the concerned Ministers. Thereafter, these projections are discussed and finalised in consultation with the Planning Commission. The Ministry of Railways take up doubling of single line sections only when the existing utilisation of that track reaches around 90 to 95% of the capacity utilisation. The Committee note that the Railways expect to complete doubling of 1140 kms. during the Eighth Plan and the spill over into the Ninth Plan for completion of on-going doubling projects will be 1657 kms.

at a cost of Rs. 1575 crores. The outlay proposed for doublings in the Ninth Plan is Rs. 2500 crores out of which Rs. 1500 crores are to be spent for on-going works and Rs. 1000 crores for new starts. In all about 2000 kms. of doubling are proposed to be commissioned in the Ninth Plan. The Committee desire that the Ministry of Railways should concentrate only on those sections for doublings which are being used 100% of their capacity. While planning doubling of railway lines they recommended to the Ministry of Railways to develop high speed corridors so as to utilise the ABB Engines effectively.

Reply of the Government

Considering the gestation periods for completing infrastructure development works like doubling and the need for having such facilities in place ahead of demand, the present policy of planning doubling of sections when the level of utilisation exceeds 85/90 per cent will have to continue.

The existing corridors have necessarily to be used both for freight and passenger traffic. The severe resource constraints force the utilisation of the bare minimum available resources to more pressing needs. The development of separate high speed corridors does not, therefore, appear to be possible in the present context.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.12)

Railway electrification has assumed national importance because of the growing emphasis on conservation and substitution of oil energy. The Committee find that upto 31 March, 1996 only 12,875 route kilometre has been electrified. As per the objectives laid down by the Ninth Plan Working Group on Railways for railway electrification in the Ninth Plan, the Railways would complete the on-going works, take up electrification of the remaining unelectrified sections of the Golden Quadriliteral and also cover certain missing links. The Total target for railway electrification planned during Ninth Plan is 2,300 route kilometres. The Committee desire that while doing electrification of railway lines emphasis should be laid on strengthening overhead equipments, so as to meet requirements of heavy haul freight trains and longer passenger trains at higher speeds. Simultaneously, railways should also take action for replacement of Over Head Equipments on age-cum-condition basis, obtaining power supply directly from NTPC, installation of capacitor banks to improve power factor, augmentation/construction of new traction sub-stations to cater to the requirement of growing traffic demands during Ninth Plan period. Substantial drop in power production during Eighth Plan period should also be kept in view while planning for electrification of railway lines.

Reply of the Government

As on 31.3.1996, 12875 RKM have been electrified, Electrification of 642 has been completed during 1996-97. This has enabled Indian Railways to complete electrification of 13517 RKM by the end of 1996-97 and also achieve the target of 2700 RKM set for the VIII Plan.

Electrification of 2300 RKM has been planned during Ninth Plan period to complete the on-going works, and take up electrification of the remaining unelectrified sections on the East Coast and also certain missing links. The following sections are planned to be covered during the IX Plan.

Eastern Railway

Jagdish-Mughalsarai
Tiruldih-Barkakana
Denea-Gumia

Northern Railway

Jagadhri-Saharanpur

South Eastern Railway

Bokaro Steel City-Muri-Hatia-Bondamunda-Barsuan/Kiriburu (Including Purulia-Kotshila)
Adra-Midnapur
Kharagpur-Bhubaneshwar-Visakhapatnam

Southern Railway

Shoranur-Ernakulam

Western Railway

Udhna-Jalgaon.

Electrification of 500 RKM has been planned during 1997-98, the first year of the IX Plan and Rs. 350.00 crores have been provided for the same in the Railway Budget of 1997-98. Power supply installation and overhead equipments are designed to meet the requirements of heavy haul freight trains and longer passenger trains at higher speed.

Availability of adequate power for the electrification project is ascertained and ensured before approving a new electrification scheme.

During IX Five Year Plan under Plan Head—"Other Electrical Works", the following provisions have been kept for strengthening infrastructural facilities for electrical assets to enable Indian Railways for hauling the increasing passenger and freight traffic:

(i) Replacement of OHE on age-cum-condition basis in electrified Railways—Rs. 250 crore.

(ii) Augmentation of traction sub-stations or construction of new traction sub-station to cater for the requirement of growing traffic.

demands—Rs. 150 crore.

(iii) Availing of direct power supply from NTPC—Rs. 145 crore.

(iv) Installation of capacitor banks to improve the power factor—Rs. 20 crore.

(v) Upgradation of existing OHE for running of trains at higher speeds—Rs. 50 crores.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.18)

The Committee find that in order to satisfy the transport demand for non-bulk traffic as also to win back the traffic which had shifted to road, the Container Corporation of India (CONCOR) was started as a Public Sector Unit under the Ministry of Railways. At present the entire container traffic moved by the Railways is handled by the Corporation which caters to both International and Domestic container traffic. The Ninth Plan Working Group of Railways has estimated that the International Container traffic would increase from 4 lakh TEU in 1996-97 to 10.5 lakh TEU in 2001-02. During the same period the domestic traffic is also expected to grow from 3 lakh TEU to 4 lakh TEU. The Committee hope that necessary funds and infrastructure would be provided by the Government to CONCOR for handling the increasing demand.

Reply of the Government

Railways would continue to support CONCOR in handling increased demands, but there is no proposal to provide funds to CONCOR in the IX Plan period. CONCOR has been able to generate and mobilise its own resources for creating required infrastructure in the past and is expected to continue to do so in the future.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.22)

The Committee feel that the Railways will have to respond to the changed environment by making necessary competitive adjustments to deal with the pressures of market forces in a liberalised economic environment, not only in order to remain financially viable but to be able to satisfy the growth in demand for rail transport as a result of accelerated growth of the vibrant economy. At the same time, the Railways as a public utility would have to continue to be responsive to their public service obligations. Apart from having a high budgetary support, the Committee feel that the Ministry of Railways will have to be efficient as they have to find the ways and means to economise on a large scale so that they could generate more internal resources.

Reply of the Government

The Ministry of Railways agree with the recommendation of the Committee. Railways are taking all possible steps to improve the efficiency of the operations. As a result, the utilisation indices of various assests have improved considerably over the last few years. For example, the wagon utilisation norm in net tonne km/wagon/day on line has increased from 1407 in 1990-91 to 1792 ntkm/wagon/day on line in 1995-96 and it has been planned to improve it further to 1950 ntkm/wagon/day on line by the end of IX Plan.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Paras 13.23 and 13.24)

The Committee noted that the Indian Railways is departmentally run organisation falling under the jurisdiction of Ministry of Railways (Railway Board). The Railway Board at present consists of the Chairman, the Financial Commissioner and five other members. Where as the Chairman, Railway Board is ex-officio Principal Secretary to the Government of India. The Members of the Railway Board are separately in charge of matters relating to Staff; Civil Engineering; Traffic; Mechanical Engineering; and Electrical Engineering. After considering the growth in the volume of railway purchases during the last decade, the Railway Convention Committee (1991) had in their fourth report, recommended for the creation of the post of Member (Stores). In their action taken reply dated 8th April 1994, the Ministry of Railways informed the Committee that the recommendation for Creation of post of Member (Stores) is being studied by a committee, which has recently been set up by the Ministry of Railways to make a detailed study of the organisation and structure of the railways to bring about necessary changes in the Management Ethos so that rail transport becomes a way of business. The Committee are constrained to note that no action has so far been taken by the Ministry of Railways in this regard. The Committee, therefore, reiterates their earlier recommendation for creating a post of Member (Stores) in the Board immediately.

The Committee feel that development does not only mean laying new railway lines and procuring new rolling stock. The development can be said to be wholesome when the safety aspect is not compromised. Keeping in view the frequent accidents derailment, and dacoities the present parameters of railways safety needs to be examined *de-novo* and therefore the Committee recommend that the present set up for railway safety should be headed by a full-fledged Member at the apex level of Indian Railways.

Reply of the Government

The Railway Board at present consists of 7 members which include Chairman, Railway Board, Financial Commissioner, Railways and 5 other functional Members viz. Civil, Mechanical, Electrical, Traffic and Staff.

The expert Committee headed by Shri Prakash Tandon made a detailed study of organisational structure of the Indian Railways. While recommending reorganisation of the Railway Board on functional basis, the committee has not recommended creation of a separate post of either Member (Stores) or Member (Safety).

The Fifth Central Pay Commission has recommended creation of the posts of Member (Stores) and Member (S&T). The Pay Commission's report is yet to be accepted by the government and, as such, it would not be possible for the Railways at this stage to take a view on the creation of the post of Member (Stores).

Security on Railways in matters concerning dacoities, thefts, etc. is under the charge of the State Governments who fulfil this responsibility through their GRP under the overall charge of DG (Police). It may also be mentioned that for monitoring the safety aspects on the railways, an independent high level body already exists which works under the Ministry of Civil Aviation. The Chief Commissioner of Railway Safety and under him Commissioners of Railway Safety attached to different Zones constitute this high level independent body which in matters concerning safety recommends corrective action to the Railways, separate post of Member (Safety/Security) is, therefore, not considered necessary.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.27)

Modern technology plays a vital role in significant savings in investment, cost of operation and economies of scale. It also brings in improvement of quality and reliability of service and also safety. Therefore, the Committee recommend that the Indian Railways should upgrade their existing technologies in areas of high speed and efficient locomotives for both electrical and diesel traction, new design for coaches, operation of 4500 tonne freight trains at double the existing average speed on mixed traffic routes. Heavy haul freight trains of upto 18,000 tonne trailing loads at 75 kms. per hour, operation of passenger services upto 160 kms. per hour on mixed routes and at the rate of about 200 kms. per hour on dedicated routes.

The Committee are also unhappy to note that high speed state-of-art locomotives were procured by Ministry of Railways without creating supporting infrastructure.

Reply of the Government

High Horse Power (6000 H.P.), 3-phase, state-of-the-art electric locomotives, high horse power (4000 H.P.), AC/AC transmission fuel efficient diesel locomotives and modern light weight coaches are being imported with technology transfer for indigenous manufacture in Railway production units. These high horse power locomotives would help in increasing the average speed of the 4500 tonne freight trains. Feasibility studies are being conducted for operation of heavy haul freight trains upto 18000 tonne trailing load. Prototype coach for 160 kmph operation has been made by RCF and field trials are being conducted. Modern coaches, which are being imported with technology transfer would have a speed potential of 160 kmph.

The 'State of Art' high horse power passenger electric locomotive have since been pressed into service for hauling Rajdhani trains to Bombay and Howrah.

These locomotives are fully capable of hauling loads at speeds which have been presently adopted by IR to meet the corporate objective. Necessary infrastructure to maintain these locomotives at homing sheds is available.

Considering that (i) the existing corridors have necessarily to carry both freight and passenger traffic and so cannot have maximum permissible speeds in excess of the present limit of 140 km/h, and (ii) severe resource constraints force the utilisation of the bare minimum available resources to more pressing needs, operation of passenger services on the existing routes carrying mixed traffic at speeds upto 160 km/h and construction of separate dedicated high speed (200 km/h) corridors do not appear to be possible, at least for the present.

[Ministry of Railways (Railway Board) OM. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.31)

The Committee note that Indian Railways operate daily 7525 trains comprising of 2973 ordinary passengers and mixed trains, 1237 Mail/ Express trains and 3315 EMUs. They are constrained to note that the average speed at which the mail/express trains run per hour broad gauge is 47.9 km. ordinary passenger trains at 31.8 km. and EMU at 35.6 km. The total number of passenger carried by Indian Railways during 1995-96 stood at 4018 million. In this connection, the national Transport Committee had observed that there has been heavy fluctuations in demand for non-suburban traffic in the year. The demand shoots up during holidays in May and June and thereafter again from October to December. These demands mostly for medium and long distance travel is concentrated on main trunk lines which carry heavy traffic and suffer from serious problems of capacity. The Committee, therefore, feel that it is necessary to plan for a realistic growth of long distance passenger traffic, by introducing high speed trains. Simultaneously, more new centres of economic activity would have to be created so as to disperse and reduce significantly the pressure of population in Metropolitan Cities which, in turn, could be possible only if travel facilities with high speed trains are made available. As recommended by the Committee in earlier paragraphs of this Report, there is urgent need for raising the average speed of trains to 120 to 160 kms. per hour for which all the new lines, renewals of railway lines doubling of lines gauge conversion of lines etc. should be laid keeping in view the necessity for running the trains at the above speed.

Reply of the Government

Railways keep a close watch on the growth of passenger traffic particularly long distance traffic and within available resources endeavour to provide additional long distance services to the extent feasible and justified. During the last 3 years, following additional fast services have been introduced:—

Year	New trains	Frequency increased	Extension
1994-95	68	30	50
1995-96	72	12	46
1996-97	39	26	36

2. In the last few years, Railways had decided to link State capitals with Delhi by fast Rajdhani Expresses. Accordingly, Rajdhani Expresses to Trivandrum, Bangalore, Madras, Bhubaneswar, Guwahati, Patna and Jammu Tawi had been provided. The frequency of Madras, Bangalore and Bhubaneswar Rajdhanis has been increased to bi-weekly recently. During this year, it is also planned to provide a Rajdhani to Ahmedabad and Secunderabad and also divert Trivandrum Rajdhani *via* Goa.

In order to provide fast inter-city travel during day time in comfort, Shatabdi Expresses have been introduced. Commencing from New Delhi-Bhopal Shatabdi in 1989. 13 pairs of Shatabdi Expresses have so far been introduced.

3. The average speed of some of these Rajadhanis and Shatabdis is somewhere in the vicinity of 90 kmph. while that of Mail/Express trains' average speed in 47.9 kmph. on BG.

Railways constantly review the journey time of various Mail/Express trains and wherever feasible, reduce the journey time keeping in view prevalent conditions of track and traction. In August, 1997 Time Table, Punjab Mail, Pushpak and Charminar Expresses have been speeded up to increase the average speed beyond 55 kmph. Including these, 7 pairs of Mail/Express trains have been converted into Superfast Expresses.

4. We do not have separate corridors for running Mail/Express trains. Railways run various types of services like Rajdhani, Mail/Express, suburban and freight trains in the same corridor. This leads to a scenario in which various services are running out at different speeds. It is not conducive to widen speed-differential on a section between slowest and fastest services, as this step erodes the available line capacity and, therefore, through-put. Besides, Railways have to constantly strike a balance between speed and load of Mail/Express trains and it is essential to clear maximum number of passengers by these popular services.

5. However, within these limitations, Railways have embarked upon a venture to increase speed of various services by improving the track structure or by deploying high speed locomotive/coaches upto 140 kmph.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9.9.1997]

Recommendation (Para 13.32)

All those trains with a journey of less than 300 kms. are categorised short distance passenger trains. All these short distance stopping trains which are loss making from the operational point of view. In this connection, the IX plan working Group on Railways have, in their Report, stated that apart from heavy losses suffered by Indian Railways due to operation of short distance passenger services, the situation has become critical because of saturation of the existing high density corridors. The Committee also feel that it would not be possible to introduce additional long distance passenger and freight services unless restraint is exercised on the growth of such short distance services.

Reply of the Government

It is true that the short distance stopping trains eat into the line capacity of the section. But Railways have to cater to all type of traffic and cannot run away from its social commitments. With a view to minimise the line capacity loss and to provide more efficient service, Railways are replacing the conventional short distance passengers by EMUs, MEMUs, DMUs, diesel push-pulls having better acceleration/declarations.

[Ministry of Railways (Railway Board) OM No. 96/RCC/206/2, dated 9.9.1997]

Recommendation (Para 13.34)

Railway transport in cities is generally termed as suburban rail services which serve the population of large cities with referece to the working hours in offices, industrial establishments, educational institutions etc.

Organisation to administer and control the suburban rail services in each of the metropolitan cities of Mumbai, Calcutta and Chennai is divisional organisation headed by Divisional Railway Manager. There are at present 2 divisions in Mumbai, 3 divisions in Calcutta and 1 division in Chennai responsible for administering and controlling the suburban rail services. In addition to the above divisions, Metro Railway and Circular Railway covering a distance of 16.45 Kms. and 13.50 respectively are also serving the suburban passengers of Calcutta. The total number of suburban passengers had increased from 2527.02 millions in 1995-96 to 2560.40 millions in 1996-97 and passenger kilometres increased from 73651 millions to 74624 millions during the same period. Whereas the suburban services of Western and Central Railways have shown a profit of Rs. 79.69 crores and Rs. 2.53 crores respectively, all other suburban services have been incurring heavy losses. During their Study Tours to Mumbai and Chennai during October, 1996 and to Calcutta during January, 1977 there was demand for additional lines, additional EMU and DMU coaches. The commuters had also complained to the Committee about late running of these services. There was also demand for completing the Circular Railway and extension of Metro Railway. Considering the high rise in passenger traffic in all the metropolitan cities, the Committee feel that there is an urgent need for augmenting the transport facilities for the daily commuters. However, the Committee have been informed that with the amendment in the Business Allocation Rules in 1986, the responsibility of planning and coordination of urban traffic including the Rail Based Ones now rests with the Ministry of Urban Affairs and Employment. As augmentation and running of Metro and Suburban services are highly capital intensive projects, the Committee recommend that a separate Corporation should be set up for running these suburban and metro services.

Reply of the Government

There is no proposal to create any separate corporation for running the metro or suburban services.

