



सत्यमेव जयते

POSITION PAPER ON
THE RAILWAYS SECTOR
IN INDIA

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Position Paper – PPPs in Railways

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INDIAN RAILWAYS : EXISTING SCENARIO

BACKGROUND

1. Indian railways (IR) started its 53 km journey between Mumbai and Thane on April 16, 1853 and is today one of the largest Railways in the world. The railway network, invariably referred to as ‘the lifeline of the Indian economy’ is spread over 109,221 Km. covering 6906 stations. Operating on three gauges, trains in India carry over 481 Billion Tonne Kilometres (BTKMs) and 695 Billion Passenger Kilometres (BPKMs) of goods and passenger traffic respectively every year. IR carries around 40% of freight traffic and 20% of the passenger traffic in the country

2 IR is one of the premier infrastructural wings of the economy combining all major functions of a conventional Railway system. It builds and maintains infrastructure assets like Track, Electric traction, Signalling Systems, Telecom network, Stations / Terminals etc. Apart from operating goods and passenger trains, it operates suburban trains in various metros. It manufactures locomotives, coaching stock, wagon and components of rolling stock like Wheel & Axle. It runs workshops to maintain its rolling stock & is also involved in ancillary activities like catering, tourism etc. All the above activities are managed through a strong work force of 1.41 million

MANAGEMENT OF IR

3. The policy formation and management of Indian Railway Board comprises of Chairman and six functional members who supervise the running of 16 zonal railways, metro railway (Calcutta), production units, construction organisation and other rail

establishments. Nine subsidiary organizations under the Ministry of Railways viz. IRCON, RITES, CONCOR, RCIL RVNL, MRVC, IRFC, and KRCL undertake specialised functions contributing to IR's growth and progress.

WORKING OF IR:

4 IR was declared by an Expert Group in 2001 as an organization “which is heading towards bankruptcy” and termed as being in a “terminal debt trap”. Its cash balance had come down to a level of Rs 149 crores and it defaulted in payment of dividend to GOI in 2001. However, the last five years have seen an epic change and IR has managed to achieve a dramatic reinvention of its business. It is presently witnessing one of the most impressive and unprecedented expansions in its history. The freight and passenger traffic on IR has been growing at over 9% on an average during the last four years; the revenue has grown even faster. This is in sharp contrast to the historical trend rates of growth at 3-4% per annum.

5. Indian Railway’s operations are characterized by mixed traffic –both passenger and freight trains share the same track and infrastructure. Passenger trains constitute nearly 70% of the trains run but contribute to less than 35% of the revenue earned, while freight trains constituting only 30% of the trains, make up 65% of the revenue. It is against this challenging backdrop that the real significance of the turn-around achieved by IR has to be properly grasped.

6. Like most of the other railways in the world, IR faced a very challenging environment towards the closing years of the 20th century characterized by severe competition from road in freight and airlines, luxury buses and personal vehicles in the passenger segments. A period of continuous and precipitous erosion in the share of railways in traffic followed. IR responded with a carefully crafted strategy of reform; built around its core strengths – unique amenability of railway operations to achieving substantial reduction in unit cost by carrying ever larger volumes of traffic. Marking a radical departure from the tariff-focused policy of revenue generation, the new strategy stressed on capturing large

volumes for the Railways. On the freight side, this meant quick generation of capacity, not through investment but through optimization of the existing infrastructure and efficient asset use. The key components of the turnaround strategy for both freight & passenger traffic are given in the box below.

Key Components of the turnaround strategy of IR:

For Passenger Traffic:

- Fares for premium classes where the competition from airlines, luxury buses and personal transport vehicles was the most severe were reduced.
- The length of the popular trains on densely trafficked routes was increased to 24-26 coaches from the existing length of 16-18 coaches.
- Speed of the trains was reviewed and upgraded within the constraints of the infrastructure.
- Participation of private operators in passenger related non-core areas such as parcel and catering was encouraged.
- Information Technology was used to make ticketing and reservation easily accessible not only at stations but from the convenience of homes and offices.
- An airline-style up gradation for passengers in the lower classes to higher classes was introduced

For Freight Traffic:

- a) Axle load was increased from 20.3 tonnes to 22.9 tonnes and later to 25 tonnes on select routes.
- b) Wagon turn around time was brought down from 7 days to 5 days
- c) Tariff was rationalised around the principle of elasticity of demand. Tariff for cement & steel which faced threat from road sector was reduced.
- d) Freight discounts were allowed for loading in empty flow direction & in lean seasons for customers offering incremental traffic

7. These measures helped to create additional capacity without increasing the number of trains or adding to congestion on the saturated corridors of IR. As a result, while the input costs including wages and fuel went up, unit costs and rail tariffs actually come down. The impact of these decisions and the dramatic turnaround in the working of IR is apparent from the charts below. While chart 1 shows the improvements achieved in freight earnings, total earnings and closing cash balances, Chart 2 depicts how the operating ratio(the ratio of operating expenses to total earnings) has steadily improved over this period. The data is given in tabular form in Appendix 1.

Chart 1

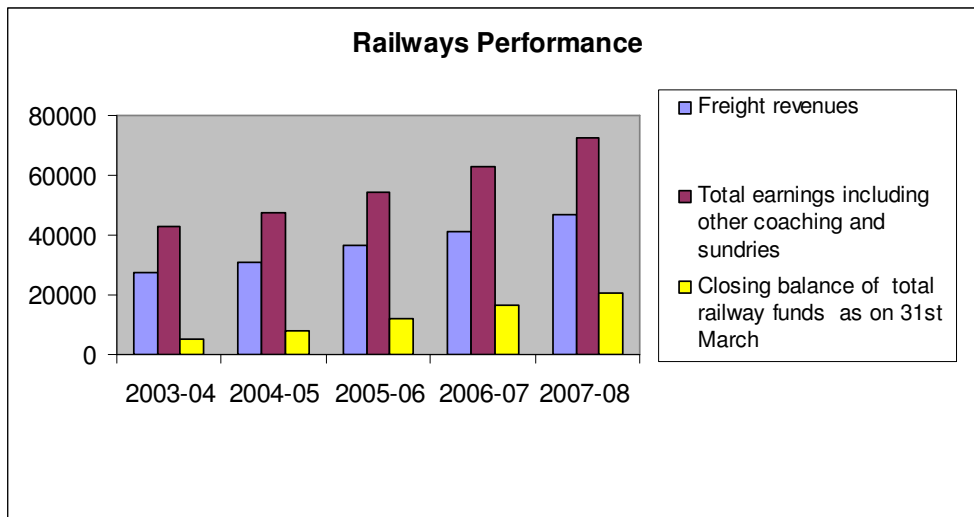
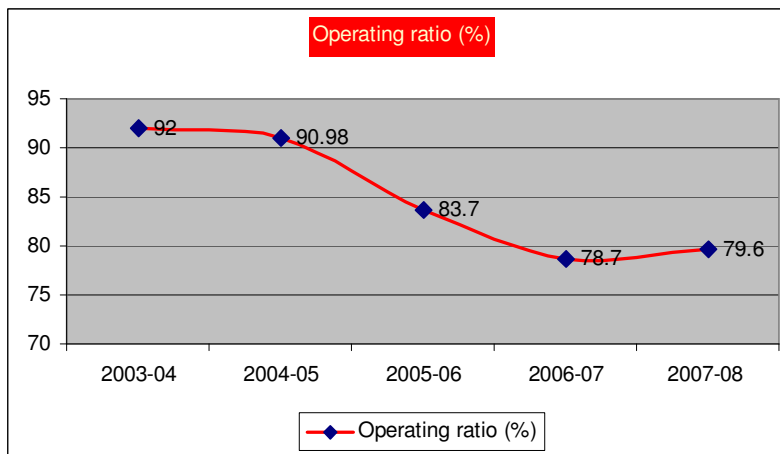


Chart 2



A point worth noting is that despite the substantial subsidisation of passenger fares, IR does not depend on any government subsidy, but on the contrary pays its dividend in full to Government and meets a large part of its capital investment from internal generation.

