

TWENTY-FIRST REPORT
STANDING COMMITTEE ON
RAILWAYS
(1995-96)

(TENTH LOK SABHA)

MINISTRY OF RAILWAYS (RAILWAY BOARD)
REQUIREMENT, PROCUREMENT AND UTILISATION
OF WAGONS BY INDIAN RAILWAYS

*[Action Taken by Government on the Recommendations/Observations contained
in the Sixteenth Report of the Standing Committee on Railways (1995-96)
(Tenth Lok Sabha)]*



Presented to Lok Sabha on 12.03.1996
Laid in Rajya Sabha on 12.03.1996

LOK SABHA SECRETARIAT
NEW DELHI

March, 1996/Phalguna, 1917 (Saka)

C.R. No. 21

Price : Rs. 16.00

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and printed by the Manager, P. L. Unit, Government of India Press, Minto Road, New Delhi-110002.

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STANDING COMMITTEE ON RAILWAYS (1995-96)

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INTRODUCTION

1. the Chairman of the Standing Committee on Railways (1995-96) having been authorised by the Committee to present the Report on their behalf, present this Twenty-First Report on action taken by Government on the recommendations/observations contained in the Sixteenth Report of the Standing Committee on Railways (1995-96) on 'Requirement, Procurement and Utilisation of Wagons by Indian Railways'.

2. The Sixteenth Report was presented to Lok Sabha on 4 August, 1995 and contained 23 recommendations/observations. Replies of the Government to all the recommendations contained in the Report were received on 9 October, 1995 and were considered by the Committee on 11 March, 1996.

3. The Committee considered and adopted the Twenty-First Report at their sitting held on 11 March, 1996.

4. An Analysis of the Action Taken by the Government on recommendations/observations contained in the Sixteenth Report (Tenth Lok Sabha) of the Committee is given in Appendix-II.

NEW DELHI;
11 March, 1996
21 Phalguna, 1917 (Saka)

SOMNATH CHATTERJEE,
Chairman,
Standing Committee on Railways.

CHAPTER 1

REPORT

This Report of the Standing Committee on Railways (1995-96) deals with action taken by Government on the recommendations and observations contained in their Sixteenth Report on 'Requirement, Procurement and Utilisation of Wagons by Indian Railways'. The Report was presented to Lok Sabha on 4 August, 1995.

2. Action Taken Notes have been received from the Government in respect of all the 23 recommendations/observations contained in the Report and the same have been categorized as follows:

- (i) Recommendations/Observations which have been accepted by the Government — Para Nos. 96, 97, 98, 99, 114 & 115.
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies — Para Nos. 100, 103, 104, 105, 106, 107, 113, 116 & 117.
- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee — Para Nos. 101, 102, 108, 109, 110, 111, 112 & 118.
- (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited—

NIL

3. The Committee will now deal with action taken by Government on some of their recommendations/observations.

Disapproval of Unilateral decision for reduction in procurement of wagons

(Para No. 101)

4. Commenting upon the unilateral decision taken by the Ministry of Railways in reducing their Eighth Plan requirement, the Committee had, in paragraph 101 of their Report, noted that a high level meeting under the Chairmanship of Member Planning Commission was convened in April, 1989 in order to assess the requirement of wagons during Eighth Plan. It was indicated in that meeting that the requirement of Eighth Plan would be around 1,50,000 Four Wheelers (FWs) and accordingly the wagon builders were urged to gear up their production activities. But subsequently, the Eighth Plan requirement of wagons was reassessed jointly by the Ministry of Railways and the Planning Commission and finally keeping in view the growth of the economy, it was decided to procure 1,20,000 FWs. The Committee had expressed their concern that the Ministry of Railways had, without consulting the Planning Commission, taken a decision to reduce their Eighth Plan wagon requirements from 1,20,000 FWs to 81,000 FWs. The Committee had deprecated the action of the Ministry of Railways in dissociating themselves with the national Planning process in an arbitrary manner in such a vital matter.

5 The Ministry of Railways have, in their action taken reply, stated:

The meeting in April 1989 had been convened with the specific purpose of assessing the capability of the wagon manufacturers to build the required number of wagons. But at no point any commitment was given by the Railways regarding the quantum of wagons that would be procured.

Wagons acquisition is need-based and related to the transport output and efficiency of utilisation. The growth in the transport output measured in terms of bTKMs fell far short of the original projections in the first 3 years of the VIII plan. In 1994-95, against the original VIII Plan projection of 273.73 bNTKMs, the actual achievement was only 249.35 bNTKMs. The lead had been projected at 720 kms. for revenue earning traffic, but the actual achievement was only 683 kms. A realistic estimate of transport output was accordingly made taking into account the prevailing conditions at that time. The lead adopted for revenue earning traffic was 690 kms. for 1996-97 against the original projection of 750 kms. This reduced the projected transport output in the terminal year to 287.9 bNTKMs, from the original figure of 306 bNTKMs. This itself, at 1992-93 efficiency norms accounted for a reduction of 39,000 wagons. Taking into account the reduced transport output and in keeping with the policy decision of accelerated condemnation of 30,000 conventional four-wheeler wagons which, it was decided, would not be replaced, the projected requirement of wagons got reduced from 1,20,000 to 81,000 wagons.

The decision to revise the requirement of wagons was made after careful study of the transport output and the efficiency factors.

With the industrial growth picking up in the last few months, it was indicated to the Planning Commission that if the same trend persisted, wagon requirements, would be reviewed. The buoyancy in the economy was reflected in the increased loading on the Indian Railways in the first four months of the current financial year. The earlier efficiency norms for calculating wagon requirement which was 1750 NTKMs per wagon day for the terminal year in the original VIII Plan projections was reduced to 1685 NTKMs per wagon day in consonance with the actual efficiency growth which was about 3.5% against 6% assumed earlier.

On the basis of the review which took into account the factors mentioned above, the Railways increased their wagon procurement from the earlier 12000 wagons to 19000 wagons for 1995-96. This excludes about 5000 wagons which are expected to be procured under "Own Your Wagon" scheme. Thus, in 1995-96, the total number of wagons likely to be procured would be about 24,000 wagons.

6. At the time of reassessment of requirement of wagons jointly by the Ministry of Railways and the Planning Commission for the 8th plan target for acquisition of 1,20,000 Wagons (FWs) was fixed. However, their requirement of wagons was subsequently reduced to 81,000 without consulting the Planning Commission. The Committee had commented upon the action of the Ministry in dissociating themselves with the national planning process in an arbitrary manner. The Ministry of Railways have now tried to justify the reduction in procurement of wagons, inter-alia by stating that they decided not to replace the condemned wagons, which is even against their own policy decision of accelerated condemnation of conventional Four Wheeler Wagons.

The Committee are unable to understand why this decision of not replacing the condemned wagons was taken which effects the safety requirements apart from crippling the entire wagon industry. The Committee desire to know the compelling reasons for doing so even without consulting Planning Commission and others concerned. Unless the Committee take a different view, the recommendation made in para 101 of their original Report should be implemented.

Timely placement of orders for procurement of wagons on firm basis

(Para No. 102)

7. On the issue of timely placement of orders for procurement of wagons on firm basis, the Committee had, in Paragraph 102 of their Report, observed as under:

"An important policy decision taken in the April 1989 meeting convened by the Planning Commission had been that the Railways would place advance order on firm basis for a period of three years for 80% of the assessed requirement and the Planning Commission would ensure requisite funds for the purpose. However, the Railways have been following the system of placing wagon orders on year-to-year basis and thus creating a state of uncertainty for the wagon manufacturing units. The Committee express their anguish to note that such a policy decision which has great bearing on the production planning of wagon manufacturers was not followed up either in letter or in spirit. Almost all the wagon manufacturing units have show their dissatisfaction to the Railways present system of placing orders for wagons and they wanted three years advance orders to enable them to make sufficient advance planning depending upon the quantum of orders. The Committee, after going into the problems of wagon industry, strongly feel that the demand of wagon units for two to three years advance placement of orders for wagons by the Railways is justifiable and the justification given by the Ministry of Railways for placing orders on year-to-year basis is not convincing to the Committee. Alternatively, the Railways should atleast forecast their requirement for the next three years on a rolling basis. This would help the wagon industry to plan alternative load in good time to sustain their workforce and infrastructural facilities in the event of any reduction in the level of wagon orders. The Committee hope that the Ministry of Railways would give a serious thought to this aspect of their wagon procurement policy and take a suitable decision keeping in view their own interest as also that of the industry and the Nation."