The operation of suburban services has a very close linkage with that of other passenger and freight trains. In other words, suburban operations cannot be delinked from the operation of other passenger and freight services. It is not, therefore, possible to have a separate corporation for running of suburban services.

The Railways have proposed to set up a Mumbai Rail Development Corporation for undertaking works in connection with the development of the Mumbai suburban system, taking into account the unique position of Mumbai has in this regard. For the reasons mentioned above, this Corporation will, however, not be entrusted with the task of running the suburban services.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2, dated 9.9.1997]

Reply of the Government

The Planning & Coordination of Urban Transport was entrusted to the then Ministry of Urban Development (now the Ministry of Urban Affairs & Employment) in 1986.

With a view to augment the urban transport services in different cities, particularly Metropolitan Cities, feasibility studies were got conducted jointly by the State Governments and Government of India. These studies recommended introduction of certain urban transport system *e.g.* Light Rail Transit System in Hyderabad, elevated rail system in Bangalore, extension of Metro Rail as also the circular rail in Calcutta etc.

Since such projects are highly capital intensive and cannot be implemented wholly by Government of India funding, participation of State Governments and private sector in funding of such projects is being explored.

Since such projects would involve different kind of system to be implemented with different financing patterns, it may not be feasible to have a single Corporation to look after all the urban transport projects in the country.

[Ministry of Urban Affairs & Employment (Deptt. of Urban Development) O.M. No. K-14011/31/97/UT dated 16.6.1997]

Recommendation (Para 13.35)

The Committee have also been informed that Delhi Metro System is a Joint Venture and 100 per cent to the funds required are to be funded by the Government at National Capital Territory of Delhi and the Central Government. The capital cost is to be met by borrowing from OECL. Delhi Metro would be managed by a separate company. The Committee would like to have the full details of the project.

Reply of the Government

1. The first phase of Delhi Mass Rapid Transit System (MRTS) Project was approved by the Union Cabinet in September, 1996. This project will cost approximately Rs. 4860 crores (at April, 1996 prices) and will comprise a network of eleven Kms. of underground (METRO) Corridor (V.Vidyalaya to C. Sectt.) alongwith 44.30 Kms. of elevated/ surface (RAIL) Corridors (Sabzi Mandi to Holambi Kalan and Shahdara to Nagloi). It will have 45 Stations in all. The project will be implemented through a joint venture company (*viz. Delhi Metro Rail Corporation Limited*) set up in May, 1995. OECF (Japan) has agreed to provide soft loan @ 2.3% per annum amounting to approximately 56% of the cost of the project. Appoximately 30% of total cost the project shall be met by way of equity contributions @ 15% each by GOI and GNCTD, approximately 6% shall be generated by way of revenues from property development and approximately 8% of the total cost of the project shall be met by way of subordinate debt towards cost of land.

Debt equity ratio for the project is 2:1. Economic IRR of the project works out to 21.4% even though financial IRR works out to less than 3%.

2. The Metro corridor has been designed with a view to having a daily ridership of approximately 2.7 millions and average trip length as 7.12 Km. Both Metro and Elevated/Surface corridors have been designed with a view to having train frequency during peak hour as three minutes and maximum designed speed as 80 Km. Whereas scheduled speed will be 30 Km. per hour.

3. For the Metro Corridor:—

(a) Civil works will be executed on a, "Design and Construct" basis;

(b) Electrical/Mechanical/Signal/Telecommunication works will be executed on a "Design, Assemble and Instal" basis; and

(c) The Rolling Stock will be provided on a "Design, Manufacture and Supply" basis.

For Rail Corridor:—

(a) a separate Design Consultant will be appointed for the preparation of final design, drawings, construction details etc. for all works excluding Rolling Stock.

(b) the civil works will be executed on a "Construct only" basis and the Electrical/Mechanical/Signal/Telecommunication works being executed on a "Assemble and Instal" basis under three separate contract packages for the three segments.

(i) Shahdara — Pul Bangash;

(ii) Pul Bangash — Nangloi; and

(iii) Sabzi Mandi — Holambikalan

into which the Rail Corridor will be divided for the purpose; and

(c) The Rolling Stock for the entire Rail Corridor will be executed on a "Design, Manufacture and Supply" basis.

4. This project will generate substantial economic benefit to the economy by way of time saving for commuters, reliable and safe journey, reduction in atmospheric pollution, reduction in accident rates, reduced fuel consumption, reduced vehicle operating costs, increase in the average speed of road vehicles, improvement in the quality of life, more attractive city for economic investment and growth.

5. Since the investment approval for the project by the Union Cabinet in September, 1996, there has been significant progress towards the implementation of the Delhi MRTS Project. The following are some of the notable milestones in this regard:—

(i) OECF(Japan) have agreed to provide a Loan Assistance amounting to 14760 million Japanese Yen (Rs. 478.78 crores) for which the formal Loan Agreement has been signed on 25th February, 1997.

(ii) During the year 1996-97, an amount of Rs. 123.8 crores has been released by the Government of India and Government of NCT of Delhi towards equity of the DMRC Ltd.

During the year 1997-98 there is an initial budgetary provision of Rs. 150 crores in the Budget of MOUAE, GoI. This includes Rs. 50 crores for equity Rs. 50 crores for land acquisition and Rs. 50 crores against "pass through assistance" of OECF. However the total budget is likely to be augmented during the course of the year.

(iii) Assistant Company Secretary-cum-Finance Officer has joined. Financial Advisor and Chief Accounts Officer has been selected and is likely to join shortly. Selection for the post of Chief Engineer (Electrical) has been finalised. Names have been received for the posts of Chief Engineer (Civil), Chief Engineer (LUP) and Chief Personnel Officer. Selections will be made shortly. Selections for essential support staff have been finalised.

(iv) Global enquiries for "Expression of Interest" were floated by the DMRC Ltd. for appointment of General Consultant for the project. The responses received have been evaluated and firms have been short listed for being forwarded to OECF for their review and concurrence.

(v) The DMRC Ltd. has purchased office premises measuring 3800 sq. mts. in the "NBCC Place", Lodhi Road, New Delhi.

(vi) Process of land acquisition has already been initiated. Notification for acquisition of 126.50 ha. of private land has been issued.

(vii) Diversion schemes for utilities in respect of both the corridors have been finalised. Traffic diversion scheme in respect of Metro corridor has been finalised.

(viii) Orders for setting up Special MRTS Cell in the MOUAE have been issued.

(ix) For the purpose of coordinating the activities of various organisations for timely implementation of the project, three Committees namely Action Committee on Land and Rehabilitation, High Power Committee on Planning and

Implementation and Committee on Utility Groups have been constituted.

[Ministry of Urban Affairs & Employment (Department of Urban Development) O.M. No. K-14011/31/97-UT dated 16.6.1997]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation (Para 13.13)

The Committee also recommend that the State Electricity Boards/Public Sector undertakings should be pursuaded to levy electric charges on the Railways as is being levied on bulk electric consuming Industries.

Reply of the Government

The tariff fixation in so far as electricity supply is concerned, is done by the State Electricity Boards on their own or subject to such directions as the State Government may give. The Central Government has legally no role in fixation of tariff.

However, this matter has been taken up several times by Ministry of Railways with the Ministry of Power, Chairman, State Electricity Boards and also Chief Secretaries of the States, to bring down the railway traction tariff at par with that charged to H.T. consumers in the State. But the efforts made in this direction have not yielded satisfactory results.

Ministry of Power *vide* their letter No. 27/34/90-D(SEB) dated 01.05.91 had issued instructions to all SEBs that the tariff for railway traction should not be more than high tension industrial tariff. But barring few SEBs, the instructions of Ministry of Power have not been implemented by most of the State Electricity Boards.

[Ministry of Railways (Railway Board O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.25)

The Committee note that against the recommendations of the Railway Reforms Committee made in 1984 for creation of four zones at Ajmer, Jabalpur, Bangalore and Allahabad the Ministry of Railways have abruptly created in August 1996, six Zones at Hajipur, Bhubaneswar, Jaipur, Allahabad, Jabalpur and Bangalore. The Ministry of Railways did not take any action for creation of any zone during the last 12 years and created six zones without any examination at a time when Railways were facing acute financial crunch. What is more surprising to the Committee is the fact that the Ministry of Railways could not notify the areas which will come under the jurisdiction of these zones even after a lapse of six months. In the opinion of the Committee creation of more Divisions instead of creating Zones should have been given weightage with the growth in volume of freight and passenger traffic. The Committee take a serious view of the manner in which these Zones were created and want to have an explanation in this regard.

Reply of the Government

The last Zone was created in 1966 when the South Central Railway was set up. After 1966 the following new divisions have also been formed:—

Hyderabad, Sonepur, Trivandrum, Bangalore, Mughalsarai, Malda, Bhopal, Ambala, Tinsukia & Sambalpur. In the year 1995-96, Government had decided to set up 8 new divisions at Agra, Pune, Ahmedabad, Guntur, Ranchi, Raipur, Singrauli & Rangiya.

The subject of railway reorganisation was examined by the Railway Reforms Committee in 1984 and they had recommended creation of new Zones at Allahabad, Bangalore, Jabalpur and Ajmer and 10 new divisions including the ones being set up at that time. However, due to the prevailing resource crunch new zones could not be taken up. With the rapid gauge conversion under Project Unigauge since 1992-93, as also the coming up of Konkan Railway, there was a change in traffic pattern. There was also a tremendous increase in traffic volume which reached 390 MT in 1995-96 from 202 MT in 1966-67.

Based on the above and the recommendations of the Railway Reforms Committee as also the Advisors' Committee, a proposal was put up in July '96 to the Cabinet for creation of six new Zones which was approved.

A time frame of 60 months has been fixed for creation of these Zones. The infrastructure and other works for setting up of these Zones is under progress. The detailed territorial jurisdiction of these Zones and Divisions is under finalisation.

The formation of new Zones/Divisions is expected to provide relief to the heavily worked zones/divisions, improve accessibility and enable the Administration to have an efficient control over the compact zones/divisions leading to improved service and customer satisfaction.

[Ministry of Railways (Railway Board) O.M. NO. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.29)

The Committee find that the private sector participation through schemes like Build-Operate-Lease-Transfer (BOLT) and Own-Your-Wagon-Scheme (OYWS) has limited success. No money is coming under BOLT as the schemes covered under it are highly capital intensive and the private participants hesitate to invest money in long gestation projects. As the policy of creating assets through BOLT has failed, the Committee recommend that the Railways should immediately be freed from this policy.

Reply of the Government

BOLT SCHEME

The Build-Own-Lease-Transfer (BOLT) scheme was envisaged by the Railways to supplement the resources for development of rail infrastructure projects by offering certain projects for funding and execution by parties in private sector.

2. BOLT scheme has not been very successful in respect of infrastructure projects such as Gauge Conversion, Doubling and Electrification of lines. The response has been poor and the bidders are quoting high rates due to unforeseen risks such as price escalation, changes in statutory taxes/levies etc. and non availability of adequate benefits under extant tax laws. As a result, a number of tenders have been discharged and some projects have been taken out of BOLT. So far, only four projects (two Gauge Conversion and two Rolling Stock) have been awarded, and even out of these four, one contract for gauge conversion has been terminated as the agency had not been able to adhere to the completion schedule and had practically abandoned the work.

3. However, it is not considered advisable to abandon the scheme at this stage and efforts are being made to make the BOLT scheme more investor friendly by incorporating suitable changes in the bid documents, as and when considered necessary, keeping the Railways' interests in view. Ministry of Finance has also been requested to agree to certain proposals so as to make the extent fiscal benefits more attractive to the investments in the projects under BOLT scheme.

OYW SCHEME

The 'Own Your Wagon' scheme was launched by the Indian Railways in 1992 to enhance the rail transportation capacity to meet the needs of various sections of economy by encouraging private participation in ownership of rail wagons and thereby supplement the resources available with the Railways for acquisition of rolling stock. Based on the interaction with the customers and suggestions received, certain features of the scheme were liberalised and a revised scheme issued in 1994.

2. There has been encouraging response to the scheme. Orders for 5427 wagons (13567.5 four wheeler units) have been received upto March '97. Out of these, 3719 wagons (9297.5 four wheeler units) have been inducted in the Indian Railways wagon fleet.

3. In the light of the experience gained so far and in order to

attract greater customer participation, an exercise is being undertaken to further liberalise the scheme and make it more customer-friendly.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.38)

The Committee have been informed that as recommended by them, a study for carrying social burden by the Railways was made and a copy of the Report was sent to the Ministry of Finance who opined that since the study was an inhouse exercise of the Railways, a Working Group associating representatives of Ministry of Finance and Planning Commission should be set up for examining the issue in its entirety. The Chairman, Railway Board, informed the Committee during evidence that a Committee of Officers as suggested by the Ministry of Finance was appointed and they had submitted a Draft Report on the subject and their final report is still awaited. The Committee recommend that the Committee of Officers should be asked to give their final Report expeditiously so that the Railways could get the much needed financial support from the Government on account of carrying social burden at this crucial juncture.

Action Taken Note

The Report of the Inter-ministerial Working Group, set up for examining the issue of social burden, has since been finalised and is enclosed (Appendix-I).

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.97]

CHAPTER V

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (Para 13.3)

As is evident from the succeeding paragraphs the Indian Railways have again been trapped in the same situation prevailing prior to 1921. The Committee, therefore, recommend that the financial requirements through more budgetary support will have to be made both by the Planning Commission and the Ministry of Finance to enable Indian Railways to keep pace with the fast growing demands of the economy.

Reply of the Government

Noted. Continuous efforts are being made by the Railways to get as much Budgetary Support for the Ninth Plan as possible.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.97]

Recommendation (Para 13.4)

With the introduction of economic reforms, there is a discernable economic growth in various sectors of the economy. The Committee find that the Approach Paper to IX Plan has projected 7% growth rate in the economy and to meet the growing transport requirements, Railways being the bulk transport carrier, will have to double its freight and passenger output so that economy does not suffer on account of transport bottlenecks. The Planning Commission have ,also, in that Approach Paper, admitted that the share of Railways in freight traffic has declined from 89% in 1951 to 40% in 1995, while its share in passenger traffic went down from 72% to 20% during the same period. According to a Press Report appeared in Business Standard dated 11.9.1996, the share of road traffic which is at present 60% of total freight traffic of the economy is likely to go upto 65% by the turn of the Century. It is roughly estimated that the growth of Railway traffic should be of the order of about 10% per year for absorbing the anticipated growth of the economy. To achieve this goal, the Committee feel that the Railways need huge investments of the order of 10000 to 13000 crs. annually in the IX Plan period. They, therefore, desire the Railways to endeavour to modernise in a big way and to ensure better management on one hand and on the other Planning Commission and the Ministry of Finance should ensure to make available the required funds to the Railways so that the challenges on account of spurt in the economic growth can be met efficiently by them.

Reply of the Government

The Ministry of Railways agree with the recommendation. Every effort is being made in every forum to get the projected level of Budgetary Support for the IX Plan so that the proposed size of the IX Plan could be maintained and the various capacity generation and other projects of railways, as planned, could be completed.

Railways are trying their best to improve management of their existing resources. As a result of this, the utilisation indices of the various assets have improved considerably over the last few years. For example, the wagon utilisation norm in ntkm/wagon/day on line has increased from 1407 ntkm in 1990-91 to 1792 ntkm/wagon/day on line in 1995-96 and it is slated to increase further to 1950 ntkm/wagon/day on line by the end of IX Plan.

Modernisation is an on-going process. Some of the steps taken in this regard are computerisation of various activities including passenger reservation system, import of high horse power electric & diesel locos and modern passenger coaches with transfer of technology for indigenous manufacture, optical fibres for communication, increased mechanised track maintenance, etc.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.97]

Recommendation (Para 13.5)

The Committee do agree that all modes of transport have their own importance in economic development of the Country. However, Railways and Waterways have a definite advantage over road and air in terms of energy efficiency and environment friendliness. The importance of energy efficiency in transport policy and in determining the optimum inter-modal mix for the future has also been highlighted by the National Transport Policy Committee. Rail transport is estimated to be 6-7 times more energy efficient than road transport. It is eco-friendly from the point of space utilisation and also environment friendly from the point of pollution free compared to other modes of transport. According to a study conducted in Europe the external costs by damage to environment by rail transport is about 1/5th in passenger traffic and 1/10th in freight traffic. Keeping in view the above facts, the Committee recommend to the Union Government to strengthen railways to carry greater market share of transport by assisting them in creating basic infrastructure by providing ample budgetary support from General Budget. They are of the firm opinion that development of infrastructure for the Indian Railways should be wholly financed by the Government as for the development of Roads, Airports and Ports, Government do provide 100% Budgetary Support.

Reply of the Government

Noted. Continuous efforts are being made by the Railways to get as much Budgetary Support for the Ninth Plan as possible.

The Budgetary Support to the Railways is decided by the Planning Commission. The above para was also sent to Planning Commission for their remarks. The remarks of the Planning Commission are as under:—

"The recommendations of the Committee have been noted. Subject to the availability of resources, all efforts would be made to allocate sufficient funds for the various developmental schemes of Railways. It may, however, be pointed out that the Planning Commission has to not only accommodate the demands of Railways but also of other Ministries/Deptts. Implementing schemes in equally important sectors within the limited resources provided for plans by the Ministry of Finance. Notwithstanding this, Government has been able to step up both the Budgetary Support as well as the plan outlay in recent years. In 1996-97 (RE) the Budgetary Support to Railways were stepped up by 26% over 1995-96 (RE). Again in 1997-98 the Budgetary Support to Railways was stepped up by 44% over the 1996-97 (BE). The plan outlay for Railways has also been increased from the level of Rs. 6468 crore in 1995-96 to over 8000 crore in 1996-97 and 1997-98.