8. Traffic growth of Railways has exceeded that of the GDP over the last four years – a phenomenon without precedent. Projections of the freight and passenger traffic show that by the year 2011-12, IR is likely to handle a volume of 1100 million tonnes (702 BTKMs) of freight and 8400 million originating passengers (880 BPKMs).

9 . IR has been a success story; however, IR needs to be alive to the fact that its freight traffic stands on a narrow base of a few commodities. The traffic is also concentrated on certain high-density routes; in particular, the routes connecting the four metropolitan cities of the country which constitute 16% of the network but carry more than 50% of the traffic. Diversification of freight traffic to a larger range of commodities and easing capacity constraints on high-density trunk routes, therefore, constitute the most significant challenge for IR in the years ahead

REGULATORY FRAMEWORK

10. The current legal framework under the Railways Act 1989 allows private railway systems in all forms. However, the government policy enunciated under Industrial Policy Resolution of 1991 as amended from time to time, reserves railway transportation for the public sector. It means that train operation can only be done by the public sector, while all other activities of design, construction, financing, and maintenance can be undertaken through private participation through award of concessions by Government of India. Presently, the Railways are managed through 17 Railway Administrations which are legal entities. In addition there are six port and other railways. These railway systems are members of the Indian Railway Conference Association, a body which deals with issues of inter railway movement of wagons and locomotives such as levy of hire charges for use of rolling stock belonging to other railways and neutral train examination for ensuring that railways do not pass on deficient wagons to other railways.

11. The Railway Board was constituted under the Railway Board Act, 1905 and it is also a railway regulator, dealing with a large number of issues including tariff regulation. Railway Board and the Commissioner of Railway Safety, whose office is under administrative control of Ministry of Civil Aviation, jointly work as safety regulator. There are only two kinds of rail systems that lie outside the integrated IR network. The first includes the close circuit systems that is, the Merry- Go-Round systems created and operated by the NTPC for super thermal power plants. The other kind includes stand-alone metro rail systems which are planned for and financed by the Ministry of Urban Development. The private sector has been largely associated in design, financing, construction, and maintenance of fixed infrastructure in railways. Construction activity in rail sector is normally undertaken by the private sector through contracts. However, no large Engineering Procurement and Construction contracts are being awarded to Construction Supervision Consultants. Design, build, finance, maintain, and operate concessions are being given to SPVs, which are JVs between IR and private sector strategic partners.

12. In the container business, the Indian government has announced a policy for permitting private operators to operate private container trains, which involves acquisition of rolling stock and construction and operation of key-side and Inland Container Depots. Such permission is given through a concession. Fifteen companies have entered the field of container train operation, including CONCOR, which is owned by GOI with 63 per cent equity.

13. Unlike ports, highways & airports, where a regulator offers certain level of stable returns to private investors, railways by virtue of their monopolistic nature of operation, do not offer an alternative to customers among various Railways. The tariff policy is also fixed by the Government. There is thus a need for separate accounting for infrastructure and train operations for initiating any long term PPP regulatory framework.

28. It would thus be seen that Ministerial, commercial, and regulatory powers are vested with a single entity: the Railway Board. IR as an enterprise is integrated with the

government and hence is not able to function with commercial objectives. The vertically integrated monolith structure of IR leads to product pricing and costing being determined on non-commercial principles. In order to take care of this problem, the Expert Group under the Chairmanship of Dr Rakesh Mohan had recommended the framework of a restructured railways (main recommendations of Rakesh Mohan Committee put in a box below) envisaging a corporate entity with an executive board. It has also called for abolishing the Railway Budget. The following is the committee's observation on the proposed structure:

“The IR Corporation (IRC) will be responsible for managing railway assets and resources to best meet the objectives of the owner. Its main characteristics are:

It will be an independent, corporatized, customer focused and financially viable railway, run along commercial principles and subject to generally accepted corporate accounting principles and reporting.

The Indian Railway Executive Board (IERB) will manage the IRC and be responsible for the restructuring process.

It will focus on core activities such as provision of infrastructure and the operation of freight and passenger services. To provide adequate focus on the core business as well as improve flexibility and cost competitiveness, the non-core activities of the railways would be fully divested over time, say five years.

It will combine a central organisation with a regional decentralised structure. In that context, passenger, freight and suburban will function as profit centres and infrastructure and service as cost centres. Actual corporatisation is expected to take three to five years. Recasting of accounts, setting up of the Indian Rail Regulatory Authority (which will regulate the system setting rules, providing frameworks and upholding supervisory responsibilities), and restructuring of business units, will have to precede corporatisation.

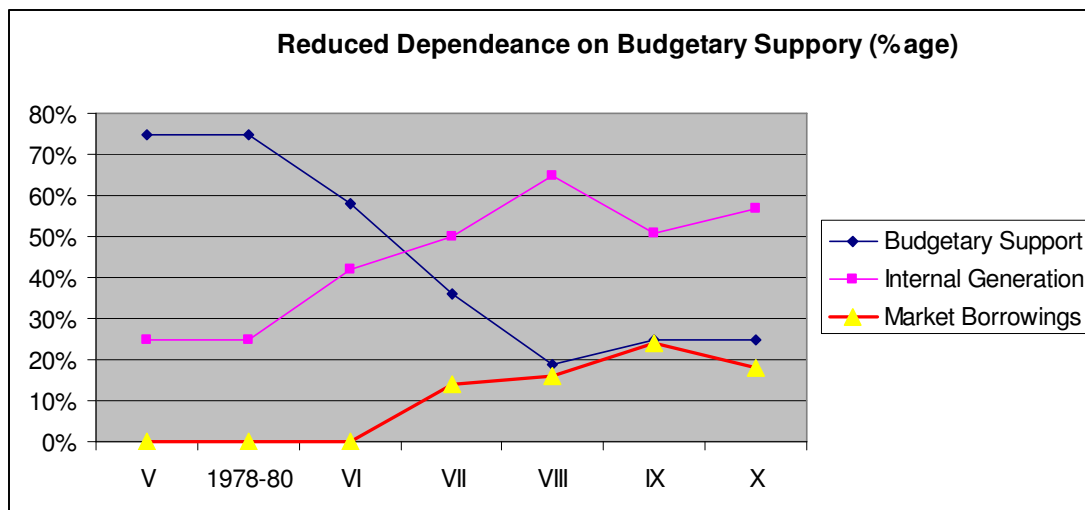
The role of the IREB will comprise a diverse cross section of talent including appropriately qualified members of the private sector business community.”

The expert group had recommended “an immediate and comprehensive review of the legal framework and specific statutes required to create a vibrant rail based industry grounded in such a structure”. The group also felt that one of the features of this review and formation of IRC would be a change of status for the Railways so that it will no longer be required to present a separate budget to Parliament.

14. The recommendations of the Rakesh Mohan committee pertaining to restructuring of IR need to be implemented forthwith if the Railways growth is to be taken to a higher trajectory, their working professionalized, and the regulatory framework developed for encouraging private sector participation in greater measure.