8. The Ministry of Railways have, in their Action Taken reply, stated as under:

"Railways are placing orders on year-to-year basis depending on the annual plan sanctioned and considering the transport output required. Besides, the product-mix i.e. the type of wagons to be acquired in a year changes from year-to-year. Therefore, placement of wagon orders 3 years in advance would not be a practical proposition. Further, funds for Railways are sanctioned on the basis of Annual Budget and not on 3 years basis and therefore, it is not possible to enter into advance commitments.

However, it is possible to place order for any financial year — about 3 months in advance—say for 1996-97 by December 1995, the possibility of giving a tentative forecast for an additional year will be examined."

In a subsequent communication the Ministry of Railways have informed the Committee that wagon orders were released through wagon India Ltd. on yearly basis till 1992-93. As the Ministry get allocation of funds on a yearly basis from the Planning Commission/Ministry of Finance, it is difficult for the Railways to make financial commitment in advance by placing orders for 2 or 3 years in advance.

9. The Committee are not convinced with the argument advanced by the Ministry of Railways that it is not possible for them to implement their decision taken at the meeting held in April 1989 and forecast their requirement of wagons for the coming 3 years as funds are sanctioned to them on the basis of annual budget. The Ministry would agree that for executing the annual orders which are generally placed with the wagon units much after the start of the year the units have to make some advance planning. In the absence of some advance planning on long term basis the wagon units have to face uncertainty. It would not be difficult for the Railways to forecast their requirement for the coming at least 3 years based upon the trend obtaining over a number of years in the past taking also into account the number of wagons condemned every year. The Committee have been informed that the Railways would examine the possibility of giving a tentative forecast for an additional year. The Committee recommend that instead of one year the Ministry of Railways should make a long term plan of requirement which would not only give Railways an uninterrupted supply of wagons but would also give wagon industry regular orders to sustain them. For the said purpose, Railways should prepare a perspective plan for wagon requirement. The Committee also desire that some sound system should be evolved to give a firm indication to the wagon manufacturing units about the orders to be placed on them well before the beginning of the year.

Disapproval of "Open Tender System" for procurement of Wagons

(Para Nos. 108, 109, 111, 112)

10. The Committee had, in paragraph 108 of their report, found that untimely and insufficient wagon orders from the Railways had attributed to idling of manpower and loss of the product capacity of the units. Besides, it had created liquidity problems disrupting various operational plans of the wagon building units in both public as well as private sectors. The plight of public sector units was indeed eye opening. Like the private sector units they could not resort to methods like closure in the event of nonavailability of orders and therefore they had to pay idle wages amounting to about Rs. 70 crores in a year, which according to the various units, had resulted in irregularities in the payment of wages and salaries and in turn caused the problem of industrial relations in the factories. The Committee had, therefore, desired that the Ministry of Railways should have taken remedial measures immediately to save the wagon industry at that critical juncture.

11. The Ministry of Railways have, in their action taken reply stated as under:

"In 1995-96, the wagon industry will have a work load of 22987.5 Four-wheeler Units, consisting of 3602.5 FWs spill over from 94095 and 17400 FWs against Rolling Stock Programme plus 1985 FWs under OYWS. Of these Public Sector Units have a share of 10515 FWs. As explained earlier, wagon orders are not placed because capacity is available with the wagon manufacturers, but the ordering has to be need based to enable optimum utilisation of available funds."

12. Expressing their dissatisfaction over the decision of the Ministry of Railways to go in for open tender system for procurement of wagons, the Committee had, in paragraph 109 of their Report observed that since 1974 the Railways had been procuring wagons through Wagon India Ltd. which was set up as service organisation after a Cabinet decision. One of the main objectives of that organisation had been to equitably distribute the annual wagon orders amongst the wagon building units in public as well as private sector so as to keep them going and also to centrally negotiate the wagon prices with the Ministry of Railways. Till 1993-94 the Railways had procured the wagons from the wagon industry through Wagon India Ltd., but from 1994-95 they had taken recourse to "open tender" system for meeting a sizeable part of their requirement of wagons. The Committee were not satisfied with the decision of the Ministry of Railways to go in for open tender for wagon procurement which was taken in haste on the hunch of the Minister and without any study and consultation with the agencies concerned viz. Wagon India Ltd.; Planning Commission, Ministry of Industry.

13. The Committee had, in paragraph 111 of their Report also came to know that an important consideration for introducing the tender system by the Ministry of Railways had been to procure the wagons at lower prices. It was incomprehensible to the Committee as to how the Ministry of Railways thought of getting wagons at lower prices particularly when their own representative always used to be nominated in the Pricing Committee. Moreover, if there was any substance that the prices were high, the Ministry of Railways should have called a meeting of all the constituent units of Wagon India Ltd. The Committee had observed that such an obvious course was not followed and the tendering system had benefitted only one particular firm, to the detriment of the entire Industry, comprising both public sector and private sector units.

14. The Committee had, in paragraph 112 of their Report, further found that the Ministry of Railways had set up in December 1994 a Pricing Committee headed by CA (Costs) Ministry of Finance and having members from the Railway Board, Wagon India Ltd. and the Ministry of Industry to go into the prices of Wagons. That high powered Committee did not submit its report. The Committee were surprised to find that on the one hand the Railways were fully committed to the policy of administered prices, on the other they had unilaterally reverted to the practice of tendering on the ground of making the wagon prices competitive. They were distressed to find such a duality in the Railways' policy towards wagon prices.

15. The Ministry of Railways have, in their Action Taken reply, stated as under:

"In line with the philosophy of economic liberalisation and need to foster competition so as to bring economies in purchases, tender for 10% of the

requirement of 1994-95 was floated. Rates lower than the Railways' computed costs based on contracts released through Wagon India Ltd. were received which resulted in savings of approximately Rs. 3 crores for the entire tendered quantity. Therefore, it was decided to enhance procurement through tender to 50% in 1995-96. Lower rates have been received against 1995-96 tender also resulting in savings of approximately Rs. 11.00 crores vis-a-vis computed prices. Therefore, tender system has proved advantages to Railways and also enables interaction of market forces. Only through the system of tender, the Railways can expect generation of competition amongst wagon builders inspiring wagon builders to cut down wastages and reduce costs which is the aim of the policy of economic liberalisation.

As far as mode of procurement is concerned, the Ministry of Railways is competent to decide and the question of consultation with other Ministries/agencies does not arise.

The Cabinet decisions taken in 1974 was for creation of an Organisation viz. Wagon India Ltd. to facilitate a single point for negotiations with the Railways in the face of low level of orders. The current procurement level is higher. The Cabinet decision did not prevent the Railways from following an appropriate mode of procurement."

16. The Ministry of Railways have further stated on this issue as under:—

"In justification of introduction of tender processes, it is stated that in the new environment of a liberalized industrial policy and emphasis on performance improvement of Public Enterprises, competition has to be encouraged so as to provide further market discipline for the Public Sector. It is in this background that efforts were made by the Ministry of Railways to achieve greater competitiveness and economies following therefrom.

In the earlier method of ordering, the potential and prices of wagon building units outside Wagon India Ltd. were not being explored. Further there was no element of competition as the prices were built up prices. In view of this there was hardly any point in calling for a meeting of the wagon builders as the potential and prices of wagon building units outside Wagon India Ltd. could not have been explored in such a meeting, and even after such a meeting, the prices would remain built up prices. Computed prices can not be a substitute for competitive prices as the former do not carry incentive for economy and efficiency. The economic liberalisation is in fact based on this principle.

Furthermore, procurement of wagons through open competitive bidding manifests greater transparency in dealings which is an essential requirement of the present Government outlook and is very relevant when this country is looking up to the global market.

It is not correct to state that only one firm benefited as a result of tender system and the Public Sector Undertakings and Private Sector suffered. In the tender finalized in 1994-95 for a small quantity of 1800 FVs a share as high

as 1440 FWs went to the lowest tenderer due to refusal of WIL to accept the order. Railway made saving of Rs. 30 crores. In 1995-96 out of the 7385 FWs ordered through tender in the first instance, 5295 FWs went to Public Sector Undertakings which is 71.7% of the quantity ordered through tender."

17. In this connection, the Ministry of Railways have also stated as under:—

"The Report of the Pricing Committee set up in December 1994 is awaited. However, as regards the contention that the Railways are fully committed to the policy of administered prices, reference is invited to reply given against Para No. 109, wherein the need to obtain competitive prices, instead of depending upon computed prices for effecting economy in purchases has been highlighted. In any case since 50% of the requirement of wagons is still being ordered through WIL outside the tender, the prices for this quantity have to be fixed for which, there was no option but to set up the Pricing Committee. However, the intention is to gradually switch over to a system of tendering for the full requirement in due course of time. The data that will be generated by the Pricing Committee will help in a more accurate analysis of even the tender prices and assessing their reasonableness.