The recommendations of Railway Convention Committee (1996) will be kept in view while finalising the sectoral outlays for the Ninth Five Year Plan. However, it would be appreciated that the final size and actual outcome would have to depend availability of total resources for financing the plan from internal generation, Budgetary Support and other sources."

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 18.2.1998]

Recommendation (Para 13.9)

The Ministry of Railways have informed that the present Government have decided to accord priority to the development of rail transport infrastructure in the Northeast Region and in all other backward and tribal areas. In consonance with the above decision, a sum of Rs. 400 crores—300 crores for Northeast Region and 100 crores for Jammu-Kashmir Region—has been allocated for new line projects.

In this connection, the Committee note that in the Eighth Plan, an outlay of Rs. 2940 crores was proposed for construction of new lines. Since the entire expenditure on new lines is borne out of budgetary support and adequate resources could not be provided under budgetary support, the plan outlay for new lines was kept at Rs. 900 crores only. The Committee are concerned to find that at the beginning of the Ninth Plan the Railways will have a huge throwforward of Rs. 4380 crores for completing the new line works in progress covering 3610 kms. Keeping in view the unlikelihood of any substantial relief due to dwindling budgetary support, the Ministry of Railways have reviewed the ongoing projects and categorised them in six categories from Category A to Category F. The Ministry of Railways now propose to fund and progress first only the projects in Category A and C *i.e.* lines required on urgent operational/ strategic considerations and lines on which more than 50% expenditure has already been incurred and of which more than 50% gestation period was over as per their *inter-se*-priority. For the remaining categories D, E and F only token funds would be provided to keep the projects alive. The projects under Category B *i.e.* National Projects, with funding outside railways plan will be progressed to the extent funds are provided by the Government of India outside the Railway Budget. Keeping in view the above criteria fixed by the Government, the Committee would like to have details of the new line projects which are likely to be taken up and completed during Ninth Plan.

Reply of the Government

The new line works to be taken up in the 9th Plan have not yet been decided. However, the details of new line projects proposed to be taken up in the first year of this plan *viz* 1997-98 (the works are already included in the budget, 1997-98) are as under:

Sl. No.	Name of Project	KM	Cost (Rs. in Crs.)	State
1	2	3	4	5
1.	Lalitpur-Satna	627	925	Madhya Pradesh
2.	Baramati-Lonand	57	75	Maharashtra
3.	Kopargaon-Shirdi	16.6	32	Maharashtra
4.	Patna-Ganga Bridge with linking lines between Patna and Hajipur	16	600	Bihar
5.	Ara-Sasaram	98	120	Bihar
6.	Giridih-Koderma	105	145	Bihar
7.	Taran-Taran-Goindwal	17	25	Punjab
8.	Chandigarh-Ludhiana	95	150	Punjab
9.	Mazaffarpur-Sitamarhi	63	100	Bihar
10.	Brahamaputra bridge at Bogibeel with linking lines between Dibrugarh and north bank line.	46	1000	Assam
11.	Diphu-Karong	123	800	Manipur

1	2	3	4	5
12.	Bangalore-Satyamanglam	150	225	Karnataka
13.	Dharmavaram-Penukonda *via* Puttaparthy	60	94	Andhra Pradesh
14.	Angamally-Sabarimala	145	550	Kerala
15.	Munirabad-Mehboobnagar	222	380	Andhra Pradesh & Karnataka

The work on these lines would be taken up after the necessary clearances have been obtained, except for items 4 and 10 where the work would be taken up after the land becomes available and the detailed investigations are completed. The expected dates of completion cannot be given at this stage since they would depend upon the availability of resources in the coming years.

(b) The new lines proposed to be opened in 1997-98 are:

1.	Mancheswar to Angul section of Talcher-Sambalpur line	134 km
2.	Bargachia-Munshirhat of Howrah-Amta line	5 km
3.	Nischantpur-Kashinagar of Laxmikantapur-Namkhana line	8 km
	TOTAL:	147 km

The balance portion of the Konkan Railway is also expected to be completed in 1997-98.

(c) the projects which are expected to be completed in the years 1998-99 and 1999-2000, out of the new line works are as under:

1998-99
1. Latur-Latur Road
2. Mohana-Khajuri-Panihar section of Guna-Gwalior-Etawah line
3. Jogighopa-Guwahati

1999-2000
1. Jammu Tawi-Udhampur
2. Daitari-Banspani
3. Gwalior-Bhind of Guna-Etawah
4. Kapadvanj-Modasa.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.11)

The Committee note that the Indian Railways have a multiple gauge system with 3 gauges *viz.* Broad Gauge, Metre Gauge, Narrow Gauge. As on 31st March, 1996 the railway network have 40,620 route-kms. of broad gauge, 18,501 route-kms of metre gauge and 3,794 route-kms. of narrow gauge. On the broad gauge network, the traffic is concentrated on the quadrilateral and diagonals and the metre gauge is located mostly in peripheral areas. As the multiple gauge system had certain disadvantages from operating point of view, the Railways have been carring out conversion of metre gauge to broad gauge in patches on selected routes since 1951. But it was only 1971 that the concept of gauge conversion as a policy emerged and the Government announced to have lines only with BG and to progressively convert MG into BG. Accordingly, it was decided to convert nearly 4,000 kms. at that time but the progress on conversion was slow on account of inadequate resources and high converion cost.

In this connection, the Committee find that a number of studies were made by Expert Committees on the subject of Guage Conversion. A Committee set up in 1978 on metre gauge operation recommended for upgradation of metre gauge lines and conversion to broad gauge on a selective basis. The National Transport Policy Committee appointed by the Planning Commission has also in their Report in 1980 laid down certain criteria for implementing gauge conversion projects. On the basis of the criteria fixed and the studies conducted, the Railway Ministry again came to the conclusion in 1981 that gauge conversion should only be done selectively where the traffic density was heavy or transhipment at break of gauge points caused severe bottlenecks. However, the Committee find that in 1992-93 a significant change, if not the reversal, in railway policy with regard to gauge conversion was made when the then Railway Minister announced the launching of "Project Unigauge". After converting about 7,000 kms. of MG and NG into broad gauge, the total MG and NG network left on Indian Railways would be about 20,790 kms. by the end of Eighth Plan. The Committee have been informed that about 6,200 kms. of MG/NG is planned to be converted into broad gauge during Ninth Plan. **The Committee recommend that sufficient funds should be provided to the Railways for achieving the above target.**

Reply of the Government

Noted. Continuous efforts are being made by the Railways to get the projected level of Budgetary Support for the Ninth Plan so that the proposed size of the IX Plan could be maintained. If, IX Plan Size is not reduced, Railways are confident of achieving the Gauge Conversion target in IX Plan.

The Budgetary Support to the Railways is decided by the Planning Commission. The above para was also sent to Planning Commission for their remarks. The remarks of the Planning Commission are as under:

> "The recommendations of the Committee have been noted. Subject to the availability of resources, all efforts would be made to allocate sufficient funds for the various developmental schemes of Railways. It may, however, be pointed out that the Planning Commission has to not only accommodate the demands of Railways but also of other

Ministries/Detts. Implementing schemes in equally important sectors within the limited resources provided for plans by the Ministry of Finance. Notwithstanding this, Government has been able to step up both the Budgetary Support as well as the plan outlay in recent years. In 1996-97 (RE) the Budgeatry Support to Railways were stepped up by 26% over 1995-96 (RE). Again in 1997-98 the Budgetary Support to Railways was stepped up by 44% over the 1996-97 (BE). The plan outlay for Railways has also been increased from the level of Rs. 6468 crore in 1995-96 to over 8000 crore in 1996-97 and 1997-98.

The recommendations of Railway Convention Committee (1996) will be kept in view while finalising the sectoral outlays for the Ninth Five Year Plan. However, it would be appreciated that the final size and actual outcome would have to depend on availability of total resources for financing the plan from internal generation, Budgetary Support and other sources".

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 18.2.1998]

Recommendation (Para 13.14)

To cope with the rising traffic density and to meet better safety standards, the Committee feel that the Indian Railways will have steadily to modernise its signalling and telecommunication system. Route Relay Interlocking, Panel Interlocking, Colour Light and Automatic Block Signalling and Solid State Interlocking on all the routes. Safety aids like track circuiting and interlocking of level crossing gates, provision of telephones at manned level crossings and auxiliary warning system will also have to be adopted to enhance safety in train operations. **The Committee, therefore, recommend that sufficient funds should be made available to the Ministry of Railways during Ninth Plan as railways are dealing with human lives and properties and hence there cannot be any compromise on this issue.**

Reply of the Government

Noted. Continuous efforts are being made by the Railways to get the projected level of Budgetary Support for the Ninth Plan so that the proposed size of the IX Plan could be maintained. If the size of the IX Plan is not reduced, adequate funds would be provided for the Signalling & Telecommunication Plan head.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.15)

The fleet of rolling stock, consisting of locomotives, coaches and wagons, constitutes the bulwark of the railway assets. The adequacy of the fleet together with its efficient upkeep and optimum service ability are matters vital to the operation of railway system. The rolling stock holdings of the Railways as on 31st March, 1996 have been 6909 locomotives (209 steam, 4313 diesel and 2387 electric); 3692 EMU; 29758 conventional coaches and 280791 wagons. The Ninth Plan Working Group on Railways in their Report has projected the likely traction split in the terminal year of the Ninth Plan (2001-02) as 50% each by electric and diesel locomotives in respect of passenger traffic and 67% of freight traffic by electric and 33% by diesel locomotives. Keeping in view the projected freight transport and rolling stock utilisation, the Working Group has estimated that about 1.75 lakh wagons, comprising 1 lakh on replacement account and 75,000 on account of incremental traffic; 1950 locomotives (900 diesel and 1050 electric) including 600 locos on account of replacement; 9000 non-EMU Coaches; 2000 EMU Coaches and 750 each of MEMUs/DMUs would be required to be procured during Ninth Plan period and to acquire the rolling stock proposed at above, total requirement of funds would be Rs. 28950 crs. **The Committee recommend that Central Government should ensure to provide the required funds to the Ministry of Railways for the acquisition of rolling stock as assessed by the Working Group on the Ninth Plan so that they could be able to meet the demand for increased freight and passenger traffic.**

Reply of the Government

Noted. Continuous efforts are being made by the Railways to get as much Budgetary Support for the Ninth Plan as possible. If the IX Plan size is not reduced, adequate allotment would be made for acquisition of Rolling Stock.

The Budgetary Support to the Railways is decided by the Planning Commission. The above para was also sent to Planning Commission for their remarks. The remarks of the Planning Commission are as under:

> "The recommendations of the Committee have been noted. Subject to the availability of resources, all efforts would be made to allocate sufficient funds for the various developmental schemes of Railways. It may, however, be pointed out that the Planning Commission has to not only accommodate the demands of Railways but also of other Ministries/Deptts. Implementing schemes in equally important sectors within the limited resources provided for plans by the Ministry of Finance. Notwithstanding this, Government has been able to step up both the Budgetary Support as well as the plan outlay in recent years. In 1996-97 (RE) the Budgetary Support to Railways were stepped up by 26% over 1995-96(RE). Again in 1997-98 the Budgetary Support to Railways was stepped up by 44% over the 1996-97(BE). The plan outlay for Railways has also been increased from the level of Rs. 6468 crore in 1995-96 to over 800 crore in 1996-97 and 1997-98.
>
> The recommendations of Railways Convention Committee (1996) will be kept in view while finalising the sectoral outlays for the Ninth Five Year Plan. However, it would be appreciated that the final size

and actual outcome would have to depend on availability of total resources for financing the plan from internal generation, Budgetary Support and other sources".

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 18-2-1998]

Recommendation (Para 13.21)

During evidence the Chairman, Railway Board has also stated that the Railways have asked for a Plan of Rs. 65,000 crs. against the Eighth Plan allocation of Rs. 33,000 crs. It is felt by the Indian Railways that unless the plan capital size is to tune of the amount proposed, the Indian Railways would stand in the way of the development of the country and the progress of the country is likely to be retarded.

Reply of the Government

Noted.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9.9.1997]

Recommendation (Para 13.26)

There is also need for management reforms in the Railways. The Committee recommends that the costs need to be pruned largely by improving operational techniques including maintenance of assets and income increased by commercial utilisation of their land.

Reply of the Government

Rationalisation of various activities & economy in working expenses are two major items contributing to improvement in operational efficiency of Indian Railways. In the last three years substantial improvements in the utilisation of assets has been achieved. The Originating freight loading, Wagon turnround, NTKM/Wagon day improved by 12%, 13% and 15% respectively in 96-97 in comparison to 94-95.

Efforts have also been made towards better inventory management and the Turn-over ratio improved from 18.5% in 94-95 to 13.5% in 96-97.

Improving the maintenance standards of the assets through efficient monitoring and improved reliability has been one of the thrust areas of Indian Railways. The reliability of various assets is monitored regularly in the Railway Board to ensure that there is no let up in the standards of maintenance. During the last three years considerable improvements in asset reliability was achieved particularly in regard to:

Diesel Loco Failures	—	25%
Electric Loco Failures	—	20%
Wagon Detachments	—	36%
Coach Detachments	—	40%
OHE Failures	—	56%
Signal Failures	—	22%

Railways have identified commercial exploitation of air space over station buildings/yards at metros and other big cities as an area of enhancing resource generation. However, Government has deferred a decision till the general guidelines for commercial exploitation of surplus government lands, being formulated by the Ministry of Urban Affairs and Employment, are approved.

[Ministry of Railways (Railway Board) O.M. No 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.30)

From the Railway Budgetary Speech for 1997-98, the Committee find that our of the Annual Plan of Rs. 8300 crs. the Railways would be able to generate internal resources to the extent of Rs. 3419 crs. The borrowings through IRFC have been estimated at Rs. 2150 crs. and the budgetary support from General Revenues would be of the order of Rs. 1831 crs. only. The Committee are constrained to find that the Indian Railways have been asked to raise Rs. 2150 crs. from the market at an interest rate of about 20.22%. The Committee are of the firm opinion that no railway system can exist on the borrowed money. Throughout the world, Indian Railway is the only Railway which are earning profit and paying dividend to the Government for the capital invested. The Committee would be falling in their duty if they do not warn the Government that if timely action is not taken for meeting the railway requirements from the Union Budget, the Indian Railways will also be having the same fate as of other Railways of the world and then it will require huge sum of money beyond control.

Reply of the Government

The Ministry of Railways agree. Every effort is being made in every forum to highlight the pressing need for greater budgetary support for these very reasons.

The Budgetary Support to the Railways is decided by the Planning Commission. The above para was also sent to Planning Commission for their remarks. The remarks of the Planning Commission are as under:

"The recommendations of the Committee have been noted. Subject to the availability of resources, all efforts would be made to allocate sufficient funds for the various developmental schemes of Railways. It may, however, be pointed out that the Planning Commission has to not only accommodate the demands of Railways but also of other Ministries/ Deptts. Implementing schemes in equally important sectors within the limited resources provided for plans by the Ministry of Finance. Notwithstanding this, Government has been able to step up both the Budgetary Support as well as the plan outlay in recent years. In 1996-97 (RE) the Budgetary Support to Railways were stepped up by 26% over 1995-96 (RE). Again in 1997-98 the Budgetary Support to Railways was stepped up by 44% over the 1996-97 (BE). The plan outlay for Railways has also been increased from the level of Rs. 6468 crore in 1995-96 to over 8000 crore in 1996-97 and 1997-98.

The recommendations of Railway Convention Committee (1996) will be kept in view while finalising the sectoral outlays for the Ninth Five Year Plan. However, it would be appreciated that the final size and actual outcome would have to depend on availability of total resources for financing the plan from internal generation, Budgetary Support and other sources."

[Ministry of Railways (Railway Board) O.M.No. 96/RCC/206/2 dated 18-2-1998]

Recommendation (Para 13.33)

The Committee note that out of a total loading of 405.5 million tonnes. Indian Railways loaded 390.69 million tonnes of revenues earning freight during 1995-96. Although freight movement constitutes only 40% of the total traffic carried by Railways, yet it contributes 72% to the total Railway revenue. On the other hand, passenger traffic accounted for 60% of the transport output, contributes only 28% to the earnings. Due to various socio-political reasons Indian Railways have been subsidising passenger traffic particularly suburban and short distance by the earnings of freight traffic and this has led to periodical increase in freight rates. The International passenger fare of freight ratio in India has been 32.4% which is the least in the World except that of Sri Lanka. In a developing country like China it is 151%. During evidence, the Finance Secretary has also pointed out that cross subsidisation of passenger fares by freight tariff by Indian Railways is a major cause of concern as it adversely affects the financial viability. Moreover, when one passenger train is added, it is added in place of three goods train. The introduction of subsidised passenger fare has a double effect on the railways efficiency. It not only produces subsidised services which limits the financial viability of the railways but displaces goods movement to a much greater extent than the passenger movement that it adds. The Finance Secretary was against taxing the public for subsidising people travelling by rail. Clarifying the position in this regard, the Chairman, Railway Board submitted before the committee that 97% of passengers travel in second class or second sleeper class and no person can increase the fare of second class by 50%. However, he admitted that the seasonal ticket of suburban sections are absolutely very low and there it can be increase even by 100%. Keeping in view the views expressed by both the Finance Secretary and Chairman, Railway Board, the committee feel that there is a scope for rationalisation of passenger fare over the years so that there may not be any need for cross subsidy. The Committee also recommend that the Railway should have a study of cost analysis, class-wise *vis-a-vis* service rendered by them for future evaluation of increase in passenger fare.