INVESTMENTS / FINANCING INITIATIVES

15. The budgetary support of Central Government for IR plan investment has been gradually falling from the peak of 75% during 5th five year plan period to about 25% during 9th and 10th five year plan periods, as can be seen from the chart below :-



Source : IR Website

Due to constraints of support from General Exchequer, IR has been forced to increase reliance on internal resource generation and market borrowings. The year wise break up of resources raised is given hereunder:

Actual Financing of the Tenth Five Year Plan

<i>(Rs. in cr.)</i>						
	2002-03	2003-04	2004-05	2005-06	2006-07RE	Total
a. Gross Budgetary Support						
Gross Budgetary Support	4264	5315	5493	5312	6485	26869
SRSF	1350	1600	2975	2499	1365	9789
Total (a)	5614	6915	8468	7812	7850	36659
b. Internal Resources						
Internal Resources	1977	2492	3009	6748	11418	25644
SRSF	1136	984	703	284	788	3895
Total (b)	3113	3475	3712	7033	12206	29539
c. Railway Safety Fund¹	164	166	201	262	711	1504
d. Extra Budgetary Resources						
i. IRFC Bonds	2517	2807	2991	3213	4670	16198
ii. Others (OYW, BOLT, PPP etc.)	0	30	50	518	210	808
Total (d)	2517	2837	3041	3731	4880	17006
Total Plan Outlay	11408	13393	15422	18838	25647	84708

Source: Planning Commission Website

11th FIVE YEAR PLAN (2007–2012)

16. Heavy investments will have to be made for enhancing capacity of rolling stock, technical up gradation and advancement in technology to achieve the ambitious targets set for passenger and freight business segments, in the 11th Five Year Plan. It has been planned that Railways will invest Rs.2,30,000 crores (46.84 billion USD) in the 11th Five Year Plan, which is almost three times the amount allocated in the 10th Five Year Plan..

The plan expenditure of 46.84 billion USD is proposed to be financed by internal generation of 18.01 billion USD, market borrowings of 10 billion USD, budgetary support of 10.83 billion USD and 8 billion USD through the PPP route. It may be added that while the contribution of budgetary support and PPP projects to the 10th plan was 44.73% and 0.72%, the targeted figures for the 11th Plan are 23.12% and 17.1% respectively.

As per the Economic Survey Of 2008 – 2009 , the plan outlay in FY08 on Railways was Rs 29,983 cr while the budget estimate for FY -09 is placed at Rs 36,726 cr

Alternative Financing Initiatives of IR -

FIRST STEP IN MARKET BORROWINGS

17. IR realized the resource gap between the requirement and funds available as long back as in 1984, when it started market borrowings through its first special purpose vehicle (SPV), Indian Railway Finance Corporation (IRFC). Money raised by IRFC through issue of bonds was used for acquiring rolling stock like locomotives and wagons, which were then leased to IR against committed lease charges. IR in turn distributed these assets to Zonal Railways, who were then paying lease charges to IR as a part of their revenue expenditure. This arrangement continues even today.

SECOND STEP OF CUSTOMER OWNED ASSETS

18. The second initiative taken in 1980's was to encourage big institutional customers to own their wagons through 'Own Your Wagon Scheme' (OYWS). The wagons so procured were operated on predetermined routes as decided by the company owning the wagons. The Company was given guaranteed supply of wagons by IR and also predetermined discount in freight rate as lease charges. This policy did not survive for long as it suited only few cash rich industrial units with consistent source of supply and regular need of rail transport.

CONTAINER MARKETING & PRIVATISING PARCELS

19. By mid 1990s, IR revolutionized their loading performance by introducing speedier bulk movement with only end to end train examination. During the same time, IR established Container Corporation of India Ltd. (CONCOR) to cater to smalls and piecemeal traffic through containerized service. Both these initiatives led to higher

growth and better services in cargo and piecemeal traffic. CONCOR remains under IR's control but has since outsourced lot of its activities to private sector during its expansion.

CATERING & TOURISM SERVICES

20. IR was providing catering and tourism services on its own. It was felt that a professional body should take over these activities relieving Railways of this ancillary Industry. This resulted in creation of Indian Railway Catering & Tourism Corporation Ltd. (IRCTC) in 1999. The Corporation was given the mandate to stimulate PPP in hospitality industry which they have successfully done in food plazas, internet ticketing etc., details of which are given later.

PROJECT COST SHARING WITH STATE GOVERNMENT

21. With a view to meet aspirations of various State Governments, the concept of cost sharing with State Government was first initiated on Mumbai Suburban System for linking Mumbai with Navi Mumbai through Thane Creek Bridge. Maharashtra Government through its PSU, CIDCO contributed 2/3rd of the cost of this project. The cost was proposed to be recovered through surcharge on all tickets issued to stations in Navi Mumbai. The model and its variants have been subsequently tried out for projects in the states of Karnataka. Andhra Pradesh, Jharkhand. Tamil Nadu & West Bengal. There are a large number of other states which have also signed agreements with IR. The improvement in infrastructure helps the State Government ultimately and Railways get the advantage of having to do only part funding of the projects.

PORT LINKING PROJECTS

22. IR has launched several schemes to supplement investment in partnership with private players for specific projects to develop port linkages. These include setting up of private terminals and public private partnership to provide rail connectivity to new upcoming ports. Rail linkages to Gujarat Pipavav Port Ltd and Adani Port Ltd. were the

earliest projects to be done under the scheme.. Similar efforts are on for developing other port linkages with private participation.

OTHER EFFORTS

23. Apart from construction/ gauge conversion of railway lines through private participation, Railways have also privatized tourist trains. Palace on Wheels has been operating for over a decade now. Another tourist train Deccan Odyssey is being run by Maharashtra State Tourist Corporation. Privatisation of some more tourist trains including the Kisan Tourist Train to cater to common people is on the anvil.

24. As can be seen from above, though some progress has been made since last over a decade to bring in alternative financing, it has not been enough for meeting the investment requirement of IR; both in capacity augmentation and revenue generating projects. There is a growing realization that the solution lies in Government sharing the cost and the risks with private sector through fair and appropriate risk sharing mechanisms embedded in well designed concession agreements for PPP projects.

PPP Initiatives

25. Several models of Private - Public Partnership are now being used in various infrastructure projects in the Transport Sector including Railways. The spectrum of projects varies from leasing out of Government owned facilities to BOO (Build, Own, Operate) and BOT (Build, Operate and Transfer).

26. While it is possible for other infrastructure projects in ports, highways & airports to be an independent system which could be operated and maintained independently of the existing system, the same is not possible for Railways. Here any project has to be supplementary or an extension to an existing larger railway network. Due to this historical perspective, railway activities are not readily available to private sector which poses a new challenge of building capacity with private sector through PPP. Following are some PPP project initiatives undertaken by Railways. Detailed write ups on these projects, their efficacy and lessons learnt from them are given in Annexure 1:

A. CONTAINER CORPORATION OF INDIA LIMITED (CONCOR)

CONCOR was set up in March, 1998 as a public sector enterprise under the Ministry of Railways. The prime objective was to develop multi modal transport logistics infrastructure to support domestic container traffic, for ISO containers as also the country's growing international trade

B. INDIA RAILWAY CATERING & TOURISM CORPORATION LIMITED (IRCTC)

Indian Railway Catering and Tourism Corporation Ltd. has been set up by the Ministry of Railways with the basic purpose of hiving off entire catering and tourism activity of the railways to the new Corporation so as to professionalise and upgrade these services with public-private participation. The Company's operations have been profitable and it earned a net profit of Rs 20.75 crores in FY -08 and paid a dividend of Rs 4.15 crores.