Hence the statement that there is a duality in the Railways' policy in this matter towards wagon prices does not reflect the true picture. The Railways policy in this matter can be termed pragmatic, keeping in view the emphasis of liberalisations and opening up of the economy in the recent year."

18. The Committee do not agree with the arguments forwarded by the Ministry of Railways for procurement of wagons through 'Open Tender System'. Although the Ministry of Railways was able to save Rs. 14 crores (Rs. 3 crores in 1994-95 and Rs. 11 crores in 1995-96) by placing orders through 'Open Tender System', yet the Government Exchequer had to lose about Rs. 70 crores per year by way of payment of idle wages. Besides, non-availability of orders had resulted in irregularities in payment of wages and salaries to the idle manpower in public sector units and in turn cause the problem of industrial relations in these factories. The Committee strongly disapprove the change over to the system of procurement of wagons through 'Open Tender System' and further no explanation has been given for the change in the procedure. For healthy growth and continuance of the wagon industry and looking to its special problems it is imperative that a nodal agency like Wagon India Ltd. retains its control for equitable distribution of orders. Railways had not found any difficulty in acquiring the wagons through Wagon India Ltd. since its inception in 1974. The Committee fail to understand how all of a sudden the system was found faulty in 1994-95 after being in operation for 20 long years.

The Ministry of Railways should hold discussion with Wagon India Ltd., the nodal agency, and find out some mutually acceptable *via media* so that the wagon industry which had built a vast infrastructure over the years mainly to cater to the wagon needs of Railways should not be ruined because of the alleged small gains of the Railways.

The Committee also desire to know whether the Pricing Committee has submitted its Report and if so, their main recommendations and action taken thereon may be communicated to the Committee.

Change in the procedure of procurement of Wagons

(Para No. 110)

19. The Committee had in paragraph 110 of their report recommended:—

"A scrutiny of the record submitted by the Ministry of Railways reveals that the proposal of procurement of wagons through the tender procedure which originated at the level of the Minister of Railways was examined by the Stores Department of Railways which did not favour any change in the existing procedure of procurement of wagons through Wagon India Ltd. However, Adviser (Finance) Railway Board advised that the open tender system should be introduced on experimental basis. Ultimately, the Ministry of Railways decided to float tenders for purchase of wagons for 10% of the total required quantity during 1994-95. Though further increase in wagon procurement through tender was subject to proper study of hidden costs which the Railways have to incur in procurement/handling/ storage/transportation etc., of steel and other free supply items, the Ministry of Railways have decided to procure 50% of the required number of wagons through tender during 1995-96 without any cost study. The Committee are of the firm opinion that any major change in the procedure of wagon procurement should be effected only after a fresh Cabinet approval, for the existing procedure of procuring wagons through Wagon India Ltd., has been in practice since 1974 on the basis of Cabinet decision."

20. In their Action Taken reply, the Ministry of Railways stated:—

"With regard to the opinion that any change in the procedure of wagon procurement should be effected only after a fresh Cabinet approval for the existing procedure of procuring wagons through Wagon India Ltd., had been in practice since 1974, on the basis of Cabinet decision, the position is clarified as follows.

Wagon India Ltd., (WIL) was formed in October 1974 in pursuance of the Cabinet decision on the Note for Cabinet submitted by the then Ministry of Heavy Industry.

WIL is a joint sector undertaking under the Ministry of Industry with 25% share of the capital from the Ministry of Industry and balance 75% from the wagon builders. WIL has since its inception been negotiating with Railway Board for fixation of prices as per its objectives specified in the Note for Cabinet. WIL also takes up other issues which have bearing on production of wagons.

Presently 11 established wagon building units (6 in public sector and 5 in private sector) are members of WIL. New units can seek membership of WIL. Recently, WIL has also decided to induct one more i.e. M/s Southern Structurals Ltd. (SSL)/Madras — a Tamil Nadu Government undertaking — as its members.

WIL was formed with the limited objective of interaction with the Railway Ministry on behalf of its constituent units. The role conceived for WIL as per Ministry of Industry's note for the Cabinet was essentially as under:—

- (i) To assist the constituent units in working out a coordinated production programme in the context of under utilisation of capacity of various units and increasing demand for wagons in the Five Year Plan.
- (ii) To negotiate prices centrally with Railways. It will be seen that the purpose of setting up of WIL was mainly to help its constituent units. Neither the Ministry of Industry's Note for the Cabinet, nor the Cabinet's decision thereon placed any restriction on Ministry of Railways in calling competitive tenders and placing orders on the basis of such tenders on any wagon building unit even outside WIL. However, in case negotiations were to be held by the Railway Ministry, constituent units would be represented by Wagon India during such negotiations. Thus, calling of competitive tenders for procurement of wagons in no way violates the Policy decision of the Cabinet.

In the circumstances, it will be seen that no fresh approval of the cabinet would be required even if the Railways call for competitive tenders for placement of orders on the basis of such tenders."

21. In response to a clarification sought by the Committee in regard to formation of WIL, the Ministry of Railways stated:—

"While copies of the Ministry of Industry's note for Cabinet and the Cabinet decision on setting up Wagon India Ltd. in 1974 would be available with the Ministry of Industry, the scope of Wagon India Ltd. as known to the Ministry of Railways has already been indicated in the above reply".

22. When the Ministry of Industry was asked to supply a copy of their note and the Cabinet decision regarding formation of Wagon India Limited in 1974, the Ministry informed "the note for the Cabinet as well as the Cabinet decision are secret and privileged documents. In view of this, it may not be possible to furnish the copies of the same as desired."

23. The Ministry of Industry (Department of Heavy Industry) were asked to supply a copy of the note submitted to the Cabinet for setting up Wagon India Ltd. and the Cabinet's decision thereon. The Ministry of Industry have not furnished copies of the same on the plea that the note for the Cabinet as well as the Cabinet decision are secret and privileged documents. The Committee do not accept the contention of the Ministry of Industry since no mention has been made by the Ministry that the information made available to the Committee has the approval of the Minister. The Committee cannot, therefore, but reiterate their earlier recommendation that any major change in the procedure of procurement of Wagons should have been effected only after obtaining the Cabinet's approval.

Need for timely availability of Wagons

(Para No. 118)

24. In paragraph 118 of their Report, the Committee had found that the Wagon Industry in the country was not having much prospects of diversification due to lack

of availability of substantial amount of capital. The possibility of selling the wagons abroad was also very bleak due to stiff competition in the global market. Particularly in that situation when inadequacy of indigenous wagon orders had crippled the economic health of the entire wagon industry, the units could not be asked to go in for diversification or export unless the Government come forward to financially assist them. To save the labour-intensive Industry the Committee desired that a thorough review of the working of Wagon Industry should be conducted jointly by the Ministry of Railways, Ministry of Industry, Planning Commission, Ministry of Finance and the Wagon India Ltd. with due participation of the representatives of the Industry. If the problems of the wagon industry were left unattended, several units would have been permanently closed down and the future of thousands of workers engaged in the industry was bound to be jeopardized and the national interest would have suffered greatly.

25. The Ministry of Railways have, in their action taken reply, stated as under:—

"In the past, some of the wagon building units had secured some orders for export of wagons. The potential no doubt is there, though there is need for activating marketing efforts on the part of the units in the Industry.

For 1995-96 the Rolling Stock Programme provision has already been enhanced to 19000 FWs and additional load through OYWs is available. As already stated wagon procurement has to be need based and cannot be governed by the capacities available. In this background, it is felt that no purpose will be served by study of the Wagon Industry by a joint Inter—ministerial study group. Wagon India is already acting as an inter-face-effectively to discuss with Ministry of Railways all problems of the Wagon Industry."

26. The Committee are of the view that placement of orders for 19000 FWs for 1995-96 does not guarantee a regular flow of orders to the Wagons Units in future also to keep them fully occupied. The Ministry have not indicated any decision/steps taken or to be taken by them for ensuring timely placement of orders for procurement of wagons which is very vital for survival of the labour intensive industry. The Committee, therefore, cannot but reiterate their earlier recommendation that a thorough review of working of Wagon Industry should be conducted by the Ministry of Railways jointly with the concerned Ministries/ Wagon builders for sorting out the problems of wagon Industry and ensuring timely placement of sufficient orders on the wagon manufacturing Units.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para No. 96)

In the context of Indian Railways' transport capacity and freight carrying activities which impinge greatly on public life, economics of supply and demand of wagons has assumed special significance. For the past many years, Railways have been the sole buyer of wagons manufactured by all the wagon builders in the country. The Railways as the Monopoly buyer of the wagons have enough potential to affect the functioning and even the existence of the suppliers of wagons in many ways. The Railways can, therefore, play a vital role in pushing the industry forward as the movement of many important commodities is greatly dependent on the timely availability of wagons for transportation.