Reply of the Government

RCC has recommended that passenger tariff should be adjusted upward so that the cross subsidy from freight is kept to the minimum. Passenger services are at present heavily subsidised from freight service. Any reduction in this cross subsidy would mean substantial and continuous hike in the passenger fares in the coming years. However, some of the major hurdles in achieving this objective are:

(i) more than 90% of the passenger traffic represent 2nd class passengers and their average distance travelled is not more than 166 kms. for Non-suburban and 30 kms. for suburban traffic. This category is generally exempted from increase in fares. Thus, the railways have severe limitations to raise additional resources from this category.

(ii) almost 53% of the passenger traffic constitute season ticket travellers. The season ticket fares are extremely low and here again the railways have very little option to adjust the tariff suitably. Moreover, since earnings derived from season ticket fares constitutes a small percentage there is not much scope here.

(iii) the freight rates are already very high and any further increase is likely to cause diversion and therefore in the coming years it will be very difficult to raise additional resource from freight traffic.

2. The recommendation of RCC could be implemented not only over a period of time as mentioned above but also through introduction of a new fare and freight structure. Once the costing studies are done, this exercise could be taken up.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

Recommendation (Para 13.44)

Keeping in view the experience of different world Railways, the Committee have come to a conclusion—

— that the policy on market borrowings on high interest rate is highly detrimental to the health of Indian Railways and needs to be discontinued;

— development of infrastructure for the Indian Railways should be wholly financed by the Government as for the development of Roads, Airports and Ports, Government to provide 100% budgetary support;

— non-profitable/strategic lines should be financed in the form of grants and other profitable projects need to be financed in the form of dividend free loans;

—short distance passenger operation, which is universally unprofitable and compensated, should be compensated by the Union Government.

—social burden imposed on Railways should be adequately compensated either by the Government or by the respective Ministries;

— there should be a rapid extension and upgradation of Rail Network to meet the demands of the Indian economy expected to grow at the rate

of 70%. Accordingly growth rate of Railways should be 10-15% if the demands of the economy are to be met and the market share of Railways is to be improved.

Reply of the Government

Ministry of Railways agree with the recommendations of the Committee. Indian Railways have had to take recourse to costly market borrowings to finance their plans only because they are not able to get adequate budgetary support. If Railways are able to get adequate, budgetary support, grants, dividend free loans, compensation for short distance passenger operation and social burdens, as indicated in the Committee's recommendations, they would not be required to borrow from the market and would be able to grow at the suggested rate. Indian Railways are making all out efforts in these directions.

[Ministry of Railways (Railway Board) O.M. No. 96/RCC/206/2 dated 9-9-1997]

NEW DELHI;
24 *September*, 1998

2 *Asvina*, 1920*(S)*

BIJOY KRISHNA HANDIQUE,
Chairman,
Railway Convention Committee.

APPENDIX I
(*vide* para 14)

GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)

REPORT OF THE INTER-MINISTERIAL WORKING GROUP ON SOCIAL SERVICE OBLIGATION OF INDIAN RAILWAYS

MAY 1997

STATISTICS AND ECONOMICS DIRECTORATE

CONTENTS

CHAPTER I

INTRODUCTION

1.0 The Working Group

1.1 Indian Railways (IR) being a part of the Government of India is assigned the onerous task of providing adequate transport facility at reasonable cost while at the same time maintaining financial viability of the system. Traditionally, IR has been providing certain services, in both passenger and freight where even the cost for operating such services are not fully recovered, as a part of their public service obligation. The resultant losses accruing to IR from these uneconomic operations undertaken in larger social and national interest can be termed as 'social service obligation' (social cost or social burden).

1.2 The important elements constituting social service obligation are:—

(a) Losses on freight services for carrying certain commodities at rates below cost, and

(b) losses on suburban services and non-suburban passenger services.

1.3 The Railway Convention Committee in its fifth report submitted to Parliament recommended that Railways should be properly compensated for carrying the social burden on the basis of a study carried out in this regard. The Committee in their ninth report (1973) further desired that Ministry of Railways should furnish the detail of the study on the estimation of social service obligation to the Committee and to Ministry of Finance.

1.4 Ministry of Railways conducted a study for estimating the social service obligation in February 1996. The losses of essential commodities and suburban and non-suburban passenger services for 1994-95 were estimated as Rs. 1973 crore. The net social service obligation was estimated as Rs. 1215 crore after deducting staff welfare cost of Rs. 758 crore from the total loss of Rs. 1973 crore.

1.5 The results of the study were furnished to the Committee in February 1996, and at the same time, as desired by RCC a copy of the study was referred to the Ministry of Finance for comments on the issue particularly with reference to the issue of compensating Indian Railways from the General Revenue to meet the cost of social service obligation being borne by it. Ministry of Finance was unable to support the results of the study and took the view that Railways were "already being compensated for various uneconomic activities by way of subsidies and reduced level of dividend on many accounts" (D.O. No. 1334/PS/96 dt. 10/2/96 from Finance Secretary to Financial Commissioner, Ministry of Railways refers; Annexure-I). It was consequently decided to set up an Inter-Ministerial Working Group including the representatives from the Ministry of Finance and the Planning Commission in order to examine the entire range and gamut of the issue of social service obligation and the need for evolving compensating Mechanism for the same.

1.6 Accordingly, an Inter-Ministerial Working Group was constituted (Annexure-II) comprising officers from Ministry of Finance, Planning Commission and Ministry of Railways. The working group consisted of the following:—

1. Shri P. Rajagopalan, Executive Director (Accounts), Railway Board.
2. Shri A.P. Ramanan, Executive Director Traffic Commercial, Railway Board.
3. Shri Mathew John, Executive Director (Planning), Railway Board (till July 1996). Shri D.P. Pandey, Executive Director (Planning), Railway Board (July 1996 onwards).
4. Dr. Tarun Das, Economic Adviser, Ministry of Finance.
5. Shri M.N. Lothe, Dy. Adviser Transport Division, Planning Commission (till March 1997).

   Shri B.N. Puri, Director, Transport Division, Planning Commission (April 1997 onwards).
6. Shri Shri Prakash, Executive Director, Statistics and Economics, Railway Board (till November 1996)

   Shri H.G. Sharma, Executive Director, Statistics and Economics, Railway Board (November 1996 onwards) —*Co-ordinator*

1.7 The terms of reference for the Working Group were as under:

1. To identify and define the elements that constitute social service obligation on Indian Railways.
2. To analyse the existing procedure on Indian Railways for assessing the extent of social service obligation borne by the Indian Railways *vis-a-vis* similar procedure being followed by some of the foreign railway systems and suggest methodology for assessment of different elements of social service obligation as identified.
3. To study and suggest means as to how the elements of social service obligation should be compensated to the Indian Railways taking into account practices followed in other countries.
4. To study and suggest measures as to how the Indian Railways could gradually reduce/withdraw from the social commitments.
5. To define the role of the Central, State Governments and Local

Bodies in meeting the social service obligation/commitments of Railways in its role of public utility service.

1.8 The Group also associated following experts to help in their deliberations and preparation of the report:—

1. Shri B.P. Sinha, Economic Adviser, Railway Board.
2. Shri R.N. Verma, Executive Director, Traffic, Railway Board.
3. Shri B. Ram, Executive Director, Finance (Budget), Railway Board.

1.9 The Working Group had 5(five) meetings and along with other issues relating to social service obligation on IR 3 (three) papers, prepared by Economic Adviser, Ministry of Finance, Deputy Adviser, Planning Commission and Economic Adviser, Railway Board, were discussed. In line with the terms of reference, the report is divided into five chapters as under:

I. Introduction

II. Background

III. Social Service Obligation on Indian Railways : Existing Practices

IV. Social Service Obligation on Railway Systems in other countries.

V. Conclusions and recommendation of the Working Group.

CHAPTER II

BACKGROUND

2.0 The Indian Railways (IR) function both as a **commercial undertaking** and a **public utility service** with its own system of accounts and management. As a commercial enterprise, IR has to generate sufficient revenues to meet the cost of operations, discharge its dividend liability on loan-capital as also to make adequate provision for renewal of assets and modernisation of the system. Railways being a principal mode of transport in the country, while managing its existing operations, planning for various activities like construction of new lines, modernisation, as well as in fixing tariffs, etc, it has to fine tune between the need to maintain its financial viability and its commitments to society at large. This places certain curbs on the commercial freedom of IR in the matter of pricing and elimination of uneconomic operations and services. The losses incurred/benefits foregone and the costs borne by the Railways in public interest constitute the element of Social Service Obligation which IR have to necessarily undertake being a public utility organisation.

2.1 IR suffers considerable loss on passenger services as a result of having to charge uneconomic fares and continues to run unremunerative services in public interest. The principal beneficiaries are suburban passengers in and around metropolitan cities of Mumbai, Calcutta, Chennai and short distance non-suburban passengers which form the bulk of passenger traffic. The rail fares of second class ordinary passenger class are extemely low, much lower than the cost of operating such services. The public service character of the Railways also requires that Railways maintain adequate infrastructure services to take care of the needs of passengers even on such sections where such services may incur substantial losses and are not financially maintainable.

2.2 The Railways bear social service obligation in respect of freight traffic also. Under Section 27 of the Indian Railways Act 1890, Railways have the obligation to provide adequate and reasonable facilities for movement of traffic offered to them. Central Government has been empowered under the same Act to move and regulate traffic in order to accord due priority and preference to carriage of essential commodities in public interest. A set of rules and guidelines have been laid down under Preferential Traffic Schedule for discharge of this public interest obligation which would necessarily imply subordination of commercial interest at the yoke of public good. It is this which distinguishes Railway as a freight carrier from that of other modes of transport which have the option to carry goods purely on the consideration of their commercial profitability. Railways have to willy nilly carry a number of goods like salt, sugar, foodgrains, etc. over long distances at low rates keeping in view the imperatives of macro-economic management.

2.3 Inflationary pressures with consequent rise in input costs and Railways' working expenses on the one hand and, the need to exercise restraint on increase of passenger fares and freight rates to offset the same, on the other, have to necessarily reflect adversely on the financial maintainability of the system. Apart from managing resources to meet its increasing working expenses, the staff costs, costs on fuel, stores etc. Indian Railways have also to build up Depreciation Reserve Fund and Capital Fund for replacement and addition of assets.

2.4 Plan outlays for IR and the budgetary support from Government, during the planning period are given in the following table:

(Rs. in Crore)

Five Year Plan/annual Plan	Internal resources	Bonds	Total	Budgetary support	Budgetary sup.as%age of total	Total
I	280	—	280	142	34%	422
II	467	—	467	576	55%	1043
III	545	—	545	1140	68%	1685
1966-69	320	—	320	442	58%	762
IV	397	—	397	1031	72%	1428
V	384	—	384	1141	75%	1525
1978-80	316	—	316	935	75%	1251
VI	2783	—	2783	3802	58%	6585
VII	7089	2520	9609	6940	42%	16549
1990-91	2091	1092	3183	1632	34%	4815
1991-92	2134	1503	3637	1756	33%	5393
VIII Plan						
1992-93	2548	1025	3573	2589	42%	6162
1993-94	4030	856	4886	974	17%	5860
1994-95	3582	745	4327	1145	21%	5472
1995-96	4210	1118	5328	1140	18%	6468
1996-97 (RE)	4401	2460	6861	1439	17%	8300
1997-98 (BE)	3419	3050	6469	1831	22%	8300

2.5 In a cash-strapped environment and a dwindling budgetary support, IR is faced with the formidable challenge of garnering adequate resources for meeting not only the growth in demand for rail transport in a growing economy, but also to continue discharging its public service obligations.

The low elasticity of Railways' freight and passengers transport (0.9 and 1.0 respectively as against 1.5 and 1.9 in transport sector as a whole) with respect of GNP is reflective to the falling share of railways in the transport market which has declined from about 89 per cent in 1950-51 to 40 per cent in 1994-95 in freight services and about 68 per cent to 20 per cent in passenger services. As the economy is slated to embark on a high-growth track with its estimated growth of 6 to 7% per annum, Railways have to considerably increase their freight output to bludgeon out of the historical growth rate of about 3.6 per cent failing which they are destined to become a dragchain to the fast growing economy retarding its pace.

2.6 Constraints of resources has been a perennial bottleneck in development of enough transport capacity to remain ahead of demand and reverse the trend of Railways declining share in the transport market. With the economy growing at the targeted rate of 6 to 7 per cent per annum, a growth rate of 5 per cent in 9th Plan is ambitious in a resource strapped scenario, and is unlikely to arrest continuing decline in the rail share. Planning Commission has recommended an increase of 5 per cent of rail share in the transport sector with the modest GDP growth rate of 6 per cent. This would entail lifting of 427 btkms of rail freight traffic. Since this awesome projection is nowhere in the realm of achievability IXth Plan Working Group has moderated it to a level of 353 btkm, which alone would mean a 5 per cent compound annual growth rate over the IX Plan Period.

2.7 The extent of budgetary support from general exchequer that was available to Indian Railways during earlier Plans has been decreasing over the years. In order to create adequate capacity to cope with the growing demands for rail transport, Indian Railways has to resort to market borrowings which are available at a high rate of interest. Further, the railway projects have long gestation periods and they take long time before they start yielding positive financial returns. In 1995-96 Railways paid Rs. 1395 crore as lease charges to IRFC, which are likely to go up to Rs. 1677 crore during 1996-97 and expected to further escalate to Rs. 2256 crore in 1997-98. The situation is fraught with the risk of railways soon running into a debt trap unless this trend is reversed.

2.8 It is also abundantly clear that the reduced level of budgetary support and various strategies currently employed for harnessing resources would inevitably leave a huge unfilled gap in resources. In recognition of the fact that creation of additional rail transport capacity is the sine qua non for sustained growth of Indian economy, adequate investment need to be planned in the basic rail infrastructure during IX Plan. Working under Governmental control and saddled with various service obligations including its public service role as engine for development of socially and economically backward regions, IR need to be given explicit subsidy for services provided below cost in large public interest.

2.9 **Previous Committees on the subject of Social Service Obligation on IR:** Different aspects of social service obligation have been examined by various expert groups and high powered Committees in the past. The Working Group discussed the observations and recommendations of all the previous committees to study the current problem in proper perspective. Broad issues dealt by these expert committees are discussed in the following paras in chronological order.

2.9.1 **Estimates Committee of Parliament on Uneconomic Branch Lines:** The Estimates Committee of Parliament on Uneconomic Branch Lines in their 10th report recommended in 1967-68 that the rcommendations of the Committee on Transport Policy and co-ordination regarding the closure of unremunerative branch lines should be implemented by the Government. The Committee concluded that the losses incurred by the Railways more than countervailed the public utility service rendered through such loss making ventures and therefore, it would be prudent to effect closure of these uneconomic lines and develop alternative transport arrangement in keeping with the needs of the area.

2.9.2 **Branch Lines Enquiry Committee:** In 1969, Branch Lines Enquiry Committee, headed by the then Dy. Minister of Railways, Shri Chaturvedi, recommended:

1. Survey of conversion/extension of lines.
2. Renovation of rolling stock and strengthening of track.
3. Provision of more facilities at stations.
4. Drive to attract goods traffic.
5. Closing down of certain sections, etc.

Most of the recommendations were made with a view to increasing the earnings on the losing lines so as to make them remunerative. Only in a few cases, closure was suggested. The attempts made to improve the working of the unremunerative lines, so as to make them profitable, however, have not been very successful and a large number of lines are still running into losses. A review of financial results of uneconomic branch lines for the year 1995-96 shows that, on an original investment of Rs. 266 Crore, the operative losses added up to Rs. 184 Crore in as many as 115 branch lines.

2.9.3 **Railway Convention Committee:** In its 9th report submitted to the Parliament in 1976, the Railway Convention Committee (RCC) recommended to find ways and means for compensating Railways for its social burden. The Committee observed that the value of concessions given by Railways to various categories like students, defence personnel, sportsmen, etc. should be reimbursed by the Government. It also recommended that the Government should compensate Railways for the unavoidable losses incurred on second class passenger traffic. In respect of suburban passenger service, the Committee observed that the losses incurred over and above the level of 1965-66, when Railways earned a surplus, should be borne by the State Governments, local authorities, etc.

on an agreed basis. In respect of losses incurred by IR on carrying goods/essential commodities at rates below cost the Committee recommended that lossses be shared and relief provided by the Central Government to Indian Railways as the other Railway Systems abroad are compensated for uneconomic freight rates by their respective governments. The *Committee, recommended that the entire question of subsidising the Railways to cover the unavoidable losses on passenger traffic, suburban as well as non-suburban, should be remitted to a high powered committee comprising representatives of Ministry of Railways, Transport and Finance, the C&AG, the State Governments and local authorities concerned.*

2.9.3.1 The RCC in its 9th report had also suggested that the Ministry of Railways should consider closure of unremunerative lines wherever adequate modes of transport existed and such closures would not adversely affect the public interest including any important economic activity of the area. In case a State Government disagreed to the closure of an unremunerative line for its own reasons, the losses should be shared on a 50:50 basis.