C. PIPAVAV RAILWAY CORPORATION LIMITED (PRCL)

While Konkan Railway Corporation was the first public – public partnership project, Pipavav Railway Corporation Ltd. (PRCL) was the first special purpose vehicle under public – private partnership. PRCL was constituted to provide B.G. rail link to Port of Pipavav in the State of Gujarat.

D. RAIL VIKAS NIGAM LIMITED (RVNL)

With a view to cope with the increasing demand of traffic, the Government of India framed and approved National Rail Vikas Yojana (NRVY) on 15th August, 2002 with an estimated investment of Rs.15,000 crores. The investment was proposed for Port

connectivity works and improvement of the Golden Quadrilateral (GQ) for meeting future transportation needs.

PPPs - Thrust Area of The Future For IR

27. In the past IR had made several attempts to rope in private participation in areas such as catering, wagon ownership and leasing and joint ventures for rail infrastructure projects as detailed earlier. These efforts were, however, limited in scale and scope. The current strategy is to leverage private capital through PPPs to the maximum extent in areas which are amenable to PPPs to improve efficiencies and control costs. To begin with the following projects have been identified to be implemented fully or partly on PPP route:

A. Dedicated Freight Corridor

It has been planned to construct a new Dedicated Freight Corridor (DFC), initially covering about 2700 route kms equivalent to around 5000 track kilometres at an approximate cost of Rs.28000 crores (US\$6 billion) linking the ports of Western India and the ports and mines of Eastern India to Delhi and Punjab. The construction of this corridor will be implemented through an SPV being created for the purpose through a mix of Engineering Procurement and Construction (EPC) and PPP methods. Ministry of Railways is in the process of selecting a global consultant to advise on the concession agreement, principles of track access charges and other financing and bidding issues. It is envisaged that innovative ideas on design, construction and maintenance of railway to achieve optimal life – cycle costs would be forthcoming through PPP especially as the work progresses on the initial two corridors and further corridors are taken up. The concessionaire could also tap additional ancillary revenue streams through commercial exploitation of land, construction of freight terminal/logistic park/ICDs etc.

B.WORLD CLASS RAILWAY STATIONS

Railway Stations at metropolitan cities and important tourist centres need to be modernized to provide world – class passenger amenities and services to the large multitude of passengers using these stations. IR is planning to do so by attracting private investments in the area by leveraging the land around and airspace above the stations. The concessionaire would be expected to construct and maintain the operational and passenger areas free of cost, share the revenue earned from the real-estate created and hand over the same after the concession period. Altogether 24 stations have been identified at the first stage. Pre-qualification process for bidders for the pilot project for New Delhi Station has been initiated. Redevelopment of Patna, Secunderabad and Mumbai will also be taken up during the current year. Development of other stations and green field passenger terminals would be taken up subsequently.

C. COMMERCIAL UTILIZATION OF LAND:

IR has approximately 43,000 hectares of vacant land. These parcels are mostly alongside the track in longitudinal strips, around railway stations, and in railway colonies especially in metro and other important cities/ towns with potential of being used commercially to generate revenue as well as capital for modernization and capacity addition. A new body, namely, Rail Land Development Authority (RLDA) has been set up under the Railway (Amendment) Act 2005 to pursue, inter alia, the main objectives of generating revenue and up grading railway assets. 110 sites have already been entrusted to RLDA.

D. SETTING UP OF SPV FOR MANUFACTURING OF LOCOMOTIVES/COACHES/WAGONS

The requirement of coaches/Electrical Multiple Units is projected at 22689 vehicle unit for the XI Five Year Plan. The gap between the requirement and the combined capacity of the two Production Units at Integral Coach Factory, Perambur and Rail Coach Factory, Kapurthala (around 2500 per annum) is planned to be bridged by augmenting the existing capacity of these Production Units and setting up a new manufacturing unit through a JV under PPP.

Similarly, the requirement of Electric and Diesel Locomotives has been projected at 1800 each during the XI Five Year Plan i.e. 360 locos per year. The existing in house capacity for the manufacture of these locomotives is 150 per annum and can be augmented to 200 locos each per annum for Electric and for Diesel. The gap between the requirement and capacity is also planned to be bridged by setting up two locomotive manufacturing units one each for diesel and electric locomotives through PPP. Possibility of PPP through long term demand guarantee to prospective manufacturers of modern wagons is also being explored.

E.HIGH SPEED CORRIDORS

Pre-feasibility studies are being awarded for a few identified corridors to examine the linking of a few of the metropolises with high speed rail links to facilitate train travel over 600-1000 km within 2 ½ to 4 hours. All options including PPP are likely to be explored by the railways.

Operation of container trains and Construction of Multi-modal Logistics Parks

Private operators have been allowed to manage rail-borne Container Services on IR. Concession agreements setting out the terms of such operations have been signed with 15 private operators. The scheme is also open for other operators to join. So far private operators have inducted 45 rakes and built 3 ICDs at Garihassru, Patli and Loni.

A Policy to facilitate setting up of Multi-modal Logistics Parks (MLPs) in SEZs on private land with rail connectivity has been formulated. The policy also envisages, interalia, utilization of surplus railway land available at suitable locations for development of MLPs and/or or bulk or dedicated freight terminals.

F. WAGON INVESTMENT SCHEME

The Wagon Investment Scheme (WIS) with provisions for freight rebate and supply of guaranteed number of rakes over periods ranging from 7-15 years for various categories of wagons has been in operation for the past few years. The scheme is proposed to be replaced by a new scheme to broaden its appeal to investors providing high-capacity and special purpose wagons. . A scheme to facilitate third-party leasing of wagons is also under finalization.

G. Port connectivity works and other infrastructure projects through Rail Vikas Nigam Limited (RVNL)

RVNL has been mandated to undertake capacity augmentation works and port connectivity projects by establishing Special Purpose Vehicles (SPVs). Some of the projects taken up or under consideration of RVNL include Palanpur – Gandhidham gauge conversion project (linking Kandla and Mundhra ports to North India), Haridaspur – Paradeep New Line (linking iron ore mines of Orissa and Jharkhand to Paradeep port), Angul - Sukinda (linking iron-ore and coal-belts of Orissa), Obulavaripalli - Krishnapatnam – New Line Project linking the Krishnapatnam port of Andhra Pradesh, Bharuch-Dahej and Surat-Hazira projects in the State of Gujarat and Penn-Rewas Port link (Maharashtra)

H. CATERING SERVICES, BUDGET HOTELS AND FOOD PLAZAS

Indian Railway Catering and Tourism Corporation (IRCTC) has been mandated to develop catering services, budget hotels and food plazas at major stations through involvement of private entrepreneurs. IRCTC is commissioning new Food Plazas in Railway premises with private participation. The license period for food plazas is of nine years with a provision of extension of three years. Already 53 such Food Plazas have been commissioned.

IR is also in the process of carrying out an examination of the scope of need- based ‘base kitchens’ and ‘laundrettes’ with public private partnership to strengthen the infrastructure for on -board services. Call centres are also being planned under PPP by

IRCTC to cater to the need for information dissemination to the railway customers. Apart from the above projects, for which Indian Railway Catering and Tourism Corporation (IRCTC) would act as a nodal agency, IR is also planning to launch new services for the luxury tourism segment on the pattern of 'Palace on Wheel' in partnership with other interested State Governments.

28. As stated in Para 16 above, the 11th Plan expenditure of 46.84 billion USD is proposed to be financed, inter alia, by raising 8 billion USD through the PPP route; constituting 17.1% of the envisaged Plan Expenditure as against a meagre 0.72 % in the 10th plan. The emphasis and reliance that the IR proposes to place in developing projects in the PPP format is clear from the above numbers.