Reply of the Government

Observations are a matter of record.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 97)

Presently, 11 units—six in Central public sector and five in private sector, which are the members of Wagon India Ltd. since 1974 are engaged in the manufacturing of different types of wagons in order to meet the requirement of Railways. In addition, two new units, one in public sector at State level and one in private sector have also started manufacturing of railway wagons.

Reply of the Government

It is a matter of record except that one out of the two new units viz. M/s Southern Structurals Ltd., Madras (a Tamil Nadu Govt. undertaking) has now been admitted as a member of Wagon India Ltd.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 98)

The wagon industry in the country has a capacity to manufacture around 36000 Four Wheelers per annum. But the industry has presently been undergoing traumatic experience due to drastically reduced wagon orders from the railways. On the one hand the wagon building units in the country have been starving for orders, and on the other, movement of many essential commodities like steel, coal etc., has been badly hit due to paucity of wagons. This paradoxical situation has necessitated the Committee to go into the Railways' wagon procurement programme and the state of wagon industry in the country.

Reply of the Government

In the current financial year from April to August 95, the revenue earning freight loading has been 151.37 million tonnes against 143.13 million tonnes in the corresponding period of last year, i.e. 8.24 million tonnes more than last year. Even *vis-a-vis* the proportionate target of 152.25 million tonnes, there has been only a marginal short fall of 0.88 million tonnes. The commodity-wise loading in the current year upto August 1995 as compared to the target is indicated below:—

(In million tonnes)

| | (April-August '95) | |
|-------------------------------|--------------------|---------------|
| | Cumulative Target | Approx Actual |
| Coal | 70.75 | 71.52 |
| Fertiliser | 8.55 | 8.84 |
| Foodgrain | 9.15 | 9.46 |
| Raw materials to steel plants | 14.30 | 16.01 |
| Finished steel | 5.20 | 4.76 |

Although the loading has been generally at par with the target, the sudden upsurge in the overall requirement for rail transport in the current months due to imports and exports, has created a marginal gap between the demand and supply of wagons in respect of foodgrain, fertiliser and cement.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 99)

The Railways procure various types of wagons for carrying different kinds of goods. The Committee note that though the Railways assess their requirement of wagons for future years on the basis of freight traffic projected in consultation with the Planning Commission and the anticipated level of productivity of wagons, the main factors that determine the number of wagons required to be procured for moving the projected level of traffic during a particular year are —

- (i) wagons required on additional account
- (ii) replacement of overaged wagons and
- (iii) replacement on account of premature condemnation.

Reply of the Government

A factual statement.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 114)

As regards the Railways' wagon procurement programme for 1995-96, the Committee note that 12000 FWs have been targetted for the year. The target is not acceptable to the Planning Commission who have asked the Ministry of Railways to re-examine their projected requirement in view of the fact that the industrial growth in the country is likely to be much higher in the next two years and the rail transport

demand is expected to pick up considerably. In fact, the Planning Commission have suggested a procurement of around 20,000 FWs during 1995-96. The Committee desire that the target suggested by the Planning Commission should be adopted immediately by the Railways and 20000 FWs be procured through Wagon India Ltd. so that industrial growth is not adversely affected due to paucity of wagons in the near future.

Reply of the Government

The wagon procurement target of Rolling Stock programme for 1995-96 as per provision in the Budget is 12,000 wagons in terms of four wheeler units (FWs). This has since been enhanced by 7000 FWs.

Thus the total procurement against RSP in 1995-96 will be 19,000 FWs.

Besides there are orders for 1985 FWs under OYWs making total orders for 1995-96 of $19000 + 1985 = 20,985$ FWs. In addition there are outstanding orders for 3602.5 FWs from the previous year.

Annual funds outlay is finalised in consultation with Planning Commission as provision for assets in physical units like number of wagons has to be within this. With regard to procurement through WIL — this Ministry's stand has been clarified in reply to earlier question/points.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 115)

The Ministry of Railways are going ahead in a big way with large scale conversion of meter gauge tracks to broad gauge. This would automatically increase the requirement of wagons of broad gauge type. However, this is not duly reflected in the wagon procurement plan of the Indian Railways. The Committee desire that the Ministry of Railways should immediately make a realistic assessment of the requirement of broad gauge wagons and an advance indication should be given to the wagon manufacturing units through Wagon India Ltd., so that the industry could gear up for production accordingly.

Reply of the Government

The requirement of wagons is assessed on the basis of freight traffic projections both on BG and MG and also takes into account the needs of the newly converted sections. On the basis of the freight traffic projections and anticipated level of wagons productivity, wagon requirement are calculated.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

CHAPTER III

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

Recommendation (Para No. 100)

The Committee note that Indian Railways' holding of wagons has been declining over the years. Total wagons in line which were 4,00,946 in 1980-81 have come down to 3,12,405 in 1993-94, i.e., 22% decrease during a period of thirteen years. This is indicative of the fact that the Indian Railways have substantially lost freight traffic to other modes of transport due to shortage of wagons.

Reply of the Government

For the last several years, the Indian Railways wagon fleet has been strengthened by the induction of higher capacity eight-wheeler wagons which are gradually replacing the less efficient conventional four-wheeler wagons. Therefore, a comparison of the fleet strength of the two periods in terms of vehicle units is not strictly valid. While it is true that in terms of vehicle units, the number of wagons on Indian Railways has come down, from 4,00,946 wagons in 1980-81 to 3,12,405 in 1993-94, the actual fleet strength measured in terms of four-wheeler equivalent units works out to 5,47,746 in 1980-81 as compared to 5,50,498 (four-wheeler units) in 1993-94. It is further clarified that on the BG, which carries over 90% of the total freight traffic, the number of wagons in terms of four-wheeler equivalent units has increased from 4,24,017 in 1980-81 to 4,78,833 fourwheeler units. Besides the fact that there has been no decrease in the wagon fleet in terms of freight carrying capacity, it is also relevant to mention that due to increased productivity of assets, the loading of revenue earning traffic has increased from a level of 195.94 million tonnes in 1980-81 to 358.7 million tonnes in 1993-94.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 103)

The Committee note that at the instance of the Railways as well as the Planning Commission, all the wagon manufacturing units in the public and private sectors had taken various steps and made sincere efforts, even in difficult situations, to upgrade their technology for qualitative improvements. Surprisingly, on the one hand the Railways were insisting that the wagon industry must gear up their production and infrastructure, yet on the other there has been drastic cut in procurement of wagons during 1993-94 and 1994-95 without any advance indication to the Industry. Percentage reduction in wagon orders as compared to the original targets which was 12.6% during 1993-94 increased to 41.25% in 1994-95. Due to lack of wagon orders during the first three years of the Eighth Plan, the very survival of wagon building units in the country has been threatened. The Committee are deeply concerned to note that only during 1993-94 the under utilisation of installed capacity ranged from 25% to as high as 62% in different wagon units. This has resulted in huge under utilisation of wagon

manufacturing capacity and wide spread unemployment in the industry which is basically labour oriented. Besides, due to insufficient wagon orders, the cash flow in wagon units has been dwindled which in turn has given a severe blow to their working capital position.

Reply of the Government

Actual wagon acquisition is need based and depends upon anticipated transport output and efficiency of wagon utilisation. Orders placed during these 2 years 93-94 and 94-95, were based on actual needs and the transport capacity already available. Wagon builders were already advised to diversify and look for alternative load. Wagon procurement targets have to be related to need and not to the capacity for production, as in the latter case, these would result in injudicious investment, which can not only affect the profitability of the Railways but also deny funds to other essential areas.

In 1994-95, orders for 12000 fourwheelers were released. Therefore, the reduction from the original targets as reflected in the Budget will not be 41.25%, it will be only 33.3%.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 104)

The Committee are distressed to note that the unilateral decision of the Railways to restrict their wagon procurement figure to 81000 FWs against the figure of 120000 FWs as approved by the Planning Commission, has not only caused a serious problem of wagon shortage during the Eighth Plan period thereby adversely affecting the movement of goods in different core / non-core sectors of the economy but also put the entire wagon industry in deep crisis.