2.9.3.2 The Committee felt that the whole question of continuing the operation of uneconomic branch lines calls for a critical and objective review with reference to the realities of the situation and keeping in view that the Railway finances are utilised in the best interests of the State and how far the existing alternative modes of cheaper transport replace the uneconomic train services. The Committee also recommend that the Railways should identify the branch lines which are marginally unremunerative and could be made economically viable with minimum investments and take concerted measures in close co-ordination with the State Governments, trade and industry, to improve their financial results.

2.9.3.3 So far as the other branch lines are concerned, the Committee noted that the State Govt. are averse to the closure of even those lines which do not serve any purpose. The Committee considered that if such lines are to be continued indefinitely, in spite of recurring losses and with no possibility of their becoming viable in the foreseeable future, the only alternative was for agencies which insisted on these to continue to share with the Railways, the losses incurred thereon.

2.9.3.4 RCC in its 9th report on the subject of **new lines opened for traffic over the past 15 years** noted that the contention of the Ministry of Railways that in the present perilous state of Railway finances and the high cost of construction, they are not in a position to inject substantial capital investment in under-developed areas. The Ministry have, accordingly, suggested that they would be relieved of part of the financial burden if the land required for construction of new lines could be contributed free of charge by the State Govt., or any other sponsoring body. The Ministry have further suggested that the operating losses suffered by the Railways on such lines should be borne by general revenues initially for a period of

20 years whereafter the position may be reviewed every five years after opening, and if the working results show any operating loss, the full exemption from dividend liability or bearing of operating loss by the general revenues could be suitably revised.

2.9.4 **Rail Traffic Enquiry Committee (1977)**: The RTEC (Rail Traffic Enquiry Committee) in 1977 also commented on the issue of new lines opened for traffic over the past 15 years, that in respect of new lines commissioned after taking into acount social benefits, normally, it would be better that the Railways charge tariffs on such new lines equal to those charged on the railway network as a whole and not inflated tariffs, and the Central Government provide a developmental subsidy for a fixed period of time to make up the difference between the revenue earned by the Railway and the social benefits calculated as accruing to the economy as a whole.

2.9.5 Bhalla Committee: In pursuance of the recommendation of the RCC's in its 9th report, a high powered *Committee was formed, in 1978, headed by Shri H.K. Bhalla, then Advisor (Finance), Railway Board, as Chairman*. This Committee, *inter-alia*, recommended:

(i) Discontinuing charging of highly concessional tariff system for suburban services.
(ii) Progressive increase in fares to make the suburban services self-sufficient.
(iii) Withdrawal of hill concessions during the busy season.
(iv) Continuing concessions to certain categories like students, teachers, cancer patients, disabled and handicapped persons, etc.
(v) Charging military traffic at normal traffic rates.
(vi) Reimbursement of losses for carriage of Postal traffic by P&T Board.
(vii) Permitting Railways to increase their freight rates for items which they carry below cost.

2.9.5.1 The *High Powered Committee headed by Shri Bhalla* also recommended that Railways should be permitted to increase freight rates to neutralise losses. However, if the Railways are not permitted to enhance the freight rates as proposed by them in the overall national interests, due to Government decision, the losses incurred by the Railways in the carriage of these commodities should be reimbursed to them in full by the Central Government.

2.9.5.2 On Uneconomic Branch Lines, the Committee were of the view that there is no case to continue these uneconomic branch lines and the Ministry of Railways should forthwith take necessary steps in this regard. The Committee recommended that the Ministry of Railways should address the State Governments concerned once again to agree to the closure of these uneconomic branch lines and give them six months time during which the State Government should agree to the closure of these

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lines or alternativley, to fully reimburse the losses incurred by the Railways in maintaining/running these lines. In case the State Governments do not reply within the period of 6 months, the loss on this account should be fully reimbursed by the Central Govt.

2.9.5.3 The Committee also concluded that development of roads and the trucking industry has gained momentum. The Railway should accept the responsibility of maintaining the service of a line so long as there is a reasonable prospect of the line paying its cost in due course. Or else, the maintenance of new lines or removal of unremunerative existing lines should be viewed from the angle of the overall economic cost to the country in rendering the required service.

2.9.6 **Railway Fare and Freight Committee : In 1992 Railway Freight and Fare Committee,** examined the subject of Social Burden on Indian Railways. It observed that the pricing policy faces the policy constraint in relation to adoption of cost based tariffs for different streams of traffic. The policy decision imposed by the Government has compelled the Railways to recover their costs partially in coaching traffic, and fully or more than fully in freight, especially where IR have a monopoly. While surpluses emerge on the freight traffic, large deficits occur in the commuter traffic and non-suburban second class ordinary passenger traffic and other coaching traffic. Thus, in the Railway Budget, there exists a mechanism for losses on some services being made good by the surplus on other services and also leave an over all surplus covering the total traffic. This gives rise to losses in services where the price is below the full cost. Where below cost pricing is adopted for commercial reasons like attracting more traffic in a competitive bid, the question of subsidising losses, if any, does not arise. The losses accruing to the IR as a result of the obligations fulfilled by them more on social and political considerations than on economic grounds and those losses which do not indicate commercial deficits are called the "social burdens". How and in what form the losses are financed relate to issues of subsidy and cross-subsidy.

2.9.6.1 RFFC also pointed out that until the New Economic Policy was announced, the emphasis on the production of public goods/services in the public sector was marked by below cost pricing, no insistence on the earning of any particular profit or surplus as commercial undertakings and the actual pricing was dictated by the Government in the form of certain administered prices. As such, the cost recovery policies have been framed more on social welfare considerations than on commercial viability principles. The IR became an instrument in the hands of the Government for fulfilling certain socio-economic objectives.

2.9.6.2 According to RFFC one is a case of direct or explicit subsidy where the Government may give a grant to make up for the losses because of socio-economic objectives pursued by them. It can as well be justified on commercial principles insofar as it promotes traffic and results in optimal utilisation of capacity. This could also turn into an evil when it creates excess demand causing distortions in the economic system and the results can be contrary to the social objectives and optimal allocation and efficiency. The direct subsidy can be identified by the transport supplier/user/regions.

2.9.6.3 RFFC noted that the subsidy can also be indirect or implicit or concealed insofar as the ultimate benefit to the supplier/user is through reduction in the cost made possible not by efficient production or cost saving but by the subvention received from the Government or other agencies connected with users in one way or another. RFFC concluded that if the railway tariffs do not cover the cost and earn a margin of profit which would enable them to develop and modernise the railway transport system, and if adequate budgetary support is not forthcoming, the railway finances will be subjected to heavy strain, while at the same time the railway system faces the threat of deterioration in adequacy and quality. Either the financial health of the railways should be well maintained by providing grants from the general exchequer or any connected outside agency to make up for any losses arising from below cost pricing in any specific segment or they should be allowed to determine pricing and investment policies in such a way as to avoid losses. With cross-subsidisation from within the railway finances, the outcome is one of a drastic reduction in internal resources for the development of the railways.

CHAPTER III

SOCIAL SERVICE OBLIGATION ON INDIAN RAILWAYS : EXISTING PRACTICES

3.0 The Working Group examined in detail the elements that are at present being taken by IR as constituting social service obligation and methodology being used by IR to assess the total quantum of Social Service Obligation it is carrying.

3.1 Elements Constituting Social Obligations on IR: Following areas have traditionally been treated by IR as the elements that constitute social service obligations on Railways:

(i) Loss on passenger and other coaching services.

(ii) Loss on transport of essential commodities carried at low rates below cost.

(iii) Loss on uneconomic branch lines.

(iv) Loss on new lines opened for traffic in the last 15 years.

3.2. Methodology for assessing social service obligation : Briefly, the *methodology* that IR is adopting for assessing the total social service obligations is as follows:

a. Assessing the losses on the freight services for carrying the essential commodities at rates below cost.

b. Assessing the losses on suburban services for providing a cheaper means of transport facility in Mumbai, Calcutta and Chennai,

c. Assessing the losses on non-suburban coaching services. This includes losses on account of concessions to students, sportsmen, blind, physically handicapped, etc.

Broadly, for each *i.e.* (a), (b), and (c) above, the expenses are subtracted from respective earings and the result gives the profitability of the respective service/stream of services. Sum total of factors (a), (b) and (c) above is the total social service obligation on IR. The detailed working of each of (a), (b) and (c) above have been outlined in paras 3.3 to 3.7.

3.3 Methodology for assessing losses on carrying commodities at rates below cost of operations : Profitability of the movement of a commodity is assessed on the basis of:

a) Revenue earned from the movement of the commodity.

b) Cost of movement of the commodity.

The revenue earned from the movement of specific commodities is available in annual statement of goods earnings. This statement also contains information relating to commodity-wise tonnage and Net Tonne Kilometres (NTKMs) for that year.

The cost of movement of a commodity is dependent upon tonnage, NTKMs, average lead, empty return ratio, loadability, etc. The average lead of a commodity determines the number of marshallings, number of transhipment points and number of wagon days. Using the available Goods Unit Costs of the previous year, the cost of terminal, marshalling, line haul etc. are worked out. In view of the fact that the previous year's unit costs have been used, the costs so arrived are escalated to the current year's level by using the escalation factor. The cost so arrived at is then compared with the earings of the commodity to work out the profitability/ losses for each commodity separately.

3.4 Methodology for working out profitability of Suburban Services : To assess the profitability of Suburban traffic, suburban earnings are calculated in the following manner:—

(i) Earnings derived from passengers booked between stations within the suburban area.

(ii) Earnings derived from Excess Fare Tickets within the suburban area.

(iii) Earnings derived from suburban interchange traffic with other Railways.

(iv) Miscellaneous earnings which include, advertisement on suburban sections, advertisement inside/outside EMU coaches, advertisement on suburban Time Tables, licence fee from tea stalls on suburban sections, share of collections from wieghing machines at suburban stations, book stalls on suburban stations.

The present methodology for costing is based on the Fully Distributed Costing Approach. Fully Distributed Costs take into account the working expenses—both direct and indirect, overheads, depreciation, interests, etc.

As a first step, all the direct costs pertaining to the suburban services are captured under separate accounting activity heads. The direct costs that are ascertained in this way are the entire expenses of a station or section served exclusively by EMU which includes the cost of staff working solely for such services and the cost of repair and maintenance of EMU stock, etc. The accounting heads provide for direct booking of expenditure for several activities connected solely with EMU.

Later, all the joint costs are allocated. There are sections where track is common to suburban and non-suburban passenger and freight services.

Signalling, telecommunications, OHE overheads, track circuiting, terminal costs etc. are joint costs. In respect of other working expenses that are incurred commonly for both EMU and long distance passenger services such as general adminstration, cost of maintenance of track, operating expenses, provident fund, pension and other miscellaneous expenses, the apportionment between the two services is made on the basis of suitable ratios evolved for allocation of these joint costs. Broadly, the ratios are based on Gross Tonne Km, total Engine Houres, Percentage of EMU expenses to total expenses of the Division, ratio of vehicle Km, plinth area, Equated Track Km, surveys, etc.

Subsequently, the share of Headquarters expenses and other overheads are added. To finally arrive at the fully distributed cost of suburban services, interest and the portion of DRF calculated on the straight-line method on the codal life of different assets are added. Depreciation for the suburban services is worked out by a three stage process as described below:

(i) Allocating among the Zonal Railways appropriation to DRF, as provided for in the Budget Estimate on the basis of their respective Capital-at-Charge.

(ii) In the second stage, depreciation is distributed gauge-wise and abstract-wise on the railways.

(iii) Finally, abstract-wise depreciation is allocated directly to EMU, non-EMU Coaching and Freight, wherever identifiable, and the rest is distributed on the basis of certain prescribed parameters.

Interest is charged on Capital-at-Charge as available in revenue abstract for pre & post-1980 at the rate of 6% and 6.5% respectively and 7% from 1993-94. The distribution of interest for various services is in the same proportion as applied to depreciation.

Finally the differences of total expenses and earnings give us the profitability of a suburban system.

3.5 Methodology for working out profitability of Non-suburban Coaching Services:

1. Profitability of passengers service is determined on the basis of comparing the costs attributable to a particular class of service and earings of that service. At the end of a financial year, the earnings for goods and coaching are available under distinct heads. Sundry earnings are divided in the ratio of goods and coaching earnings and added to arrive at the total goods and coaching earnings.

2. However, the expenses for goods and coaching are not available separately as per the existing accounting system. About 25% of the expenses are directly assignable to coaching and goods services. The balance of about 75% of the joint expenses are segregated between

good and coaching services based on related performance factors and survey ratios. The factors for dividing the joint expenses include the related parameters like GTKM for track maintenance and fuel; Engine Km. for signalling; Train Km. for other transportation services; Engine Km. and engine hours for locomotive maintenance, etc.

3. The total working expenses and DRF and interest are thus segregated between goods and coaching services. The expenses and earnings are compared to arrive at the profit/loss of the respective services.

4. The losses thus worked out for coaching services also include losses on suburban services for that year. Losses on suburban services, as discussed earlier, are assessed separately and the coaching losses are derived by deducting suburban losses from the total coaching losses.

3.6 Methodology for assessing losses on the working of uneconomic branch lines:

A branch line is defined as a line of any gauge joined to main line system at one end only and all narrow gauge lines. A number of branch lines are utilised below their capacity and are not commercially viable. With the development of roads and change in the pattern of industrial development and urbanisation, many branch lines have lost their original utility and their social and economic justification. With strong public resistance to closure of these branch lines and reluctance on the part of State Governments to support any initiative for their closure, it has become increasingly difficult to close these lines.

Earings: All earnings from local traffic, *i.e.* traffic originating and terminating on the branch line are credited to the branch line. The earnings from the traffic interchanged between the branch line and any other lines are normally apportioned between them on the basis of their respective kilometrage. However, earnings from the traffic interchanged, which is considered solely attributable to the existence of the branch line, is credited fully to the branch line.

In regard to the division of goods earnings, the Railways have been advised that in the case of interchanged traffic credit for the terminal and transhipment portions should be given to the line providing these services and only the residual freight earnings should be apportioned on distance basis between the branch line and the main line.

Working Expenses: Certain items of expenditure which can be identified with the branch line, e.g. station staff, Engineering staff, etc., are taken as the direct expenditure allocable to the branch line. Other expenditure being estimated prorata, in proportion to the different appropriate units for expenditure under different Abstracts.

Instructions issued as a result of the recommendations made by the **Uneconomic Branch Lines Committee, 1969** envisage that, while arriving at the expenses of the branch line by prorata calculations, expenditure not relevant to the branch line should be excluded and expenditure incurred solely on account of a branch line is wholly debited to its account. The financial review for the branch lines takes into account:

(a) the total earnings of the branch line proper and the additional earnings to the main line which are considered to be due to the existence of the branch line, and

(b) the total cost of operation of the branch line and in addition, the cost of operation of the main line for traffic for which full credit is given to the branch line.

If the net earnings thus arrived at do not meet the prescribed dividend liability payable on the investment, the branch line is considered as uneconomic.

In the circumstances explained above, both earnings and expenses were necessarily to be apportioned between branch line and main line on the basis of formula evolved for the purpose. Such formula for apportionment as also the methodology for computation of the financial results of branch lines are refined, modified and updated from time to time to reflect changes arising out of operating practics, and accounting refinements. Although the methodology and formula made use of are not precision instruments, they are considered adequate for broadly assessing the financial results of branch lines.

3.7 Methodology for working out losses on new opened for traffic in the last 15 years: Construction of new lines calls for large investments. Cost of construction has been rising. Thus it is essential that a criterion is adopted for determining the programme for the construction of new lines, keeping in view considerations such as effects in the long term financial situation of the Railways, their competitive position and the efficient use of the available resources etc. Detailed traffic surveys are undertaken taking a view of the traffic likely to be available over a long period of time and assessment of financial results of the operation of the new lines. However, there are several considerations other than commercial, such as, general regional development, political pressure or administrative need resulting in construction of a new line. In explaining the broad considerations which are kept in view while examining proposals for new lines, the Railway Board have classified proposals for new lines into 5 broad groups. They are:

1. Lines required for operational reasons. These lines are taken up on priority basis.

2. Lines required for heavy industrial, mineral and other projects included in the 5 year plans. These lines are specifically provided under the plans and long term view is taken in reckoning their financial returns.

3. Lines required for development of backward regions and to serve general economic, social and political needs.

4. Lines sponsored by State Government, or other agencies for construction projects or to meet local needs. Line is constructed after examining the merits of the cases provided a working basis is found for covering of the losses, if any, in future.

5. Line required for meeting defence and strategic needs. These areas taken up even if they are not remunerative, working losses in them being borne by the General Revenue.