International Experiences on PPPs in Railways.

29. Different forms of PPPs as well as different models of privatization have been tried out by different countries. The two privatization models which have been implemented with a fair degree of success are the British Rail Model and the Japanese Rail Model. Both these countries have adopted different strategies to reach the same objectives: reducing dependence on Government funding while improving the quality of services and delivering value to the customer.

While the British Government decided to go in for a wheel – rail split model where the rail is owned by 'not for profit' body called Network Rail and the passenger trains are operated by 20 franchisees who are responsible, inter alia, for managing and maintaining certain railway stations. Freight operators, unlike passenger operators, are not franchised. They are fully independent companies which invest in their own assets, decide their own

business strategy, and negotiate access to the track directly with Network Rail. The Government controls the working of the rail entities through the Department of Transport and passenger freight subsidies are paid directly to the operators. The Department of Transport Controls the working of the operators through a High Level Operating Statement (HLOS), which sets out what the Government wants the railway to deliver (passenger carrying capacity, punctuality and safety) over the relevant Control Period, and beyond, and how much money the Government is prepared to provide – mainly via subsidies to train operators. The regulator, Office of Rail Regulator (ORR) was established by Act of Parliament in 1993. It is required to protect the interests of users of the railway, to promote the use of the railway for passengers and freight, to promote the development of the network to the greatest extent economically practical, and to promote efficiency and competition.

30. The Japanese National Railway reforms were undertaken in 1987 when the share of passenger traffic handled by rail sector had come down from 51% in 1960 to 22 %; while the freight traffic had gone down from 39 % to as low as 5 % . The Railways were losing more than 1 trillion yen every year. The JNR Reforms were based on regional divisions and separation of train operation and infrastructure management. The Japan Railways Group, more commonly known as JR Group, consists of seven operating companies and two other companies that do not provide rail service. The operating companies are organized into six passenger operators and a nationwide freight operator. Unlike some other groups of companies, the JR Group is made up of independent companies, and it does not have group headquarters or a holding company to set the overall business policy. The six passenger railways of the JR Group are separated by region. Nearly all their services are within the prescribed geographic area. However, some long-distance operations extend beyond the boundaries. Japan Freight Railway Company operates all freight services on the network previously owned by JNR. In addition, the group includes two non-operating companies. These are the Railway Technical Research Institute and Railway Information Systems Co Ltd.

Since the privatization of JNR, the 6 companies have achieved management performance better than expectations. They have not raised fares for 20 years except for fare revisions due to the introduction of the consumption tax and increases to it. In addition, the seven JR companies paid an annual average of about 260 billion yen to the government or municipalities for corporate tax, fixed asset tax, and other fees and charges. Compare this to the time of JNR, when it was receiving a subsidy of about 600 billion yen per year. So from the perspective of national finances, it can certainly be said that the JNR reforms were successful. Furthermore, JR East, JR Central and JR West have also achieved total privatization by selling their stock and getting listed.

While the privatization of Railways through different models in UK and Japan has been fairly successful from the perspective of national finances as well as delivering better value and services to the customer, the effort in Argentina where a piecemeal approach to privatization was adopted has been an utter failure. The history of the privatization efforts as well as the levels of success achieved by these three countries are discussed in greater detail in Annexure II.

31. Some of the important lessons which can be learnt from the two success stories of Great Britain and Japan as well as the failure of the privatisation effort in Argentina are as follows:

- a) The most important lesson is that PPPs do not work where they are not driven by 'value for money for the consumer' philosophy but are used as a resource augmenting strategy by the Public Sector.
- b) Secondly, a holistic view has to be taken while privatizing the Railways and a piece meal approach is a recipe for disaster as has been the experience in Argentina.
- c) Privatization of railways does not mean that the Government gives up its social objectives. It can continue to achieve its social objectives through the HLOS as in the case of Great Britain and also subsidize certain routes which are unremunerative.
- d) Privatization of railways does not mean unprecedented freight and fare increases. On the contrary, with proper regulation, increased competition can

drive down costs and lead to greater operational efficiencies as has been witnessed in Japan.

e) Political interference with the structure of the railway inevitably drives up costs and reduces quality of the service provided. While developed countries may be able to afford this luxury, it is clearly beyond the capacity of the developing countries where these factors are best determined by market forces

f) Separation of train services and infrastructure management leads to greater focus on each of the activities and delivering better value and service to the customer.

The details of two large projects- one in Belgium and another in France; being implemented in PPP format are also given in Annexure 2..

The Way Forward

32. A comparison of the projects which are in the process of being implemented through PPP and the size of IR leads one to the conclusion that the projects in PPP format do not , as of now, form a significant financing option. On an optimistic note, it also shows that the scope of PPP in IR is immense. India needs investments in infrastructure to the tune of \$456 billion at current prices (more than \$80 billion in Railways) during the Eleventh five year plan (2007-2012) to keep pace with the economic growth its experiencing. It must be noted that in spite of such dire need of funds in IR and the limited nature of its surplus, the IR has followed a cautious approach in inviting private sector participation in IR.

In case the targets as set out in the 11th Plan (and the still higher requirement of funds in the 12th plan) for mobilizing investments under PPP are to be met, the following steps need to be taken

A. To develop a clear roadmap for implementation of PPP in IR

It is abundantly clear that IR is being forced to look outwards for finance and techno-managerial skills. The list of projects is currently being selected without any sound official articulation or planning. The rationale for doing projects in PPP format appears to be resource constraint rather than this route being a more efficient and / or cost effective service delivery mechanism. The Railways need to have a clear roadmap – a blueprint for projects to be done in PPP format in 12th Five Year Plan; selected on the basis of their amenability to PPP and driven by value for money philosophy rather than a resource augmenting measure.

B. Political Climate

In order to avoid hitting any political roadblocks later, it is imperative that the Blueprint for PPP s in IR should have political legitimacy and acceptance cutting across party lines. Private sector participation be invited in areas which require immediate attention and that too where the private sector is capable of reducing costs and improving the quality of service.

C. Creating a Regulatory framework / Restructuring of IR:

We need to move away from a situation where IR is promoting PPPs as well as playing the role of a regulator. Creating an enabling environment for PPPs is of paramount importance. Corporatization of IR is the best way to take the restructuring of the IR forward. The IR should also adopt Generally Accepted Accounting Principles (GAAP), the role of the IR Regulatory Authority should be strengthened and it should be allowed to decide the fares to be charged from the passengers with a provision for adequate compensation from the Union Budget for keeping fares cheaper to fulfill its objective of social welfare.

D. Pre empting the threat of Private monopolies

Another reason, understandably, for the slow approach is the fear of emergence of private monopolies in the place of state monopoly in case right policies are not adopted. The characteristics of the railways are such that private monopolies will mushroom in place of state monopoly in case the right policy is not adopted. This again brings us to the need for an independent regulator on the lines of TRAI.

E. Dedicated Freight Corridor

There appears to be a need to take up DFC in right earnest through PPP. Estimated cost of the proposed DFC has touched Rs 37,000 crore and it seems impossible that such a mammoth amount can be met through budgetary support. The cost is going to increase further if the project is postponed. Revenue of IR is mainly coming from freight services which may be further enhanced by putting in place a dedicated and exclusive network. Private partner will also bring in state-of-art technology for this sector.