Reply of the Government

As explained in comments to Para 101, the decision to reduce wagon requirement from 1,20,000 four-wheelers to 81,000 four-wheeler was based on the assessment of actual transport output achieved in the first three years of the VIII Plan *vis-a-vis* the earlier projections. The traffic offer was way below the projections right upto December, 1994. However, with the economy showing a buoyancy in the last few months, the requirements of wagons for 1995-96 was hiked from 12,000 to 19,000. In addition, another 5000 wagons are expected to be procured under the 'Own Your Wagon' Scheme.

During the terminal month of 1994-95 (March'95), Indian Railways lifted 34 million tonnes of revenue freight traffic and the corresponding transport output was 24.73 bNTKMs. The system thereby demonstrated its capability to achieve revenue freight traffic of 435.60 million tonnes in a year corresponding to a transport output of 291.20 bNTKMs, provided the offer of traffic is uniform throughout the year and the terminals are worked at optimum efficiency.

The Railways are keeping pace with the proportionate loading target for 1995-96 in the first five months of the year. The originating revenue earning loading has been 8.24 million tonnes more than the corresponding period of last year. The total loading in April-Aug.'95-96 has been 151.37 million tonnes against the target of 152.25 million

tonnes. In terms of transport output, the actual bNTKMs achieved was 106.42 bNTKMs against the proportionate target of 106.64 bNTKMs.

[M/o Rlys. O.M. No. 95 / SCR / X / 3 / (W) dt. 9.10.95]

Recommendation (Para No. 105)

The Committee further note that not only the wagon builders represented against insufficient orders for wagons from the Railways but also the Ministry of Industry took up the matter with the Ministry of Railways at the Ministers' as well as Secretaries' levels and requested the Planning Commission to review the wagon order position especially in the context of severe financial crisis that the wagon units had / have been facing on account of drastic reduction of wagon orders during 1994-95. Even the Prime Minister's office was also approached by the Ministry of Industry for due intervention in order to rescue the public sector wagon manufacturing companies. The Committee are really shocked to learn that inspite of the matter having been taken up at the highest level, nothing concrete could emerge till recently.

Reply of the Government

As already indicated the requirement is need-based and wagons were ordered as per traffic requirement

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 106)

The Committee note that except Burn Standard Company Ltd. in public sector and Cimmco Wagons in Private sector, no other wagon building units get wagon orders from the agencies other than the Railways. It is distressing to note that at the end of 1994-95 except Jessop and Company Ltd. in public sector and Cimmco Wagons in Private sector which had orders for 50 FWs and 130 FWs respectively for the year 1995-96, no other wagon manufacturing units had an order even for a single wagon from April 1995 onwards. Since most of the wagon building units in the country are solely dependent on the Railways for their survival, the Committee strongly feel that the Ministry of Railways should not effect abrupt changes in regard to placement of wagon orders. Being the part of Government, it is the social responsibility of the Ministry to give due consideration to the interest of wagon industry and the workers while taking any policy decision.

Reply of the Government

In 1995-96, orders for 10515 fourwheelers have already been placed on public sector units as against their best delivery of 12380 FW units in 92-93.

For 95-96 the work load available includes spill over from 94-95 plus Own Your Wagon Scheme (OYWS) ordered through Railways.

As already explained, ordering for wagons is dictated by needs of the Railways and not on consideration like idle capacity or under utilisation of capacity of the wagon manufacturing units. The Railway Ministry can not be expected to carry any additional social burden in its commercial activities like wagon procurement as it is not the part of its legitimate responsibility.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 107)

The Committee find that at a time when all the wagon building units of Wagon India Company have been starving for orders, two new units have been introduced from outside the Wagon India Group for wagon procurement. This has resulted in further reduction in the off-take of wagons from the existing wagon building units. Since the existing capacity of the units of Wagon India Group is more than sufficient to cater to the needs of the Railways, no new units should have been allowed to come up in this field. Introduction of more units in the present scenario is bound to result in cut-throat competition, under-utilisation of capacity and diseconomy of scale.

Reply of the Government

Two firms namely, M/s Southern Structurals Ltd., and M/s Binny Ltd., were given orders for a small quantity of 250 FWs each in 93-94. This had only a marginal impact on the order level of 18500 FWs placed on wagon industry (other wagon builders) in that year. M/s Southern Structurals had earlier been manufacturing wagons has now been admitted as a member of Wagon India Ltd.

Introduction of these 2 units has not resulted in cut throat competition as they have been quoting prices near about the same as existing Wagon India members.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 113)

The tendering system has been strongly objected to by Wagon India Ltd., the Ministry of Industry and almost all the wagon building units excepting M/s Hindustan Development Corporation (HDC) which have currently been supplying wagons to the Railways on tender basis. The Committee find that the tender system for the procurement of wagons has not borne fruits. The firm, namely, HDC on which orders were placed through tender against the wagon procurement programme of 1994-95 could not supply the desired number of wagons and 59.2% of the total number of wagons for which orders were placed, remained un-supplied till May 1995 thereby adversely affecting the availability of wagons with the Indian Railways. In the light of the recent experience, the Committee desire that the tendering system should be stopped forthwith and the Railways should continue the old practice of placing orders through Wagon India Ltd. Any decision for change in the wagon procurement procedure should be taken in the light of recommendations of the Pricing Committee set up by the Railways in December 1994 with due consultation with the Wagon India Ltd., Ministry of Industry and the Planning Commission and after Cabinet approval.

Reply of the Government

It is true that there have been representations against introduction of tendering system. It is however not correct to state that procurement of wagons through tender has not borne fruits. The lowest rates received against tender against 94-95 requirement have yielded a saving of about Rs. 3.0 crores and that received in 95-96 has resulted in savings of Rs. 11.0 crores.

In so far as the procurement of wagons from M/s Hindustan Development Corporation through tender is concerned, the position is clarified as follows.

The tender in question, as well as HDC's quotation stipulated that delivery would be completed in 7 months' time. However, there was some delay in finalising the tender and the contract could be placed in January, 1995 with completion date as March 1995 giving only 2 months time against their entitlement upto 31-8-95.

Till 31.3.95, a total of 1040 FWs have been supplied. The order for 1440 FWs out of Rolling Stock Programme is expected to be completed by 30.10.95.

As far as change in procurement policy is concerned, the same has been clarified in reply to Question/point No. 110 & 111.

[M/o Rlys., O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 116)

The Committee note that though the Railways propose to phase out as many as 1,03,000 FWs during the Eighth Plan, they propose to procure only 81,000 FWs during the Plan period resulting in a shortage of 22,000 FWs. The Committee do not agree with the views of the Ministry of Railways that there is no shortage of wagons and wagon utilisation has been improved beyond what had been projected in the Railways Budget. The shortage of wagons has started to show its effects on the economy. The Committee have come to learn that shortage of wagons is adversely affecting the movement of essential commodities like coal, steel, etc. With the result, key industries such as textiles, heavy chemical and paper have been facing serious production constraints. It is also understood that the Cabinet Committee on Infrastructure is also seized of the matter of wagon shortage in the country. The Committee would like to know the specific issues discussed and the action taken by the Ministry of Railways thereon. They also desire that steps should be taken immediately by the Ministry of Railways to realistically assess their wagon requirement on different accounts including replacement of unserviceable wagons; and the Planning Commission should also play a more effective role in the matter.

The Committee are also of the firm opinion that the Ministry of Railways should place orders for their additional requirement of wagons including spill over demand with Wagon India Limited only.

Reply of the Government

It is true that the Railways envisaged the phasing out of about 1,03,000 four-wheeler equivalent wagons during the VIII Plan period. However, it needs to be borne in mind that a substantial proportion of these wagons are conventional plain-bearing old type four-wheeler wagons which have very low productivity, on account of which, their non-replacement would not affect transport output but would, on the contrary, make the management of the remaining fleet more effective.

The wagon productivity which is measured in terms of NTKMs per day has improved during the first three years of the VIII Plan as the following figures would testify:

| | | |
|---------|---|------------|
| 1992-93 | — | 1457 NTKMs |
| 1993-94 | — | 1506 NTKMs |
| 1994-95 | — | 1560 NTKMs |

Keeping in view the buoyancy of the economy, a review of the wagon requirement was made and wagon procurement enhanced in 1995-96 from 12,000 initially to 19,000 wagons.