3.8 **Social service obligation on IR:** Results obtained by applying the current methodology of assessment of social service obligation on IR were examined by the Working Group. The table below gives the magnitude of Social Service Obligation that has been borne by IR over the years:—

Year	Losses on Commodities Carried Below Cost	Losses on Suburban Services	Losses on Non-suburban Coaching Services	Total* Social Service Obligation
1980-81	133	34	253	420
1985-86	183	82	874	1139
1986-87	190	108	1013	1311
1987-88	184	147	1322	1653
1988-89	293	122	1229	T644
1989-90	284	198	1622	2104
1990-91	406	207	1589	2202
1991-92	323	213	1563	2099

(*Total includes staff welfare, law and order cost)

The magnitude of social service obligation on IR used to be assessed including cost of Staff Welfare and law and order cost till 1991-92. However, on a recommendation of Standing Committee of Members of Parliament, the Staff Welfare costs, law and order costs are now being deducted from total Social Service Obligation to arrive at New Social Service Obligation. As a result, the net social service obligation as assessed for 1993-94, 1994-95 and 1995-96 has come down substantially as compared to the previous years. **Details of social service obligation for 1993-94, 1994-95 and 1995-96** are summarised below:—

Social Burden for 1993-94, 1994-95 & 1995-96

(Rupees in Crore)

		1993-94	1994-95	1995-96
		1	2	3
1.	**Loss on essential commodities carried below costs**	65	47	43
2.	**Loss on Coaching Services**			
	a) Suburban	205	211	1813
	b) Non-Suburban	1656	1716	251
	c) Total of (a) & (b)	1861	1927	2064

		1	2	3
3.	Total Losses [1+2(c)]	1926	1974	2107
4.	Deduct: Staff Welfare and Law and Order cost	(−)710	(−)758	(−)941
5.	**Net Social Cost**	1216	1216	1166

3.8.1 **Losses on transportation of commodities carried at rates below cost of operation:** The chief commodities transported by the Indian Railways are Coal (43%), iron-ore (8.06%), foodgrains (7.11%), cement (7.76%), mineral oil (13.35), fertiliser (4.72%), iron & steel (8.06%), limestone and dolomite (2.14%), salt and sugar (1% each). These 11 commodities account for 93.71% of the total originating tonnage of freight traffic and nearly 94.75% of the total freight revenue. In the past 4 decades, Indian Railway have been carrying low rated items of bulk traffic—mainly coal, foodgrains, limestone, dolomite, salt, etc. Even so, the freight traffic in total has been self-sufficient, in that the revenue from freight traffic is not only meeting the cost of its transport in full but is also leaving a sizeable surplus to subsidise the movement of certain low-rated commodities like foodgrains and salt. A number of commodities of mass consumption like foodgrains, edible oil and salt are carried at concessional rates in order to contain prices. A substantial portion of the social service obligation of the railway is accounted for by certain essential commodities, like sugarcane, salt, fruits and vegetables which are accorded preferential treatment in the matter of movement.

The losses in the last 5 years are as under:

(in crore of rupees)

Year	Total loss
1991-92	322.77
1992-93	250.17
1993-94	65.42
1994-95	46.66
1995-96	43.08

The commodity-wise break up of the losses for the year 1994-95 and 1995-96 is as under:

(in Rs. Crore)

	1994-95	1995-96
Particulars	Loss	Loss
Sugarcane	14.01	20.74
Salt	10.38	8.57
Fruits & Vegetables	7.95	6.6
Live Stock	5.25	3.1
Other ores	3.90	1.14
Coir products	2.10	1.11
Firewood and other fuel	1.47	—
Other Commodities	1.60	1.10
Total	46.66	43.18

Inspite of rising rail transportation costs, the rates applicable to these commodities continue to be fixed at comparatively low level with the mention of checking the rise in prices and the cost of living. Two commodities—Foodgrains and Coal account for about half of the total tonnage of bulk commodities. Railways cannot refuse to carry the low rated bulk commodities even if high rated traffic is waiting to move. This is so because the Railways have to give preference in the overall national interest to the movement of these low rated commodities *vis-a--vis* high rated non—bulk traffic as most of the low rated commodities are vital to the economic development of the country or are of mass-scale consumption. The principal low-rated commodity, the target of which will not be adequate to meet the cost of the carriage are foodgrains, fodder, fruits and vegetables, firewood, sugarcane, sugar, salt, and certain mineral ores.

The IR carry military traffic and defence materials at rates that are lower than the normal traffic rates, providing the highest priority to fulfil the objective of national defence. Postal traffic also gets the same special treatment. Parcels such as seeds, milk, vegetables etc are carried on rates lower than the normal parcel rates, thereby foregoing profits.

3.8.2 **Losses on Passenger (Suburban and non-suburban) and Other Coaching Services:** There has been a phenomenal growth in passenger traffic on Indian Railways from 1950-51 onwards. The number of passengers originating on Indian Railways in 1950-51 was 1284 million while in 1994-95 it was 4018 millions. However, the Indian Railways have generally been losing in the carriage of passenger traffic. One item of the social service obligation borne by the IR relates to the losses on coaching services—both suburban and non-suburban. Analysis of the profitability of coaching services for 1995-96 showed an overall loss of Rs. 2,063.74 crore. Of this, suburban losses in Mumbai, Calcutta and Chennai, having EMU and non-EMU services, amounted to Rs. 250.85

crore. The following table shows the profitability of coaching services for the last five years:—

Loss on coaching services

(Rupees in Crore)

	1991-92	1992-93	1993-94	1994-95	1995-96
a) Suburban	212.69	215.67	205.44	210.89	250.85
b) Non-suburban	1563.21	1743.66	1655.60	1716.25	1812.89
c) Total(a+b)	1775.90	1959.33	1861.04	1927.14	2063.74

One of the reasons for this situation is that passenger earnings form 27.2% of the gross railway earnings of which suburban traffic, carried at concessional rates, contributed 12.05%, express/long distance traffc contributed 73.34% and ordinary short distance traffic constituted 14.61%. The factors therefore, which contribute to coaching losses are:—

(i) Short distance passengers availing season ticket concessions.

(ii) Non-suburban passengers availing season ticket concessions.

(iii) Commuters availing concessional monthly and quarterly season tickets on suburban section of Mumbai, Calcutta and Chennai and elsewhere between two stations, upto a distance of 150 Kms.

(iv) Travel concessions to military personnel, sportsmen, handicapped people etc.

(v) Military traffic and postal traffic carried at rates below cost.

Though attempts have been made to rationalise the fare structure taking into account the losses on coaching services, a certain amount of flexibility for keeping down the increases in the low class fares had to be adopted on account of the anxiety to do everything possible to ensure that the impact of the increase should have only a minimal effect on the family budget of the common man. Concessional monthly and quarterly season ticket fares are the most important factor responsible for the losses on suburban services.

3.8.3 **Losses on the working of uneconomic branch lines:** The Working Group observed that a number of branch lines are utilised below their capacity and are not commercially viable. With the development of roads and change in the pattern of industrial development and urbanisation, many branch lines have lost their original utility and their social and economic justification. However, due to strong public resistance to closure of these branch lines and reluctance on the part of State Governments to support any suggestion for their closure, it has become difficult for IR to close these lines.

3.8.4 **Losses on new lines opened for traffic in the last 15 years:** The Working Group observed that a review of financial results of new lines opened for traffic during the last 15 years is undertaken by IR in order to gauge the profitability or otherwise of these new lines so also to monitor their performance. 25 such lines were reviewed in 1995-96. Results of the review have highlighted that on some of these new lines, the net return on investment were either commensurate with or even exceeded the projections. On the other hand, in some of the other new lines, the return was below expectations. 6 of the new lines under review were sanctioned as project-oriented lines to cater to industrial growth, as also for exploitation of mineral deposits. Another 9 lines were built to relieve bottle necks or to bridge the gaps on the existing sections. The remaining 10 lines under review were taken up as a part of social obligations of the Railways for development of backward areas to amalgamate them with the national mainstream.

New lines are opened for providing infrastructure facilities essential for the balanced development of the country, its defence and for social integration. As in the case of any public utility and infrastructure type of development, investment in Railway capacity is lumpy in character. Because of such technical indivisibility, the potential traffic on a particular section may take time to materialise and, in the meanwhile, the actual traffic may not yield enough revenue to meet the full costs. This is a normal problem in the creation of any new heavy capital asset, especially if such a facility is created as a part of developmental infrastructure. If the Railway line is set up and operated by the IR the Railways should be permitted to charge special tariffs which would meet the full costs of operating the specially set up line or a minimum revenues should be generated by the project authorities so that the costs of operation are met.

CHAPTER IV

SOCIAL SERVICE OBLIGATIONS ON RAILWAY SYSTEMS IN OTHER COUNTRIES

4.0 One of the terms of reference of the Working Group was to study the existing procedure being followed by some of the foreign railway systems to compensate social service obligation. The Working Group on the basis of published information in various international publications, found that the railway systems in different countries get different levels of support from their Central Exchequer/Local Governments/Bodies in different forms varying from out-right grants and subsidies to capital investment. A brief analysis of the Government support to the different railway systems in the world, based on the information available in the Jane's Year books on World Railways (editions 1990-91 to 1995-96) and International Union of Railways (UIC)—International Railway Statistics 1994, is given below:

Sl. No.	Railway	Operating Expenses	Total traffic receipts	State support in 1994	State support as % of total operating expenses
1	2	3	4	5	6
1.	UK-British Railway	5695	2751	2063	36.2%
2.	UK-Railtrack	2081	2275	49	2.4%
3.	Luxembourg National Railway Co.	15326	4776	9870	64.4%
4.	Hellenic Railway	92034	16193	14475	15.7%
5.	Irish Transport Company	389	312	97	24.9%
6.	Portugese Railway	83436	34147	13249	15.9%
7.	Italian State Railway*	15907	7091	2195	13.8%
8.	Netherlands Railways	3797	2147	1476	38.9%
9.	Spanish National Railway	384091	139466	140770	36.7%
10.	Belgian National Railway Company	136955	29546	35278	25.8%
11.	French National Railway Company	81046	41202	13609	16.8%
12.	Swiss Federal Railway	5837	2974	830	14.2%

1	2	3	4	5	6
13.	Norweigian State Railway	7160	1619	1008	14.1%
14.	Austrian Federal Rly.	44688	17469	8016	17.9%
15.	Swedish National Rail Administration	10811	0	9458	87.5%
16.	Finnish State Railways	3581	3176	266	7.4%
17.	Estonian Railways	718	515	30	4.2%
18.	Gyor-Sopron-Ebenfurt Railways	7271	2609	290	4.0%
19.	Hungarian State Railways	108841	53649	9632	8.8%
20.	Polish State Railways*	57421	43631	5762	10.0%
21.	Slovenian Railways	32403	17468	5003	15.4%
22.	Tunisian National Railway Company	142	82	24	16.9%
23.	Saudi Railways Organisation	284	78	84	29.6%
24.	Turkish Republic State Railways*	8780	3563	2331	12.4%
25.	Gabon State Railways	48059	13556	2000	4.2%
26.	South African Rail Commuter Corporation Limited	1529	353	1254	82.0%
27.	Cameroon National Railway System	26678	20770	2023	7.6%
28.	Malagasy National Railway System	22424	19726	28	0.1%
29.	Association of American Railroads	25511	30019	27	0.1%
30.	Japanese Railway*	3681	4154	90	2.5%
31.	Malayan Railway	212	177	12	5.7%
32.	Taiwan Railway	22989	14598	9	0.0%
33.	Deutche-Bahn (DB-AG)	29870	23780	6000	20.1%

(*Figures in billions)

4.1 The Working Group also made a more detailed and indepth analysis of practices prevalent on some countries for compensating social services obligation on the basis of available material.

4.1.1 AUSTRALIA

New South Wales—State Railway Authority (SRA)

(i) New State Transport Administration Act became effective in 1989 for restructuring of SRA. SRA has been given full commercial authority under the Act. SRA has two business groups, namely City Rail, which is, responsible for mainly suburban passenger operations in an area around Sydney, and Freight Rail and Country Link group, which is, responsible for inter-state freight traffic and for country's inter-state passenger business. SRA is set to run its freight business on strictly commercial lines.

(ii) In 1991 a ***five year reform and rehabilitation plan*** commenced where State has committed A$ 2600 million for capital investments, of which A$ 2000 million has been assigned to City Rail and A$ 530 million to Freight Rail and Country Link. This assistance was later raised to A$ 3000 million.

(iii) New South Wales Government funds non-commercial freight business, through a community service obligation agreement with SRA. The agreement includes a formula for subsidy of socially necessary passenger and freight services.

(iv) In the City Rail operation, fares cover 47 per cent of operation cost, other commercial sources two per cent, the other 51 per cent is met under a community service obligation agreement.

(v) The quantum of Government contribution in SRA operations was A$ 236 millions in 1992-93 and A$ 402 in 1993-94.

Queensland Railway (QR) :

Traffic : QR operates 8 suburban routes and provides passenger services on long routes. Primary commodities carried by QR are coal and minerals which constitutes almost 90% of the total freight.

Queensland Railway is a State Railway of Australia. Due to unprofitable services many operations are being withdrawn or limited. QR received a community service grant of A$ 221 million for running many unprofitable services for community service reasons.

4.1.2 ARGENTINA

Argentinean Railways (FA)

(i) Argentinian Railway (FA) reported annual losses of US$ 400 in 1980's.

(ii) **Restructuring of railway-sector of national economy**—The Argentinean Railways (FA) had been drastically reducing the unremunerative and under-utilised parts of its network since mid 1960s. FA had been plagued by the problems of outdated and overaged assets. This problem had aggravated in 1980 when the Government reduced the subsidy to Railways by almost half. Further, the Government which took over after the elections of 1989, set about to 'restructure the state'. One of the first items on this agenda was restructuring of FA. At that point of time, financially, FA was on the verge of bankruptcy and was reporting annual losses of US $400 million. The locomotive and rolling stock availability had slipped to 50 per cent which was resulting in heavy loss on both passenger and freight traffics. Infrastructure had been neglected and 55% of the total route length was in a very bad condition and was being worked with severe speed and axle-load restrictions.

(iii) **Earlier experiences of privatisation**—In 80s, it was planned that three private companies would be licensed to operate main-line, urban passenger and freight services on payment of rental for use of infrastructure. But it was soon realised that without freedom to dispense with superfluous FA staff (who fiercely resisted any move for redundancies), the private operators would not be able to offer competitive tariffs. The few private operators who did take over branch lines either failed to run trains as pledged, or withheld their rental payment.

(iv) The present drive to sell of FA operations started in 1990 and portions of which are being ocperated by consortia comprising regular customers of Railways. As part of this privatisation process the **responsibility for funding** passenger services in most of the areas has **passed on from Federal Government to Provincial Government.** But few provincial Governments have been willing to or in a position of subsidising the services being operated within their boundaries. In the process a majority of long distance and local passenger services in Argentina were withdrawn in March 1986.

(v) Some **Portions of the network,** now being **operated by small groups/consortia** are being operated with **investment in infrastructure from both the Federal Government and the Province.** For example, FGB, a MG system serving North Western Argentina became separate State owned company in which investment for improvement/renewal of infrastructure and repair and maintenance of rolling stock is being provided by the Government. Similarly, other systems are being operated with both Government and private capital.

4.1.3 ALBANIA

Revenue from operations is 30% of overall costs, with the balance in the form of Government subsidy and subventions from international bodies.

4.1.4 AUSTRIA

Austrian Federal Railways (OBB) is financially divorced from national budgeting. But the State supports the Railway for socially necessary but loss making services. Thus closure of uneconomical operations was postponed. OBB has further requested an extra SCH 250 million from the Government to cover the costs continuity to provide the uneconomic services.

4.1.5 BRAZIL

(i) **Financial condition**—The Railways in Brazil have also been suffering from similar problems as in Argentina. In 1989, the subsidies and compensation were withdrawn and the Railway started losing almost US $ 400 million per annum. In 1990, the accumulated debt stood at US $ 1.2 billion and at US$ 2 billion by 1995. The withdrawal of subsidy was intended to curb public sector expenditure to stabilise the national economy.

(ii) **Railway's financial difficulties** coupled with freeze in Government **investment led to serious** backlog of track and rolling stock **maintenance**. In 1995, 8000 route kilometres were no longer fit to carry any traffic. Locomotive and wagon availability had fallen to 60 per cent. Railways even failed to pay the state owned oil company for supplies of diesel fuel. It is expected that private Franchises will be making investments in this sector and the fees collected from them will be utilised towards settling accumulated debt.

(iii) **Recent structural changes** started in 1994 in a manner similar to that adopted in Argentina.

4.1.6 CHILE

Accumulated debt of Railways reached US $ 100 in 1990 under military dictatorship. In 1993 Government decided to give subsidy for per tonne of freight and per passenger KM, this subsidy was intended to bolster Rail against Road competition.

4.1.7 FINLAND

Socially necessary services receive annual subsidy of FM K 250 million. In July 1995 the Railway infrastructure maintenance was assumed by the state.