Appendix 1

Table 1: Some Key Statistics of Railway's Performance

Year	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue-earning Originating freight tonnage (MT)	557.39 (7.5%)*	602.10 (8.02%)	667.00 (10.8%)	728 (9.2%)	790 (8.5%)
Freight revenues (Rs. Crores)	27618 (5.3%)	30778 (11.4%)	36490 (18.6%)	41073 (17.5%)	46943 (11%)
Originating passengers(in billions)	5.11 (2.8%)	5.38 (5.3%)	5.73 (6.5%)	6.22 (8.6%)	6.69 (7.6%)
Total earnings including other coaching and sundries (Rs. Crores)	42905 (4.11%)	47370 (10.5%)	54491 (15.0%)	62732 (15.1%)	72753 (16.0%)
<u>Operating ratio (%)</u>	92	90.98	83.7	78.7	79.6
Closing balance of total railway funds as on 31 st March (Rs. Crores)	5228	7785	12140	16530	20483

Annexure 1 – Case Studies

A. CONTAINER CORPORATION OF INDIA LIMITED (CONCOR)

CONCOR was set up in March, 1998 as a public sector enterprise under the Ministry of Railways. The prime objective was to develop multi modal transport logistics infrastructure to support domestic container traffic, for ISO containers as also the country's growing international trade. The Corporation started with an equity capital of Rs.64.99 crores and now has a net worth of Rs. 3183 crores in 2008 with Rs. 2244 crores of gross block. It recorded a top line Rs 3413 crores and a Net Profit of Rs 820 crores in FY 09. CONCOR has a consistent record of paying dividend to its shareholders. Being a consistently profit earning company, Government of India has divested its equity holding through three disinvestment exercises in 1994-95, 1995-96 and in 1998-99. Currently, Government holds 63% of the equity and balance is held by FIIs / MFs /individual shareholders.

CONCOR's business is threefold i.e. as a carrier, a terminal operator and as a container freight station operator. The inland container depots (ICDs) are freight terminals solely owned by CONCOR. As a carrier, CONCOR transports domestic cargo in containers and International cargo from ports to its terminals situated in the hinterland. As a container freight station (CFS) operator, it provides value added services by offering warehousing to store as well as help in import / export of cargo.

Since CONCOR's terminal business depends on International Shipping lines bringing their containers to ICDs, CONCOR as a business strategy is going in for joint venture CFSs at the ICDs. At Dadri ICD, CONCOR has gone in for partnership with four private companies to develop 4 separate CFSs, the cost being funded through a DER of 2:1. In these companies, while the private partner has 51% equity, the balance 49% is being held by CONCOR. The other major CONCOR terminal is at JNPT in Mumbai, jointly owned

by Maersk and CONCOR with former being the majority partner and 26% stake with CONCOR. Another upcoming Container Transshipment Terminal is coming up at Vallarpadam promoted by Dubai Port International with CONCOR having 15% equity partnership.

As on date, CONCOR has a network of 58 Container terminals across the country. Each terminal is a custom bonded dry port with all the facilities like warehousing, container parking, repair and even customs clearance. CONCOR now owns 7200 high speed container flats (BLC wagons), and 20,000 different types of containers either owned or leased. During the year 2007-08, it handled 2.45 million Twenty feet Equivalent Units (TEUs).

So far, CONCOR was practically enjoying monopoly with captive traffic and strategic long term advantage, but recently Ministry of Railways have decided to open up container business to other private players. Fourteen offers have been received and terms and conditions are being worked out by Ministry of Railways. In a competitive environment, CONCOR will lose its monopoly and will have to strive hard to maintain its financial standing in the market.

LESSONS LEARNT

The basic proposal to create a separate company to deal with container traffic has helped in improving the overall load ability of Railways.

CONCOR has so far enjoyed IR's infrastructure network and captive market which have driven its profitability. The impact of opening up of this sector on the fortunes of CONCOR is yet to be known.

Majority ownership in a Joint Venture Company with private partner is a less attractive proposal. It is better to have Joint Venture management under private control for improved efficiency.

B. INDIA RAILWAY CATERING & TOURISM CORPORATION LIMITED (IRCTC)

1.1 Indian Railway Catering and Tourism Corporation Ltd. has been set up by the Ministry of Railways with the basic purpose of hiving off entire catering and tourism activity of the railways to the new Corporation so as to professionalise and upgrade these services with public-private participation.

1.2 IRCTC was incorporated in 1999 as a marketing arm of IR with an authorized capital of Rs.50 crores and a paid up capital of Rs 20 crores to hive off the entire catering and internet booking activity of Railways. It started its operations from 1st August, 2001.

1.3 In all the above mentioned missions, IRCTC has adopted PPP as a primary strategy. The Company's operations have been profitable and it earned a net profit of Rs 20.75 crores in FY -08 and paid a dividend of Rs 4.15 crores.

PPP IN FOOD PLAZAS

IRCTC has tied up with well known entities in hospitality industry such as McDonalds, Subway, Amul, Haldiram etc to open food plazas at major stations. Till March 2008, 53 food plazas had become operational and licences for 10 more had been issued. The partnership is fully market driven and entire investment is through private partner on long term basis with a concession of at least ten years. The payment is in two parts, one time upfront fee and then an annual fee based on land use charges and business license fee. The annual fee is then shared with IR to the extent of 40%. This arrangement is working well as can be seen from example of Bombay Central Station. A McDonalds / R.K. hospitality food plaza opened at that station has given an upfront concession fee of Rs. 2

crores, an annual land use charge of Rs.3 lakhs plus an annual license fee of Rs.2.5 lakhs to the Railways.

PPP IN RAIL NEER PROJECT

IRCTC has launched packaged drinking water under brand name of “Rail Neer” in Northern India in May, 2003 and Eastern India in March 2004 with its plants located at Delhi and at Patna. These plants are being operated and maintained on Public – Private Partnership by Ion Exchange Ltd. as its O & M Contractor with initial investment and ownership by IRCTC. The contract for transportation and distribution is with Transportation Corporation of India and the model is working very well

PPP IN INTERNET TICKETING

The Internet Rail reservation was launched in August 2002 with Railway booking through the internet with ticket delivery to the customer. During 2007-08, a total of 1.89 crore tickets valued at over Rs 1705 crores were booked through the IRCTC web site. IRCTC has also launched Rail Reservation through Mobile phones of HUTCH, RELIANCE and IDEA CELLULAR. This service is available in all circles of these operators. IRCTC is now tying up with mobile companies for reservation through SMS. IRCTC earns revenue out of payments made to them by IR for each such ticket out of service charges levied by them on the customers

RAIL SAMPARK 139

IRCTC had taken up the project for launch of Integrated Train Enquiry System- Rail Sampark 139 with the objective of providing State of the Art enquiry services to Railway Passengers all over the country. This was a pioneering PPP project where the call centre was taken on a revenue model rather than on a cost model. This project has brought about a sea change in the quality of enquiry services available to Rail Passenger across the country. Work is on for launch of various value added & premium services

PPP IN BUDGET HOTELS & YATRI NIWAS

IRCTC has taken over Yatri Niwas at New Delhi, Howrah and BNR hotels at Puri. In addition, IRCTC proposes to establish Rail Yatri Niwas on surplus unused Railway land for passengers at Bangalore, Secunderabad, Bhopal, Chandigarh, Madurai and Sealdah in the first phase. In all these PPP initiatives, IRCTC will act as an interface between IR and the private investor

DEPARTMENTAL CATERING BUSINESS

IRCTC has from 1st January, 2004 onwards taken over 18 departmental catering units, 659 commission vendor and almost 3125 staff. The departmental staff will be phased out gradually and business would be gradually outsourced.