In the current financial year from April to August '95, the revenue earning freight loading has been 151.37 million tonnes against 143.13 million tonnes in the corresponding period of last year, i.e., 8.24 million tonnes more than last year. Even, *vis-a-vis* the proportionate target of 152.25 million tonnes, there has been only a marginal short fall of 0.88 million tonnes. The commodity-wise loading in the current year upto August 1995 as compared to the target is indicated below:

| | (in million tonnes) | |
|-------------------------------|---------------------|--------|
| | (April-August '95) | |
| | Cumulative approx. | |
| | target | actual |
| Coal | 70.75 | 71.52 |
| Fertiliser | 8.55 | 8.84 |
| Foodgrain | 9.15 | 9.46 |
| Raw materials to steel plants | 14.30 | 16.01 |
| Finished steel | 5.20 | 4.76 |

Although the loading has been generally at par with the target, the sudden upsurge in the overall requirement for rail transport in the recent months due to increase in imports of fertilizers and exports of foodgrains, has created a marginal gap between the demand and supply of wagons in respect of foodgrain, fertiliser and cement.

The cabinet Committee on infrastructure at its meeting on 28.6.95 felt that in the context of the growth of the economy, there was need for the Railways to evaluate their long term rolling stock requirements. The Committee desired that the concerned Ministries who basically utilize the Rail infrastructure should submit their perspective plans and requirements of rail traffic to the Planning Commission so that such an evaluation could be made. In this connection, it is stated that the Ministry of Railways has proposed a meeting of the core sector Ministries in the 1st week of October '95 to assess the traffic projections upto 2002 to enable the Railways to make out a perspective plan for suitably enhancing capacity. The initial wagon acquisition target of 12000 FWs for 95-96 under Rolling Stock Programme has now been enhanced to 19000 FWs. In addition, 1985 FWs under OYWS have been ordered and a further demand for 3000 FWs under OYWS is expected during the year.

[M/o Rlys., O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Recommendation (Para No. 117)

The Committee are distressed to note that till May 1995 no wagon orders had been placed by the Railways. With the result, the entire wagon industry had been idling since 1st April, 1995 causing serious industrial relations problem. Keeping in view the present crisis of wagon industry, the need for timely placement of wagon orders through the Wagon India Ltd. cannot be overemphasised. The Committee hope that the Ministry of Railways will finalise their wagon orders at the earliest so that the supply could match demand and the capacity of the wagon industry could be properly utilised in national interest.

Reply of the Government

It is admitted that fresh orders for 95-96 on the Industry were placed on Wagon Building Units in June, 95, through Wagon India Ltd. (WIL) and through tender after it was settled. However, all the wagon building units can not be said to have been idling as on 1.4.95 as some of them had total orders to the tune of 3602.5 FWs outstanding for delivery (1925 FWs against rolling stock programme and 1677.5 against Own Your Wagon Scheme).

As explained in reply to observation No. 108 & 114, orders for 95-96 have already been placed for 15700 FWs (including 1600 FWs on Railway Workshop) and another 3300 FWs are under orders on industry—all under RSP. In addition 1985 FWs have been ordered under OYWS, and 3602.5 FWs were outstanding from the previous year. All these put together are going to utilise fully the wagon building capacity in the country.

[M/o Rlys., O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Para No. 101)

The Committee note that a high level meeting under the Chairmanship of Member Planning Commission was convened in April 1989 in order to assess the requirement of wagons during Eighth Plan. It was indicated in that meeting that the requirement of Eighth Plan would be around 1,50,000 Four Wheelers (FWs) and accordingly the wagon builders were urged to gear up their production activities. But subsequently, the Eighth Plan requirement of wagons was reassessed jointly by the Ministry of Railways and the Planning Commission and finally keeping in view the growth of the economy, it was decided to procure 1,20,200 FWs. The Committee are concerned to note that the Ministry of Railways, without consulting the Planning Commission, took a decision to reduce their Eighth Plan wagon requirements from 1,20,000 FWs to 81,000 FWs. The Committee highly deprecate the action of the Ministry of Railways to dissociate themselves with the National Planning process in an arbitrary manner in such a vital manner.

Reply of the Government

The meeting in April 1989 had been convened with the specific purpose of assessing the capacity of the wagon manufacturers to build the required number of wagons. But at no point was any commitment given by the Railways regarding the quantum of wagons that would be procured.

Wagon acquisition is need-based and related to the transport output and efficiency of utilisation. The growth in the transport output measured in terms of bNTKMs fell far short of the original projections in the first 3 years of the VIII Plan. In 1994-95, against the original VIII Plan projection of 273.73 bNTKMs, the actual achievement was only 249.35 bNTKMs. The lead had been projected at 720 Kms. for revenue earning traffic, but the actual achievement was only 683 Kms. A realistic estimate of transport output was accordingly made taking into account the prevailing conditions at that time. The lead adopted for revenue earning traffic was 690 Kms. for 1996-97 against the original projection of 750 Kms. This reduced the projected transport output in the terminal year to 287.9 bNTKMs from the original figure of 306 bNTKMs. This itself, at 1992-93 efficiency norms—accounted for a reduction of 39,000 wagons. Taking into account the reduced transport output and in keeping with the policy decision of accelerated condemnation of conventional four-wheeler wagons which, it was, decided would not be replaced, the projected requirement of wagons got reduced from 1,20,000 to 81,000 wagons.

The decision to revise the requirement of wagons was made after careful study of the transport output and the efficiency factors.

With the industrial growth picking up in the last few months, it was indicated to the Planning Commission that if the same trend persisted wagon requirements would

be reviewed. The buoyancy in the economy was reflected in the increased loading on the Indian Railways in the first four months of the current financial year. The earlier efficiency norms for calculating wagon requirement which was 1750 NTKMs per wagon day for the terminal year in the original VIII Plan projections was reduced to 1685 NTKMs per wagon day in consonance with the actual efficiency growth which was about 3.5% against 6% assumed earlier.

On the basis of the review which took into account the factors mentioned above, the Railways increased their wagon procurement from the earlier 12000 wagons to 19000 wagons for 1995-96. This excludes about 5000 wagons which are expected to be procured under "Own Your Wagon" Scheme. Thus, in 1995-96 the total number of wagons likely to be procured would be about 24,000 wagons.

[M/o Rlys. O.M. No. 95/SCR/X/3(W) dt. 9.10.95]

Comments of the Committee

(Please see paragraph 6 of Chapter I of the Report)

Recommendation (Para No. 102)

An important policy decision taken in the April 1989 meeting convened by the Planning Commission had been that the Railways would place advance order on firm basis for a period of three years for 80% of the assessed requirement and the Planning Commission would ensure requisite funds for the purpose. However the Railways have been following the system of placing wagon orders on year-to-year basis and thus creating a state of uncertainty of the wagon manufacturing units. The Committee express their anguish to note that such a policy decision as has a great bearing on the production planning of wagon manufacturers was not followed up either in letter or in spirit. Almost all the wagon manufacturing units have shown their dissatisfaction to the Railways present system of placing orders for wagons and they wanted three years advance orders to enable them to make sufficient advance planning depending upon the quantum of orders. The Committee, after going into the problems of the wagon industry, strongly feel that the demand of wagon units for two to three years advance placement of orders for wagons by the Railways is justifiable and the justification given by the Ministry of Railways for placing orders on year-to-year basis is not convincing to the Committee. Alternatively, the Railways should atleast forecast their requirement for the next three years on a rolling basis. This would help the wagon industry to plan alternative load in good time to sustain their workforce and infrastructural facilities in the event of any reduction in the level of wagon orders. The Committee hope that the Ministry of Railways would give a serious thought to this aspect of their wagon procurement policy and take a suitable decision keeping in view their own interest as also that of the industry and the Nation.

Reply of the Government

Railways are placing orders on year to year basis depending on the annual plan sanctioned and considering the transport output required. Besides, the product-mix i.e. the type of wagons to be acquired in a year, changes from year to year. Therefore, placement of wagon orders 3 years in advance would not be a practical proposition.

Further, funds for Railways are sanctioned on the basis of annual budget and not on 3 years basis and therefore, it is not possible to enter into advance commitments.

However, it is possible to place order for any financial year—about 3 months in advance—say for 96-97 by December'95. The possibility of giving a tentative forecast for an additional year will be examined.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Further information by Government

Wagon orders were released through Wagon India Ltd. on yearly basis till 92-93.

The Ministry of Railways get allocation of funds on a yearly basis from the Planning Commission/Ministry of Finance. Hence, it is difficult for the Railways to make financial commitments in advance by placing orders 2 or 3 year in advance.