4.1.8 FRANCE

French National Railways (SNCF)

(i) SNCF is a "Public Establishment of an Industrial and Commercial Character" and is entirely State owned. Major problems in SNCF are:

- financing infrastructure, specially new lines (unremunerative),
- losses on strategically important lines,
- unequal competition with road,
- SNCF's debts.

ii. Relations between SNCF and the State are governed by 5 years contracts from which SNCF derives 5-Year Plans The statutory support for the 1990-94 plan period were set as—

(a) Infrastructure	F.Fr. 11.9 billion
(b) Pensions	F.Fr. 18.0 billion
(c) compensation for socially reduced tariff	F.Fr. 7.4 billion
(d) Regional passenger services	F.Fr. 6.6 billion

The statutory support to SNCF in 1992-94 period has been as under:

(F.Fr. million)

	1992	1993	1994
(a) Infrastructure	11200	11700	11900
(b) Pensions	17800	18000	18000
(c) Compensation for socially reduced tariffs	6700	7000	7400
(d) Regional passenger services	5600	5800	5600
(e) Provision to amortise the proportion of debt	4150	4300	4300

iii. The plan while maintaining the high level of State support for regional passenger services envisaged that bus services may substitute poorly used trains.

iv. The total quantum of State support in 1993 and 1994 was F.Fr. 17.27 billion and 18.20 billion respectively.

v. SNCF is now looking to the state to cover to more infrastructure charges. SNCF has requested a change in its present obligation to finance new lines in full in the context of increasing debts. At the beginning of 1990-94 plan, SNCF's accumulated deficit was around F.Fr. 100 billion, of which F.Fr. 38 billion had arisen from refinancing annual losses incurred since 1971. Previously, the State had provided an extraordinary annual subvention that helped to cover the payment of financial charges linked to these deficits, but that left the basic problem unsolved. The new plan resolved the difficulty by transferring the debt of F.F.R. 38 billion and the associated accumulated loss to a special account within SNCF's accounts. The special account would receive annually F.Fr. 3.8 billion from the state and F.Fr. 100 billion from SNCF, both sums to be adjusted in line with inflation. This mechanism was designed in time to eliminate the debt entirely and thereby remove a burden on SNCF's balance sheet. However, poor results in 1992, 1993 and 1994 have added a further F.Fr. 19 billion to the debt.

4.1.9 GERMANY

Deutsche Bahn (DB-AG)

1.1 Deutsche Bahn (AG) came into existence on 1.1.1994 under General Railway Restructuring Act 1993. DBAG is free from public service obligations, public finance rules hindering competitiveness, non-marketing oriented political directives and accumulated debt burden of unecessary personnel costs.

1.2 The government continues to fund the construction, equipment and upgrading of infrastructure projects in the national interests and the infrastructure business will repay the money interest free on a depreciation basis within 40 years. Government will put DM 428 billion into DBAG between 1994 and 2003.

1.3 Federal Government supports local rail transport and spends DM 6 billion a year. From 1.1.1996 responsibility for support of local railway transport passes from Federal Government to the Lander which will buy loss making services deemed by local authorities to be socially necessary. Lander will decide which services should be retained and how they should be provided.

2. **Finances:** DBAG receives no state grant for the acquisition of rolling stock. All purchases are funded from its own resources or bank loans for which there are no federal guarantees. Infrastructure investment, however, is State funded at about DM 10 billion annually. This money is normally made available as interest free loan although. occasionally non-repayable grants are given. During 1994 DBAG invested DM 4,200 million in rolling stock and DM 9,300 million in infrastructure, most of the latter in the former DR system. Investment expenditure in 1995 was programmed at DM 16,000 million.

3. DBAG is exploring new modes of financing its activities. For instance, five ICEs and 175 double-deck coaches have been sold to a subsidiary of the Deutsche Bank Export Leasing, and then leased back for 13½ and 18 years respectively, giving DBAG a cash boost. Use of the rolling stock is not limited in any way and there is a purchase option at the end of the agreement. There are advantages, both in write-off terms and with respect to taxation.

4.1.10 INDONESIA

Indonesian Railway Public Corporation (PR)

In 1991 Permuka (Indonesian Railway Public Corporation) was released from full government control to become a Public Corporation. Government accepted responsibility to maintain infrastructure and Rolling Stock and increase transport share of the national budget. PR received Rp 56,200 million for infrastructure and Rp 15500 million for Rolling Stock development.

4.1.11 MALAYSIA

Malayan Railway (KTM)

KTM Railway is a Established Government owned corporation. Government financial support continues both for capital works and some unremunerative services. A new Railway Asset corporation takes interim responsibility for all Railway infrastructure and facilities.

4.1.12 NORWAY

Norwegian State Railways (NSB)

Railway system is free standing Public Enterprise. Socially necessary services are purchased by Government (subsidy was NOK 773 million in 1994 and NOK 803 million in 1995 Budget). The passenger fares, maximum freight charges, passenger service levels and investment budgets all require Government approval.

4.1.13 PAKISTAN

Pakistan Railway (PR)

PR deficit arose from Rs. 1.3 billion in 1994-95 to 2.3 billion in 1995-96. A special government Grant of Rs. 3 billion was made in 1992-93. PR received 30% of investment planned for transport sector. In addition, PR's share of transport spending was raised from Rs. 2.7 billion to Rs. 3.4 billion.

4.1.14 POLAND

Polish State Railways (PKP):

PKP compelled to cut its passenger and freight services as a result of drastically reduced financial support from Government. Part of PKP was taken over by LKR in 1992 but became bankrupt in 1994. Now some suburban sections are being sold off to a consortium of local businesses.

4.1.15 RUSSIA

Russian Railways (RZD)

Though Government severely restricted its Grant to Railways, Local authorities lend support with station construction, rebuilding project occasionally for purchase of Rolling Stock for Commuter Services. Freight tariffs and long distance passenger fares are inflation indexed.

4.1.16 SOUTH AFRICA

South African Railways (Spoornet)

A subsidised body—Rail Commuter Corporation manage loss making suburban services and owns all the infrastructure and rolling stock employed on them.

4.1.17 SPAIN

Spanish National Railways (RENFE)

Government finances support for socially desirable and suburban services, covering 40% of their cost or more under a funding agreement.

Under the provision of 1994—98 contract programme, RENFE received a total of Pta 266.99 billion in State support and further Pta 50.092 billion towards debt obligations.

4.1.18 SWITZERLAND
(SBB):

Government budgeted S. Fr 1.3 billion for support to 57 private Railways. Government is also financing Integrated Public Passenger Service Network nation wide. SBB's main demand is for full marketing freedom in its commercial sectors; release from dilatory political vetting of investment decisions, exemplary compensation for fulfilment of imposed obligations, including requirements for environmental protection or conformity with European network schemes and a reappraisal of Regional service need.

4.1.19 SWEDEN

a. The reform process was approved by Swedish government in 1988. Sweden is the first European country to introduce major reforms. The railway continues to be a government undertaking, but has all the autonomy to operate on the lines of a private company. They claim substantial improvements in their performance after the introduction of reform. In fact, the success of Swedish reforms were the motivating factors for other European countries to initiate the reform process.

b. The Railway was split into two separate undertakings both functioning under the transport ministry.

(i) The track and the related infrastructure is maintained by a company called the Swedish National Rail Administration (called Benverket or BV). They are responsible for construction, upgradation and maintenance of the infrastructure and the operator pays for its. The entire finance comes from the government. This is based on the principle that track construction and maintenance is the responsibility of the state, just as the state is responsible for the construction and upkeep of the road.

(ii) The Swedish State Railway (SJ), which is a separate undertaking, is responsible for owning the rolling stock, maintain and operate system. They pay rail tax to the government for using the rail network just as the road user pays tax to the government for using the road. The tax values are so fixed that it meets 1/3 of the track maintenance.

c. The station and the surplus land are managed by the Real Estate division. The government by an act has given full authority to the railway for the commercial exploitation of the railway land.

d. The catering company owns the pantry coaches in addition to managing the catering function.

e. The business units and the subsidiary companies should strive for the corporate growth and profitability, while trying to maximize their own profit.

f. The railway has all the freedom to decide the pricing policies on freight as well as passenger. They can withdraw unprofitable passenger services. There were instances where they wanted to withdraw some long distance services, government intervened and compensated for the loss to continue such services at government interest.

g. Local passenger service is compensated by the local bodies. In Sweden there is a system where the local authorities float tenders for local services. The agency which offers the lowest price or demands lowest subsidy wins the contract. The Railway has to compete in this market along with bus companies. To protect the interest of railway, they keep a bus company as a subsidiary to be effective in this market.

h. By this reform process they have tried to establish a clear demarcation of responsibilities of the state and the railway. The state carries the social responsibilities and the railway carries the business responsibility.

Finance

Banverket (BV) is funded by annual appropriations from the government. In 1994, SKr 6 billion was used for new investment and SKr 3 billion for maintenance. In addition, Banverket financed some new investment and maintenance (such as track replacement) from government loans totalling SKr 1.3 billion. State railway managed by Banverket but operated by the regional transport administrations received appropriations amounting to SKr 800 million for investment and maintenance.

4.1.20 UNITED STATES OF AMERICA

National Railroad Passenger Corporation (Amtrack)

i. Amtrack was created under Rail Passenger Services Act in 1970. Amtrack operates passenger services on the track and related facilities owned and operated by private freight hauling railroads.

ii. Amtrack is supported by federal capital and operating grants, the amount of which is annually budgeted by administration and approved by Congress.

iii. Amtrack can initiate new services (called 403(b) Services) with financial support from the State or a group of States and other regional and local agencies; the State shoulders 70 per cent of long term losses and remaining 30 are to be born by Amtrack subject to a maximum of US $ 1 million annually. The capital expenditure for station construction and other infrastructure movements needed to initiate services are negotiated so that Amtrack share does not exceed 30 per cent.

iv. Subsidy from the Government—(US $ million)

	1993	1994	1995
Core operations	331	351.7	392.0
Core Capital	165	195.0	230.0
New Services	0	0	0
Northeast Corridor	204.1	225.0	200.0
Mandatory Payments	146	137.0	150.0
Infrastructure Development			40.0
Total	**846.1**	**908.1**	**972.0**

v. **Financial Results:** In 1981 Revenue covered only 48 per cent of total Revenue costs. In 1991 it increased to 79 per cent. It improved to 80 per cent in 1993 and then slipped to 77 per cent in 1994.

4.2 Conclusions: The Working Group, on the basis of information that was available, studied the practices of financing social service obligation prevalent on Railway Systems in over 50 different countries. The Working Group observed the following patterns in railway working in these countries:

(a) The railway operations world over involve large capital investments with a long run perspective and do not offer secured and best returns.

(b) Fixation of freight rates and passenger fares—particularly the latter—is not considered amenable to full costs pricing even in most liberalised and advanced economies.

(c) By nature, world over, the railways attract bulk movement of basic goods/items in whose pricing full reflection of transportation charges (to also cover high capital costs) is not considered desirable. This applies with greater force to both suburban and non-suburban passenger traffic in whose case the modern welfare state would not like the passengers to bear the entire cost of transportation.

(d) That (c) is happening even in those countries which are geographically small, economically advanced and with well developed alternative modes of transportation.

(e) Withdrawal or drastic curtailment of subsidy/support from Government due to financial stringency has had severely deleterious effects on Railway operations in some of the countries (eg Argentina, Poland, etc.)

(f) Suiting the conditions of specific countries, well formalised arrangements have been evolved for extending Government's support to the Railways.

(g) State support is being provided to the Railways in some countries even to protect them against competition with road, (eg France).. Elsewhere in countries like Sweden, similar objective is achieved by state taking the responsibility for construction and maintenance of track.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS OF THE WORKING GROUP

5.0 The Working Group discussed the issue of social service obligation in the context of financial imperatives being faced by Indian Railways.

5.1 The Working Group observed that the practice of cross-subsidisation (which is being followed at present) leads to hidden subsidies. The hidden subsidies, which are generalised, are economically inefficient, socially wasteful and cause mis-allocation of scarce resources. Therefore, the Working Group concluded that the practice of cross-subsidisation should be minimal as far as possible, and in principle, Railways must recover marginal cost for the provision of its services. The Working Group also felt that it is not always possible to charge commercially profitable fare and tariffs for all services, and some services have to be provided at the cost below the marginal cost in overall national and public interest.

5.2 Definition of Social Service Obligation: The working group defined Social Service Obligation, in context of IR, *as higher earnings foregone or losses incurred due to infusion of wider welfare and socio-economic objectives, in violation of application of pure commercial principles of profit maximisation*. Such social service obligation arises from, continuation of services on uneconomic lines, subsidisation of certain categories of passenger travel, charging lower freight rates in the case of certain items, investment in new lines and gauge conversion in backward areas, losses incurred in running of suburban services, etc.

5.3 Taking into account the specificities of the Indian situation in a historical perspective as also looking at the world wide trends (details in Chapter IV) the Working Group is strongly and unanimously of the opinion that subsidisation of certain services is an inescapable element in the financial management of any modern Railway system. However, all subsidised services cannot be regarded as a social service obligation because cross-subsidisation of certain services is a normal principle of pricing policy adopted even by a commercial undertaking. Social Service Obligation in an organisation like Railways arise from the following factors:

a. Technical indivisibility
b. Existence of externality
c. Creation of public goods
d. Social equity

5.3.1 **Technical indivisiblity:** Given the technical nature of the production function of railway services, the minimum productive (service) capacity of a new railway line generally exceeds the available traffic demand. This is the standard example of technical indivisibility which other public utility undertakings are also subject to.

5.3.2 **Existence of externalities:** The Railways also generate some external benefits which do not accure to the Railways. For example, the benefits accruing to the employers in metropolitan citites as a result of increased accessibility to the labour market and subsidized suburban commuter services can hardly be appropirated by the Railways. There are also other external benefits such as appreciation in the value of land, property and agricultural production in the adjoining areas due to greater accessibility to markets.

5.3.3 **Creation of public goods:** Railways not only produce "private goods" desired by consumers for private consumption (for example, personal journeys and the carriage of commodities for personal use); they also produce "public goods" such as the use of transport for national defence, internal security and the maintenance of law and order in the country. While the transport services produced for private consumption can be priced to a large extent as market determined, there is no logical basis whereby the Railways can in principle set price for the public goods created by them to satisfy broad social and political objectives.

5.3.4 **Social equity:** In order to protect the interests of the socially and economically disadvantaged sections or vulnerable sections of the society, Railways have to charge very low of concessional passenger fare or freight rates.

5.4 In the light of the above characterising factors, the different segments of traffic—both passenger (coaching) and freight have been examined by the Working Group in order to decide whether they constitute Social Service Obligation or not.

5.5 For passenger services, in order to work out the profitability, cost of carrying one passenger for average lead (average distance each passenger in that class travels) was compared with the passenger fare for that lead for each class of travel. The results of this exercise are available at Annexure III

5.6 **AC Ist Class (Mail/Express), 2 Tier AC (Mail/Express) and AC Chair Car (Mail/Express)** : In these classes the fares at average lead exceed the cost at that lead resulting into a profitable operation. Since Ist ACC/2 Tier AC and AC Chair car are used predominantly by the upper sections of the society these do not fall within the factors established as above for consideration as Social Service Obligation.

5.7 **Ist Class (Mail/Express) and Ist Class Ordinary:** It is seen that Ist Class services, both Mail/Express and Ordinary, at average lead constitute a loss-making operation. The fare does not cover the cost per passenger at the average lead. However, Ist Class travel is predominantly used by the upper sections of the society and it does not qualify as Social Service Obligation according to the above factors. Further, these services are also being gradually withdrawn and replaced by 2 Tier AC or AC Chair Car/AC 3 Tier which are profitable services. Gradually, Indian Railways shall be able to eliminate losses of Ist Class Services totally. Fares can be increased to cover the full costs till such time the Ist class is gradually withdrawn from passenger services on Mail/Express trains.

5.8 **2nd Class (Mail/Express):** On examination of cost carrying a passenger over a distance of one km. in 2nd Class mail/express and 2nd class sleeper of mail/express trains taken together, this class gives a very nominal loss. It can be seen that it is tending towards break-even point and with a small adjustment of fares and plugging of malpractices this segment of traffic can be treated as profitable and shall be excluded from Social Service Obligation. However, if Railways are not able to modify the fare structure to make this stream profitable, the losses on this service may be treated as Social Service Obligation as the actual fares will be below the operational costs.

5.9 **2nd Class Ordinary:** It was observed by the Working group that 2nd class ordinary constitutes the bulk of losses on Indian Railways operations. The average lead of the passengers in this class is small and the cost per passenger is far more than the fare realised from the passenger at the average lead. The principle justification to treat this as Social Service Obligation rests on the assumption that the commuters on the 2nd class Ordinary trains generally belong to the weaker sections or the vulnerable section of the community. Although this assumption cannot be wholly true and there is scope for upward revision of passenger fares for the ordinary second class, complete abolition of the subsidised fares for this class is not feasible in foreseeable future due to socio-political compulsions. The Working Group, therefore, considers these losses as Social Service Obligation on Indian Railways.

5.10 **Suburban EMU Services:** The losses on the entire suburban operations in the metropolitan cities of Mumbai, Calcutta and Chennai constitute Social Service Obligations as the actual fares are below the operational cost and cannot be increased because they serve the masses comprising poor sections of the society. Subsidisation of suburban commuter travel may also be justified on grounds of urban land-use planning on the assumption that the social benefits generated by the resultant decongestion of urban areas may more than offset the hidden subsidies borne by the Railways. However, the losses on EMU Suburban services operated in these metropolitan cities should be treated as Social Services Obligation on Indian Railways.

5.11 **Defence Traffic:** Defence traffic is transported below the cost of operations and on priority in the national interest of the country. Being in the nature of the public goods, the loss for the defence traffic is to be treated as Social Service Obligation.