FUTURE OUTLOOK

Complete takeover of departmental catering activity and licensee management from IR along with the departmental staff.

Consolidate Railway catering services through public – private partnership.

Enhance tourism business by utilizing Rail passenger services on major routes and hill Railways.

Promote multiple distribution channels for Rail tickets through state of art technologies

Establish Rail Yatri Niwas / Budget hotels on surplus unused Railway land.

SUCCESS / FAILURES

It has been a success story all the way. IR and IRCTC have hugely benefited from PPP in food plazas. IRCTC has helped IR in reducing its workforce in this loss making peripheral activity and has hugely succeeded in improved ticketing, enabling business tie ups with Banks, mobile phone service provider, credit card and cash card companies etc.

LESSONS LEARNT

IRCTC model as an intermediate PSU for privatization and outsourcing has proved to be a success. This is more so because IR provides a captive market for peripheral services. There is an untapped huge opportunity in licensing of commercial space for which, another Corporation is being proposed. The success of IRCTC has reinforced the perception that Railways should concentrate on what it does best- manage the railway operations and exit all the peripheral activities.

C. PIPVAV RAILWAY CORPORATION LIMITED (PRCL)

While Konkan Railway Corporation was the first public – public partnership project, Pipavav Railway Corporation Ltd. also nicknamed PRCL was the first special purpose vehicle under public – private partnership. PRCL was constituted to provide B.G. rail link to Port of Pipavav in the State of Gujarat. The SPV was to undertake execution of gauge conversion and new line extension from Surendranagar – Rajula City – Pipavav Port (270 kms.). While the gauge conversion project was already sanctioned, the work was moving very slowly due to paucity of funds. Since Gujarat Pipavav Port Ltd. (GPPL) wanted an urgent connectivity to the port, they approached Railway Ministry for a joint venture with 50:50 partnerships. Both the partners to SPV i.e. Ministry of Railways and GPPL contributed Rs. 100 crores each towards equity and balance Rs.173 crores was raised by PRCL through a non-recourse debt. The SPV not only constructed the line but was given mandate to operate and maintain the line like a Non-Government Railway for the concession period of 33 years. While the Port guaranteed minimum

aggregate quantity of traffic, Railways also committed sufficient number of rakes for cargo evacuation from the port.

The initiative of this SPV resulted in advantages to both Railways and GPPL such as:

FOR RAILWAYS

- Implementation of uni-gauge project of sanctioned work through PPP.
- Railways saved capital expenditure of Rs.233 crores (Project cost of Rs.333 crores less equity participation by Railways Rs.100 crores).
- Project completed within 18 months as against anticipated completion of similar project of 6 – 7 years due to paucity of funds.
- Saving on cost of staff as against 1900 existing staff, SPV deployed only 667 staff for O & M.
- With full marketing efforts of GPPL, IR got incremental inward and outward traffic.
- The annual losses of Rs.22 crores per annum for operating the erstwhile uneconomic branch line were fully wiped off.
- Railways earned from passenger services on this section without passing on any share to GPPL.

FOR GPPL

- The port connectivity through Rail provided another cost effective transportation option.
- PRCL became the catalyst for growth of the port with containerization as a major activity.
- GPPL may, in the long run, with substantial container traffic at its command begin CONCOR like operations.

As regards the risk profile of the SPV, there was hardly any construction risk as Western Railway did work at its own pre-estimated cost. The project company was guaranteed 1 million tonne from first year, 2 million tonne from second year and 3 million tonne from their year of operation onwards. PRCL procured all material required for construction and handed it over to Western Railway and the Railway is carrying out O & M of this line at mutually agreed cost on fully recoverable basis. Thus the project line became fully dependent on the port for freight traffic. While MOR regulates tariff fixing, the same is collected by Railways and apportioned to the project company on standard apportionment rules.

SUCCESS/ FAILURES

While the project was completed and commissioned in time, the port development got delayed by almost three years with the result that committed minimum traffic could not be achieved. During the first year, company could generate less than half a million tonne and it almost doubled in the second year to 1 million tonne. Against Rs.22 crores required for debt servicing and Rs.12 crores for O & M, Project Company could generate Rs.5 crores in the first year and Rs.9 crores in the second year. Company defaulted on its debt servicing due from April, 2005. Traffic guarantee of GPPL was not encashed by the Railways due to “future potential of traffic expected after modernization”.

LESSONS LEARNT FROM PRCL EXPERIENCE

- For port linking project, there is a need to coordinate port development with the rail link.
- Debt servicing of almost Rs. 29 crores by PRCL in the very first year was over ambitious.
- There is thus a need to provide a minimum gestation period of four to five years without any debt servicing liability, for such developing projects. Alternately a ballooning of repayments should be considered.

- Traffic forecasting needs to be more realistic with greater accountability of the agency doing the forecasting.
- There is a need to review the traffic guarantee clause in such agreements as the guarantor being a major shareholder leads to a conflict of interests

D. RAIL VIKAS NIGAM LIMITED (RVNL)

With a view to cope with the increasing demand of traffic, the Government of India framed and approved National Rail Vikas Yojana (NRVY) on 15th August, 2002 with an estimated investment of Rs.15, 000 crores. The investment was proposed for Port connectivity works and improvement of the Golden Quadrilateral (GQ) for meeting future transportation needs. For this purpose, Ministry of Railways created a Special Purpose Vehicle (SPV), the Rail Vikas Nigam Limited (RVNL) to undertake project development, mobilization of financial resources and implementation of selected Railway Projects on fast track basis.

RVNL's vision has been to make Indian Railway network free of capacity constraints and to generate transport capacity ahead of demand. RVNL has an Authorised capital of Rs.3, 000 crores and paid up capital of Rs.950 crores. The broad identification of financial models for implementing the projects are as follows:-

For the Golden Quadrilateral project, out of required investment of approx. Rs.8,000 crores, Government of India will provide budgetary support of Rs.1,500 crores, another Rs.1,500 crores through Railway Sector loan from ADB and balance Rs.5,000 crores to be mobilized from the market.

Port connectivity projects are being implemented in PPP format by setting up of project specific SPVs in which RVNL will hold a minimum of 26% of the equity. The financial resources from the market are planned by implementing the projects through Build,

Own, Transfer (BOT) route, which means that the entire capital expenditure on the project would be arranged by the BOT concessionaire. The Company is also planning to have rail linkages to private ports on the lines of Kutch Railway Company Ltd with entire capital investment made by the Ports.

Some of project specific SPVs for which Memorandum of Understanding (MOUs) have been executed with the strategic partners are listed below:-

- Surat – Hazira New Line (RVNL, Government of Gujarat, Hazira Port Pvt. Ltd. & Essar Steel Limited).
- Bharuch – Dahej Gauge Conversion Project (RVNL, Government of Gujarat, Gujarat Adani Port Ltd., Welspun Ltd.)
- Bhildi – Samadari Gauge Conversion (RVNL, Government of Gujarat, Gujarat Adani Port Ltd., Kandla Port Trust)
- Haridaspur – Paradip New Line (RVNL, Government of Orissa, Paradip Port, Jindal Steel & Power, ESSEL Mining Industries & Rungta Mines Ltd.)

RVNL is presently having 55 projects broadly classified under two heads as under:

- Strengthening of Golden Quadrilateral and Diagonals - 29 projects
- Provision of Port connectivity and corridors to hinterland - 26 projects

The locations of these projects have been distributed throughout the country and hence RVNL has established Project Implementation Units (PIUs) in various state capitals / important cities viz. Secunderabad, Bhubaneswar, Bilaspur, Bhopal and Jaipur.