[M/o Rlys. D.O. No. 95/SCR/X/3/(W) dt. 8.1.96]

Comments of the Committee

(Please see paragraph 9 of Chapter I of the Report)

Recommendation (Para No. 108)

The Committee note that untimely and insufficient wagon orders from the Railways have attributed to idling of manpower and loss of the productive capacity of the units. Besides, it has created liquidity problems disrupting various operational plans of the wagon building units in both public as well as private sectors. The plight of public sector units is indeed eye opening. Like the private sector units they cannot resort to methods like closure in the event of non-availability of orders and therefore they have to pay idle wages amounting to about Rs. 70 crores in a year, which according to the various units, have resulted in irregularities in the payment of wages and salaries and in turn caused the problem of industrial relations in the factories. The Committee, therefore, desire that the Ministry of Railways should take remedial measures immediately to save the wagon industry at this critical juncture.

Reply of the Government

In 95-96, the wagon industry will have a work load of 22987.5 Fourwheeler Units, consisting of 3602.5 FWs spill over from 94-95 and 17400 FWs against Rolling Stock Programme plus 1985 FWs under OYES. Of these Public Sector Units have a share of 10515 FWs. As explained earlier, wagon orders are not placed because capacity is available with the wagon manufacturers, but the ordering has to be need based to enable optimum utilisation of available funds.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Comments of the Committee

(Please see paragraph 18 of Chapter I of the Report)

Recommendation (Para No. 109)

The Committee note that since 1974 the Railways had been procuring wagons through Wagon India Ltd. which was set up as a service organisation after a Cabinet decision. One of the main objectives of this organisation has been to equitably

distribute the annual wagon orders amongst the wagon building units in public as well as private sector so as to keep them going and also to centrally negotiate the wagon prices with the Ministry of Railways. Till 1993-94 the Railways procured the wagons from the wagon industry through Wagon India Ltd., but from 1994-95 they have taken recourse to a 'open tender' system for meeting a sizeable part of their annual requirement of wagons. The Committee are unhappy to note that the decision to go in for open tender for wagon procurement was taken in the Ministry of Railways in haste on the hunch of the Minister and without any study and consultation with the agencies concerned viz., Wagon India Ltd., Planning Commission, Ministry of Industry and the Wagon Industry.

Reply of the Government

In line with the philosophy of economic liberalisation and need to foster competition so as to bring economies in purchases, tender for 10% of the requirement of 1994-95 was floated. Rates lower than the Railways' computed costs based on contracts released through Wagon India Ltd. were received which resulted in savings of approximately Rs. 3 crores for the entire tender quantity. Therefore, it was decided to enhance procurement through tender to 50% in 1995-96. Lower rates have been received against 1995-96 tender also resulting in savings of approximately Rs. 11.0 crores *vis-a-vis* computed prices. Therefore tender system has proved advantageous to Railways and also it enables interaction of market forces. Only through the system of tender, the Railways can expect generation of competition amongst wagon builders inspiring wagon builders to cut down wastages and reduce costs which is the aim of the policy of economic liberalisation.

As far as mode of procurement is concerned, the Ministry of Railways is competent to decide and the question of consultation with other Ministries/ agencies does not arise.

The Cabinet decisions taken in 1974 was for creation of an organisation viz., Wagon India Ltd to facilitate a single point for negotiations with the Railways in the face of low level of orders. The current procurement level is higher. The Cabinet decision did not prevent the Railways from following an appropriate mode of procurement.

[M/o Rlys., O.M. NO. 95/SCR/X/3/(W) dt. 9.10.95]

Comments of the Committee

(Please see paragraph 18 of Chapter I of the Report)

Recommendation (Para No. 110)

A scrutiny of the record submitted by the Ministry of Railways reveals that the proposal of procurement of wagons through the tender procedure which originated at the level of the Minister of Railways was examined by the Stores Department of Railways which did not favour any change in the existing procedure of procurement of wagons through Wagon India Ltd. However, Adviser(Finance) Railway Board advised that the open tender system should be introduced on experimental basis. Ultimately, the Ministry of Railways decided to float tenders for purchase of wagons

for 10% of the total required quantity during 1994-95. Though further increase in wagon procurement through tender was subject to proper study of hidden costs which the Railways have to incur in procurement/handling/ storage/transportation etc., of steel and other free supply items, the Ministry of Railways have decided to procure 50% of the required number of wagons through tender during 1995-96 without any cost study. The Committee are of the firm opinion that any major change in the procedure of wagon procurement should be effected only after a fresh Cabinet approval, for the existing procedure of procuring wagons through Wagon India Ltd., has been in practice since 1974 on the basis of Cabinet decision.

Reply of the Government

With regard to the opinion that any change in the procedure of wagon procurement should be effected only after a fresh Cabinet approval for the existing procedure of procuring wagons through Wagon India Ltd., had been in practice since 1974, on the basis of Cabinet decision, the position is clarified as follows.

Wagon India Ltd., (WIL) was formed in October 1974 in pursuance of the Cabinet decision on the Note for Cabinet submitted by the then Ministry of Heavy Industry.

WIL is a joint sector undertaking under the Ministry of Industry with 25% share of the capital from the Ministry of Industry and balance 75% from the wagon builders. WIL has since its inception been negotiating with Railway Board for fixation of prices as per its objectives specified in the Note for Cabinet. WIL also takes up other issues which have bearing on production of wagons.

Presently 11 established wagon building units (6 in public sector and 5 in private sector) are members of WIL. New units can seek membership of WIL. Recently, WIL has also decided to induct one more i.e. M/s Southern Structurals Ltd. (SSL)/ Madras—a Tamil Nadu Government undertaking—as its member.

WIL was formed with the limited objective of interaction with the Railway Ministry on behalf of its constituent units. The role conceived for WIL as per Ministry of Industry's note for the Cabinet was essentially as under:

- (i) to assist the constituent units in working out a coordinated production programme in the context of under utilisation of capacity of various units and increasing demand for wagons in the Five Year Plan.
- (ii) to negotiate prices centrally with Railways. It will be seen that the purpose of setting up of WIL was mainly to help its constituent units. Neither the Ministry of Industry's Note for the Cabinet, nor the Cabinet's decision thereon placed any restriction on Ministry of Railways in calling competitive tenders and placing orders on the basis of such tenders on any wagon building unit even outside WIL. However, in case negotiations were to be held by the Railways. Ministry, constituent units would be represented by Wagon India during such negotiations. Thus, calling of competitive tenders for procurement of wagons in no way violates the Policy decision of the Cabinet.

In the circumstances, it will be seen that no fresh approval of the Cabinet would be required even if the Railways call for competitive tenders for placement of orders on the basis of such tenders.

[M/o Rlys. OM No. 95/SCR/X/3(W) dt. 9.10.95]

21. In response to a clarification sought by the Committee in regard to formation of WIL, the Ministry of Railways state:—

"While copies of the Ministry of Industry's note for Cabinet and the Cabinet decision on setting up Wagon India Ltd. in 1974 would be available with the Ministry of Industry, the scope of Wagon India Ltd. as known to the Ministry of Railways has already been indicated in the above reply."

[M/o Rlys. DO No. 95/SCR/X/3(W) dt. 8.1.96]

22. When the Ministry of Industry was asked to supply a copy of their note and the Cabinet decision regarding formation of Wagon India Limited in 1974, the Ministry informed: "the note for the Cabinet as well as the Cabinet decision are secret and privileged documents. In view of this, it may not be possible to furnish the copies of the same as desired."

[M/o Industry (Deptt. of Heavy Industry, DO No. 14(1)/96-P.E. III dt. 6.2.96]

Comments of the Committee

(Please see Paragraph 23 of Chapter I of the Report)

Recommendation (Para No. 111)

An important consideration for introducing the tender system by the Ministry of Railways has been to procure the wagons at lower prices. It is incomprehensible to the Committee as to how the Ministry of Railways thought of getting wagons at lower prices particularly when their own representative is always nominated in the Pricing Committee. Moreover, if there was any substance that the prices were high, the Ministry of Railways should have called a meeting of all the constituent units of Wagon India Ltd. The Committee find that such an obvious course was not followed and the tendering system has benefited only one particular firm to the detriment of entire industry, comprising both public sector and private sector units.

Reply of the Government

In justification of introduction of tender process, it is stated that in the new environment of a liberalised industrial policy and emphasis on performance improvement of Public Enterprises, competition has to be encouraged so as to provide further market discipline for the Public sector. It is in this background that efforts were made by the Ministry of Railways to achieve greater competitiveness and economies flowing therefrom.