5.12 **Postal Traffic:** Postal traffic is carried at the rate below the normal rate in the public interest and the loss is to be treated as Social Service Obligation.

5.13 **Freight Traffic:** It is observed that the losses under freight traffic are mainly on account of those commodities which are meant for mass consumption by poor, such as salt, fire wood, fruits & vegetables, etc. Since the freight element constitutes a part of its consumer prices, these are carried at concessional rates in order to contain prices of these commodities. Besides charging the rates below cost, most of these commodities get preferential treatment in movement- even if high rated traffic is waiting to be moved. This has resulted in shifting of traffic of high rated traffic to alternative modes of transport. Thus it becomes yet another element of loss to IR (*viz.* loss of market share of high rated commodities). In view of the above, the Working Group is of the opinion that losses on commodities carried at rates below cost of operation should be treated as Social Service Obligation.

5.14 **New lines and uneconomic branch lines:** It is observed that Railways have to operate a number of branch line services which are commercially unviable and their earnings do not even recover the operational costs of the services provided. The losses on these uneconomic branch line operations should be treated as Social Service Obligation. Similarly, new lines opened for traffic over the last 15 years also incur operating losses.

5.15 **Metro Rail (Calcutta):** Metro Railway, Calcutta also provides an example of externalities, indivisibilities and creation of public goods. These losses also comprise Social Service Obligation. The basic issue is that while the social gains supposedly resulting from these lines tend to be widely distributed over the region served by them, the losses are borne by the Railways, it is also difficult to identify the beneficiaries, to quantify their gains and to make them pay for their gains. At present, only operating losses are being calculated. The operating losses (which do not include appropriation to Depreciation Reserve Fund and payment of dividend to General Revenue) should be added in Social Service Obligation. The Working Group recommends that as and when the appropriation to Depreciation Reserve Fund and payment of dividend on the investment on Metro Railways System is made, these should be taken into account while assessing the Social Service Obligation. Similarly losses on other metro projects should also be taken into account while assessing the Social Service Obligation.

5.16 It may be seen that certain elements of Social Service Obligation on IR have to be compensated. Further, State financing of socially loss making services is a built-in feature in foreign countries also. The countries where the Railways are State owned the losses are met from the grants made by the Government to cover the operating expenses in loss making operations—predominantly passenger, but in several cases freight traffic also—in some form or other. The cases where the State does not give grant in support of the loss making operations the State buys the loss making operations. Whatever is the mechanism the State eventually compensates for losses on those operations which are carried on by the railways on socio-economic or political considerations. Further, the State also participates in the investments in infrastructure in areas where setting up of new railway lines or upgrading existing infrastructure, etc. are not financially viable and the railways are not interested in making investments in those areas.

5.17 The Working Group is of the opinion that so far as expenses on staff welfare activities and RPF (Railway Protection Force) are concerned they cannot be taken as Social Service Obligation on IR. They are the usual welfare expenses of any public sector, or commercial organisation supporting the productivity and morale of the employees and in case of IR also they should be treated as such. They will form a part of usual expense of IR in providing the services. However, the payments made by IR towards Government Railway Police (GRP) to the various State Governments as a part of their share in maintenance of law and order in Railway Stations should be treated as Social Service Obligation on the part of the state. The IR should be exempted from making these payments to State Governments.

5.18 The Working Group recommends that the services in which the fares or tariffs do not even cover the marginal operation cost of production of the service should be treated as Social Service Obligation. Indian Railways has worked out that 78.5% of the expenses are long term variable expenses, i.e, dependent cost or the variable cost as a percentage of the fully distributed cost for the totality of operation (passenger and goods services). The Working Group recommends that out of the services which qualify as Social Service Obligation on the criteria outlined above the net Social Service Obligation should be taken after deducting the earnings of the service from 78.5% of the total working expenses.

5.19 Based on these criteria, the working group made an approximate assessment of the social services obligation on IR for 1994-95 which is given in the following tables:

Social Service Obligation 1994-95

SCENARIO I

Taking Expenses at 100%

Particulars	**Expenses**	**Earnings**	**Losses**
1. Uneconomic Branch Lines	342	176	-166
2. New Lines	95	46	-49
3. 2nd class ordinary	1578	698	-880
4. EMU	843	655	-188
5. Postal	93	36	-57
6. Freight services	275	228	-47
7. GRP	36	-	-36
8. Metro Rail, Calcutta	16	5	-11
Total			1434.

SCENARIO II

Taking Expenses at 78.5%

Particulars	**Expenses**	**Earnings**	**Losses**
1. Uneconomic Branch lines	342	176	−166
2. New lines	95	46	−49
3. 2nd class ordinary	1239	698	−541 (Exp. at 78.5%)
4. EMU	662	655	−7 (Exp. at 78.5%)
5. Postal	93	36	−57
6. Freight services*	42	23	−19 (Exp. at 78.5%)
7. GRP	36	-	−36
8. Metro Rail, Calcutta	16	5	−11
Total			**886**

Note 1-Figures rounded off to nearest Crore
Note 2*-Exp. at 78.5%-some of the commodities become profitable. As such, Expenses and earnings of those commodities have been excluded.

5.20 The net social service obligation has been worked out under two situations—Scenario I and Scenario II. In Scenario I, the expenses have been taken at 100% and then the social service obligation has been worked out. In Scenario II, the expenses for 2nd class ordinary passenger services, EMU (Suburban services) in Mumbai, Chennai and Calcutta and freight services for essential commodities carried at rates below cost of operation have been taken at 78.5% of fully distributed cost of operation of these services i.e. the marginal cost of operation.

5.21 The Working Group recommends that in future Indian Railways should adopt the methodology of Scenario II for assessing the net social service obligation.

5.22 Financing the Social Services Obligation on IR: One of the terms of reference of the Working Group was to study and suggest measures as to how the Indian Railways could gradually reduce/withdraw from the social commitments. The Working group recommends that the extent of social services obligation on IR as worked out in para 5.19 should be compensated to IR in some form or the other as prevalent in other countries.

(a) **Uneconomic Branch Lines:** The issue of uneconomic branch lines has been examined by Estimates Committee of Parliament (1967-68), Branch Lines Enquiry Committee (1969) and Bhalla Committee (1978). These expert bodies have recommended closure of these lines, drives to increase earnings, to reduce losses or compensation from State Governments. The Working Group recommends that in view of the difficulty in closing of these lines because of reluctance of State Governments in accepting their closure resulting in continuance of this loss making segment, the State Governments shall be asked to pay the losses or should buy the loss-making services as in many foreign countries like Australia, Sweden and USA. Where these lines transcend boundaries of more than one state, the proportionate losses should be shared by the respective State Governments.

(b) **New Lines:** Regarding New Lines, Railway Convention Committee (RCC) in 1976 and Rail Tariff Enquiry Committee (RTEC) in 1977 both recommended that Indian Railways shall be compensated by the Central Government to recover the losses on New Lines opened over the past 15 years. This was recommended on the grounds that the Railways inherently, are requiring intensive capital investments in infrastructure and the returns in the initial years are not commensurate with the financial outgo of the Railways. The Working Group also recommends that since New Lines are developmental lines and losses on these constitute Social Service Obligation on Indian Railways, losses in the initial years should be borne out of the Infrastructure Development Fund. The Working Group also recommends that the new lines under construction and Gauge Conversion works should also be treated as developmental works, and may be financed by either infrastructure development funds, or capital subsidy from the Central Government or interest free loans, or dividend free equity or commercial use of land in either side of the track.

(c) IInd Class Ordinary Passengers: Regarding the losses arising from carriage of second class ordinary passengers because the fares do not even cover 78.5% of expenses (that is, marginal cost or dependent costs of operation) and these constitute the major portion of total Social Service Obligation on Indian Railways, the Working Group evaluated the practices followed in other countries. In Germany a separate fund has been created which buys loss making train services from DBAG. This solution does not appear to be feasible in the present context. Other possibility of franchising the services is a bit premature to be considered seriously at this stage of economic liberalisation. The Working Group recommends that losses be recovered partly by upward revision of fares and partly by Central Government for rendering explicit subsidy for losses incurred due to operation of IInd class ordinary passenger services.

(d) EMU-Suburban Services: The Working Group feels that losses on EMU Suburban Services operated in Mumbai, Chennai and Calcutta should be reimbursed by the local authorities/governments on the lines of practice being followed in Australia and Germany.

(e) Metro Railway, Calcutta: The Working Group observed that losses on Metro Railway Calcutta, and other Metropolitan Transport Projects, should be reimbursed by the local authorities/governments on the lines adopted for EMU-Suburban Services. The losses should be reimbursed by the concerned local authorities.

(f) Postal Services: The Working Group recommends that the postal traffic should be moved on public tariff rates instead of concessional tariffs so that the element of hidden subsidy being provided to the postal services in the country is withdrawn and IR should not be burdened with this element of Social Service Obligation.

(g) Freight Services: The Working Group recommends that Railways have been able to exclude most of the losses by rationalising the tariffs of different commodities, it should endeavour to reduce Social Service Obligation even further. Admittedly, the commodities like salt etc. will continue to constitute losses on account of low rates and the same shall be compensated by the Central Government.

(h) Government Railway Police: The Working Group recommends that Indian Railways should not pay a portion of the expenses of Government Railway Police to the respective State Governments as law and order maintenance is State's responsibility.

(i) Defence Traffic: The Working Group also recommends that Indian Railways shall charge defence traffic on public tariff rates so that IR do not incur losses on this portion of traffic. It also recommends that the entire operating losses on lines being maintained for strategic defence purposes shall be borne out of the defence budget.

(j) Commercial exploitation of land and other assets: The Working Group, while examining the issue of financing on Indian Railways in context of nature of its operations and resource limitations, observed that it has a very large reservoir of assets particularly land which can be exploited commercially. The resource generating capacity of land can be utilised to generate funds for augmenting IR's developmental and modernisation needs and Indian Railways should tap this unexploited source for resource building.

1. Dr. Tarun Das,
Economic Adviser,
Ministry of Finance,
Government of India.

2. Shri B.N. Puri,
Director, Transport Division,
Planning Commission.

3. Shri P. Rajagopalan,
OSD (Accounts) &
Executive Director (Accounts),
Railway Board, Ministry of Railways,
Government of India.

4. Shri A.P. Ramanan,
Executive Director, Traffic Commercial,
Railway Board, Ministry of Railways,
Government of India.

5. Shri D.P. Pandey,
Executive Director (Planning),
Railway Board, Ministry of Railways,
Government of India.

6. Shri H.G. Sharma,
Executive Director,
Statistics and Economics,
Railway Board, Ministry of Railways,
Government of India. (*Co-ordinator*)

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ANNEXURE I

GOVERNMENT OF INDIA
MINISTRY OF FINANCE

D.O. No. 1334/FS/96 DEPARTMENT OF ECONOMIC AFFAIRS

नई दिल्ली / New Delhi

15 February, 1996

वित्त सचिव
FINANCE SECRETARY

Dear Shri Sivakumaran,

This is with reference to the study conducted by Ministry of Railways on the recommendations of the Railway Convention Committee (1991). Railway Board had sent the study entitled "A study on the social burden on Indian Railways" to this Ministry for comments on the issue regarding compensation to Indian Railways by the General Revenues against the cost of the social burdens being carried by it.

2. The issue has been examined in this Ministry and we are unable to accept the conclusions of the study which seems to be an inhouse exercise of the Railways. Railways are already being compensated for various uneconomic activities by way of subsidies and reduced level of dividend on many accounts. The overall payment of dividend is also at a highly subsidised rate. It will also not be desirable to treat losses on account of operational efficiency considerations as social burden on the Railways.

3. It is, therefore, suggested that a Working Group including representation from Ministry of Finance and also Planning Commission may be set up so that the issue can be examined in all its dimensions.

With regards,

Yours sincerely,

(Montek Singh Ahluwalia)

Shri V. Sivakumaran,
Financial Commissioner,
Ministry of Railways
(Railway Board)
NEW DELHI.

ANNEXURE II

Government of India
Ministry of Railways (Rail Mantralaya)
(Railway Board)

No. 95/Stat(CA)/RCC/2 New Delhi. Dated 23rd April 1996

It has been decided to set up an inter-ministerial working group to examine all the aspects of social burden on Indian Railways.

2. The working group will be consisting of the following officers from the Ministry of Railways, Ministry of Finance and the Planning Commission:—

(i) Executive Director (Accounts)

(ii) Executive Director Traffic Commercial (Rates).

(iii) Executive. Director (Planning).

(iv) Dr. Tarun Das, Economic Adviser, Ministry of Finance.

(v) Shri Madhao N. Lothe, Deputy Adviser (Transport), Planning Commission.

(vi) Executive Director (Statistics and Economics) — *(Coordinator)*

3. The terms of reference for the working group shall be as follows:—

a. To identify and define the elements that constitute social burden on Indian Railways.

b. To analyse the existing procedure on Indian Railways for assessing the extent of social burden borne by Indian Railways *vis-a-vis* similar procedure being followed by some of the foreign railway systems and suggest methodology for assessment of different elements of social burden as identified.

c. To study and suggest means as to how the elements of social burden should be compensated to the Indian Railways taking into account practices followed in other countries.

d. To study and suggest measures as to how the Indian Railways could gradually reduce/withdraw from the social commitments.

e. To define the role of the Central, State Governments and Local Bodies in meeting the social burden/commitments of Railways in its role of Public Utility Service.

4. The working group should submit its report by 31st August, 1996.

Sd/-
(Mohit Sinha)
Joint Director Statistics (Cost Analysis)

Copy to—

1. Executive Director (Accounts).
2. Executive Director Traffic Commercial (Rates).
3. Executive Director (Planning).
4. Executive Director (Statistics and Economics).
5. Dr. Tarun Das, Economic Adviser, Ministry of Finance, North Block, New Delhi.
6. Shri Madhao N. Lathe, Deputy Adviser (Transport), Planning Commission, Yojana Bhavan, New Delhi.
7. PS to CRB
8. PS to FC
9. PS to MT

Annexure—III

Class-wise cost analysis of Passenger traffic

Class	1994-95		1997-98		1994-95	
	Average lead (Kms)	Cost Per PKM (Rs).	Cost on Ave. lead	Fare on Ave. lead	Total cost (in crore)	Total Earning (in crore)
Mail/Exp.						
First AC	645	1.14	1011.00	1408.00	45.73	69.17
First	405	1.03	573.00	440.00	339.05	202.60
AC 2T	864	0.47	558.00	981.00	266.43	464.67
AC 3T	773	0.32	340.00	517.00	12.71	19.04
AC Chair	707	0.27	262.00	385.00	81.38	123.17
Sleeper	653	0.24	215.00	175.00	1507.80	1316.65
2nd class	362	0.19	95.00	82.00	1704.49	1734.31
Ordinary						
First	282	1.14	442.00	297.00	73.79	39.13
2nd class	76	0.24	25.00	13.00	2064.91	919.62

APPENDIX II

(*Vide* para 4 of Introduction)

Analysis of the action taken by Government on the Recommendations/Observations contained in the Second Report of Railway Convention Committee (1996)

I.	Total number of recommendations	43
II.	Recommendations/Observations which have been accepted by the Government (*vide* recommendations at S. Nos. 13.6, 13.7, 13.8, 13.16, 13.17, 13.19, 13.20, 13.28, 13.36, 13.37, 13.39, 13.40, 13.41, 13.42 and 13.43)	
	Number	15
	Percentage to total	34.09%
III.	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* recommendations at S. Nos. 13.1, 13.2, 13.10, 13.12, 13.18, 13.22, 13.23, 13.24, 13.27, 13.31, 13.32, 13.34 and 13.35)	
	Number	13
	Percentage to total	29.55%
IV.	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration (*Vide* recommendations at S. Nos. 13.13, 13.25, 13.29 and 13.38)	
	Number	4
	Percentage to total	9.09%
V.	Recommendations/Observations in respect of which final replies of the Government are still awaited (*Vide* recommendations at S. Nos. 13.3, 13.4, 13.5, 13.9, 13.11, 13.14, 13.15, 13.21, 13.26, 13.30, 13.33 and 13.44)	
	Number	12
	Percentage to total	27.27%

PART II

MINUTES OF THE THIRD SITTING OF THE RAILWAY CONVENTION COMMITTEE (1998) HELD ON 24 SEPTEMBER, 1998

....

Third sitting of the Railway Convention Committee was held on Thursday, the 24th September, 1998 in Committee Room No. 53, Parliament House from 1500 to 1600 hrs.

The following Members were present:

Shri Bijoy Krishna Handique — *Chairman*

Lok Sabha

2.. Shri V. Dhananjaya Kumar

3. Dr. Ramkrishna Kusmaria

4. Shrimati Lakshmi Panabaka

5. Shri Bashist Narayan Singh

6. Shri Om Prakash

Rajya Sabha

7. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri R.C. Gupta — *Deputy Secretary*

2. Shri S.S. Kalra — *Assistant Director*

2. The Committee took up for consideration the Draft Report on Action Taken by Government on the recommendations contained in the Second Report of RCC (1996) on 'Ninth Plan Perspective Infrastructural requirement of Indian Railways' and adopted the same without any amendment/modification.

3. The Committee also authorised the Chairman to present the Report to both the Houses of Parliament after making consequential changes arising out of factual verification by the Ministry of Railways or otherwise.

The Committee then adjourned.