In the earlier method of ordering, the potential and prices of wagon building units outside Wagon India Ltd. were not being explored. Further, there was no element of competition as the prices were built up prices. In-view of this, there was hardly any point in calling for a meeting of the wagon builders as the potential and prices of wagon building units outside Wagon India Ltd. could not have been explored in such a meeting, and even after such a meeting, the prices would remain built up prices. Computed prices can not be a substitute for competitive prices as the former do not carry incentive for economy and efficiency. The economic liberalisation is in fact based on this principle.

Furthermore, procurement of wagons through open competitive bidding manifests greater transparency in dealings which is an essential requirement of the present government outlook and is very relevant when this country is looking up to the Global Market.

It is not correct to state that only one firm benefited as a result of tender system and the Public Sector Undertakings and Private Sector suffered. In the tender finalised in 1994-95 for a small quantity of 1800 FWs a share as high as 1440 FWs went to the lowest tenderer due to refusal of WIL to accept the order. Railway made a saving of Rs. 3.0 crores. In 95-96, out of the 7385 FWs ordered through tender in the first instance, 5295 FWs went to Public Sector Undertakings which is 71.7% of the quantity ordered through tender.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Comments of the Committee

(Please see Paragraph 18 of Chapter I of the Report)

Recommendation (Para No. 112)

The Committee find that the Ministry of Railways had set up in December 1994 a Pricing Committee headed by CA(Costs) Ministry of Finance and having members from the Railway Board, Wagon India Ltd. and the Ministry of Industry to go into the prices of wagons. This high powered Committee is yet to submit its report. The Committee are surprised to learn that on the one hand the Railways are fully committed to the policy of administered prices, on the other they have unilaterally reverted to the practice of tendering on the ground of making the wagon prices competitive. They are distressed to note such a duality in the Railways' policy towards wagon prices.

Reply of the Government

The report of the Pricing Committee set up in December, 1994 is awaited. However, as regards the contention that the Railways are fully Committed to the policy of administered prices, reference is invited to reply given against Para No.109, wherein the need to obtain competitive prices instead of depending upon computed prices for effecting economy in purchases has been highlighted. In any case since 50% of the requirement of wagons is still being ordered through WIL outside the tender the prices for this quantity have to be fixed for which there was no option but to set up the Pricing Committee. However, the intention is to gradually switch over to a system of tendering for the full requirement in due course of time. The Data that will be generated by the Pricing Committee will help in a more accurate analysis of even the tender prices and assessing their reasonableness.

Hence the statement that there is a duality in the Railways' policy in this matter towards wagon prices does not reflect the true picture. The Railways policy in this matter can be termed pragmatic, keeping in view the emphasis on liberalisation and opening up of the economy in the recent years.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Comments of the Committee

(Please see Paragraph 18 of Chapter I of the Report)

Recommendation (Para No. 118)

The Committee find that the wagon industry in the country do not have much prospects of diversification due to lack of availability of substantial amount of capital. The possibility of selling the wagons abroad is also very bleak due to stiff competition in the global market. Particularly in the present situation when inadequacy of indigenous wagon orders has crippled the economic health of the entire wagon industry, the units cannot be asked to go in for diversification or export unless the Government comes forward to financially assist them. To save this labour-intensive industry, the Committee desire that thorough review of the working of wagon industry should be conducted jointly by the Ministry of Railways, Ministry of Industry, Planning Commission, Ministry of Finance and the Wagon India Ltd. with due participation of the representatives of the industry. If the present problems of the wagon industry are left unattended at the present juncture, several units will permanently close down and the future of thousands of workers engaged in the industry is bound to be jeopardised and the national interest will suffer greatly.

Reply of the Government

In the past, some of the wagon building units had some orders for export of wagons. The potential no doubt is there though there is need for activating marketing efforts on the part of units in the Industry.

For 95-96 the Rolling Stock Programme provision has already been enhanced to 19000 FWs and additional loan through OYWS is available. As already stated wagon procurement has to be need based and cannot be governed by the capacities available. In this background, it is felt that no purpose will be served by a study of the Wagon Industry by a joint Inter-Ministerial study group. Wagon India is already acting as an interface—effectively to discuss with Ministry of Railways all problems of the Wagon Industry.

[M/o Rlys. O.M. No. 95/SCR/X/3/(W) dt. 9.10.95]

Comments of the Committee

(Please see Paragraph 26 of Chapter I of the Report)

CHAPTER V

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

- NIL -

NEW DELHI;
March, 1996
Phalguna, 1917 (Saka)

SOMNATH CHATTERJEE,
Chairman,
Standing Committee on Railways.

APPENDIX-I

MINUTES OF THE TWENTY-FIRST SITTING OF THE STANDING COMMITTEE ON RAILWAYS (1995-96)

The Committee sat on Monday the 11th March, 1996 from 1500 hrs. to 1600 hrs. in Committee Room No. "B", Parliament House Annexe, New Delhi.

PRESENT

Shri Somnath Chatterjee — Chairman

MEMBERS

Lok Sabha

2. Shri Harilal Nanji Patel
3. Smt. Santosh Chowdhary
4. Km. Frida Topno
5. Smt. Sheela Gautam
6. Shri Anand Ahirwar
7. Shri Basudeb Acharia
8. Shri Moreshwar Save

Rajya Sabha

9. Shri Rahashihari Barik
10. Shri Mohinder Singh Kalyan
11. Smt. Sarala Maheshwari
12. Shri Radhakishan Malaviya
13. Shri Sarada Mohanty
14. Shri Satish Pradhan

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri T. R. Sharma — *Deputy Secretary*
3. Shri R. C. Gupta — *Under Secretary*

2. At the outset Chairman, Standing Committee on Railways expressed his grateful thanks to the Members of the Committee for the excellent cooperation given by them in conducting the business of the Committee during the year. The Committee also wished to place on record their appreciation for the hard and good work done by the Officers and Staff dealing with the Committee.

3. The Committee considered and adopted the Draft 21st Report on action taken by Government on recommendations and observations contained in the 16th Report of Standing Committee on Railways on "Requirement, Procurement and Utilisation of Wagons by Indian Railways" with modification/amendments as shown in Annexure. They also desired that paragraph 110 of the Report also be suitably commented upon.

4. The Committee authorised the Chairman to finalise the Report after making verbal or consequential changes, if any, arising out of factual verification by the Ministry of Railways and to present the Report to Parliament.

The Committee then adjourned.

**MODIFICATIONS/AMENDMENTS MADE BY THE STANDING COMMITTEE ON
RAILWAYS AT THEIR SITTING HELD ON 11TH MARCH, 1996**

| Page. No. | Para. No. | Line | Amendments/Modifications |
|----------------------|----------------------|-----------------------|---|
| 1 | 2(ii) | 4 | Delete 110 |
| 1 | 2(iii) | 4 | Add 110 after para 109 |
| 6 | 6 | 1-5 from bottom | Substitute the following paragraph for the existing sub-paragraph: The Committee are unable to understand why this decision of not replacing the condemned wagons was taken which affects the safety requirements apart from crippling the entire wagon Industry. The Committee desire to know the compelling reasons for doing so even without consulting Planning Commission and others concerned. Unless the Committee take a different view, the recommendation made in para 101 of their original Report should be implemented. |
| 10 | 9 | 3 | Add the following before forecast "implement their decision taken at the meeting held in April 1989". |
| 10 | 9 | 20 | Add after sustain them: "For the said purpose Railway. should prepare a perspective plan for wagons' requirement. |
| 19 | 18 | 13 | Add the following after system: "and further no explanation has been given for the change of the procedure. |
| 19 | 18 | 14 | Add the following after industry: "and looking to its special problems'. |

APPENDIX II

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS/OBSERVATIONS CONTAINED IN THE SIXTEENTH REPORT OF THE STANDING COMMITTEE ON RAILWAYS (1995-96) (TENTH LOK SABHA)

| | % OF TOTAL | |
|--|------------|--------|
| (i) Total No. of recommendations | 23 | |
| (ii) Recommendations/Observations that have been accepted by the Government (Vide Rec. Nos. 96,97, 98, 99, 114 & 115) | 6 | 26.1 % |
| (iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government replies (Vide Rec. Nos. 100, 103, 104, 105, 106, 107, 113, 116 & 117) | 9 | 39.1 % |
| (iv) Recommendations/Observations in respect of which the Government's replies have not been accepted by the Committee (vide Rec. Nos.101, 102, 108, 109, 110, 111, 112 & 118) | 8 | 34.8 % |
| (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited. | NIL | — |