During the financial year, 74.28 Km of Doubling, 103 Km of Gauge Conversion & 53 Km of Railway Electrification, have been completed. RVNL has till now completed 155 Kms. of new lines, 898 Kms. of gauge conversion 350 Kms. of doubling and 1007NKms. of Railway Electrification, Thus as on 31.03.08, approx 36% of the total length (6686 km) of 55 projects assigned to RVNL, have been completed.

The status of 55 projects is as under:

Projects completed upto March 31, 2008	-- 16
Projects under implementation	-- 31
Projects under sanction	-- 8

WORKING:

RVNL had a paid up equity capital of Rs 2015 crores and Net Worth of Rs 2119 crores as on March 31, 2008. The entire equity is held by GOI. It earned EBIDT of Rs 47 crores and PBT of Rs 34 crores for FY -08. It paid a nominal dividend in FY -08

SUCCESS/ FAILURE

One conclusion that can be drawn is that the system of umbrella SPV is an efficient and faster mode of executing PPP projects in the context of IR.

E HASSAN MANGLORE RAIL DEVELOPMENT COMPANY Ltd.

This Public – Private Partnership was developed with State of Karnataka with setting up of a new company named K – RIDE (Karnataka – Rail Infrastructure Development Ltd.). MOU was signed between Government of Karnataka and Ministry of Railways in September 2000 to develop and finance four specific rail projects, one of which was Hassan – Kankanadi 183 km. gauge conversion project. This was developed through another SPV named Hassan Mangalore Rail Development Company Ltd. (HMRDC) promoted by MOR, GOK and K – RIDE in July, 2003. HMRDC was granted a concession for 32 years on BOT basis, to develop; finance, design and construct, as well as O&M of the project. Out of the estimated cost of Rs.291 crores, the expenditure of

Rs.141 crores which had already been incurred by MOR till 31.3.2002, was converted into unsecured debt, repayable by the project company out of loans to be raised by the SPV from banks and financial institutions. The shareholding of the SPV was equal stakes of 40.95% for MOR and GOK, 16.36% for K – RIDE and balance 1.82% with strategic investors, including New Mangalore Port Trust having strategic business interest in the project.

HMRDC in turn entered into agreement with South Western Railway, for construction, operation and maintenance of the facility separately through various agreements.

The salient feature of these agreements, were -

- While the target of completion was 12 months, there was no penalty for any delay and thus the project company had to bear the entire implementation risk.
- The entire operations to remain with SWR and the project company to pay for all operating activities on actual cost basis. The operating risk however would lie completely with Project Company. .
- Like in case of operation, entire maintenance to be with SWR but entire maintenance risk lies with Project Company
- The concession agreement entitles the project company to only the freight operating rights while the passenger service operations remain with the Railways. Like in case of PRCL, tariff fixing remains with Railways and Project Company will get proportionate revenue sharing on standard apportionment formula adopted between Zonal Railways.
- The financial appraisal of the project is based on expected 6 million tonne annual freight traffic over the project line. Almost 55% of traffic of iron ore expected through New Mangalore Post Trust (NMPT) and balance 45% mainly of coal, edible oil, LPG, fertilizers and other. Since traffic other than iron ore will depend on transfer traffic sent by SWR to the project Railway, the market risks are higher. There is no commitment from SWR for any minimum guaranteed transfer traffic.

LESSONS LEARNT

In terms of expediting the construction of this strategically important Railway project, HMRDC is a successful model of partnership with State Government. It also provides private partnership equity upto 16.36% through investment by strategic partners. This can also increase in future, with more private players. Due to committed fund to the project, construction cost overruns have been avoided. Also the model premises improved operating efficiency by following efficient O&M on the pattern of KRCL. Thus K-RIDE being an umbrella organization promises a good future for more similar partnership projects.

F. KUTCH RAILWAY COMPANY Ltd. (KRC)

Ministry of Railways under Prime Minister's Rail Vikas Yojana launched another SPV (Special Purpose Vehicle) in the State of Gujarat by the name of Kutch Railway Company (KRC). This Company is a joint venture of IR, Kandla Port, Gujarat Adani Port and Government of Gujarat to undertake construction and operation of 314 km. broad gauge line connecting Palanpur and Kandla Port via Bhildi. With direct BG link between Gandhidham and Palanpur, the distance will reduce by 120 km. thus giving shorter connectivity of ports of Gujarat to North India.

KRC was formed as a company under The Companies Act, 1956 in March 2004 to implement the project mentioned above. The equity capital of Rs.200 crores has been subscribed to by IR (50 percent), Kandla Port (26 percent), Adani Port (20 percent) and Government of Gujarat (4 percent). The project cost was estimated to be Rs.550 crores and it was proposed to raise non-recourse debt of Rs 300 crores from Banks/ financial institutions to part finance the project.

KRC is an ambitious project of Gujarat Government because the direct link between Kandla and Palanpur shall reduce the distance between the two stations by more than 25

percent. This will not only result in reducing the transportation cost for the exporters but will also provide faster connectivity from Northern hinterland leading to shift of cargo from Mumbai / JNPT to the ports in Gujarat. A number of industries are already lined up in Kutch area and more are expected to follow with KRC opening up fresh opportunities to them, Apart from Kandla & Adani Port, Company is also in touch with major power houses in Rajasthan and Punjab and it is expected that significant quantity of imported coal shall move on KRC. Through the reduced distance, Railways will be more competitive to road, resulting in cargo shift and incremental traffic to IR as well. Further the Company, in order to reduce cost of transportation of EXIM traffic, shall run double stack container trains and work to clear all identified overhead structural obstructions on this Section has been undertaken.

Seeing growth in Kandla Area, Government of Gujarat has further decided to fund broad gauge conversion of 223 km. line from Bhildi to Samdhari. This will provide direct rail connectivity to Punjab which will reduce the distance by another 350 km. With the above connectivity, it is expected that Gandhidham area will handle additional traffic of 15 to 20 million tonne traffic by rail, after it becomes operational.

During FY07 and FY08, KRCL reported revenues of INR 997.1m and INR 1,707.1m, respectively, lower than initial forecasts by 11.9% and 18.2%. Management estimates of FY09 revenues also seem to suggest a wide negative variation vis-a-vis projections.

LESSON'S LEARNT

As in case of PRCL, two experiences have been important - -

- For Port connectivity project, there is a need to coordinate port development with the rail link.
- A minimum gestation period of four to five years is required without any debt servicing liability as it takes time for traffic.

Annexure-2 International Experiences

The British Rail - A Success Story

31. The British Government's decision to privatize the railway was made in 1992. Creating vertically integrated regional railway companies was given serious thought, but the decision was made to adopt the wheel-rail split instead, with a single national network operator, Railtrack. The initial intention was that Railtrack would remain Government owned and only the train operators would be private. But, in 1996, with a view to make the Rail privatization programme irreversible, Railtrack was floated on the stock exchange. The first franchised train operator, South West Trains, ran its first train on 4 February 1996. The other 25 train operations were franchised soon after. Things went well for some years. Passenger numbers grew, new services were added to the timetable and new rolling stock was placed on order. The strong growth in passenger numbers was brought to a halt by the accident at Hatfield in 2000, which followed the accident at Ladbroke Grove a year before.

32. Investigation of the broken rail at Hatfield revealed that the track had been put under huge stress by the extra traffic on the network – tonnes per day London to Reading had nearly doubled. There was a long period of disruption as stringent safety measures were put in place. With the cost of recovering from Hatfield and a large cost overrun on the West Coast Mainline upgrade, Railtrack ran out of money and Administrators were appointed to take control of the company.

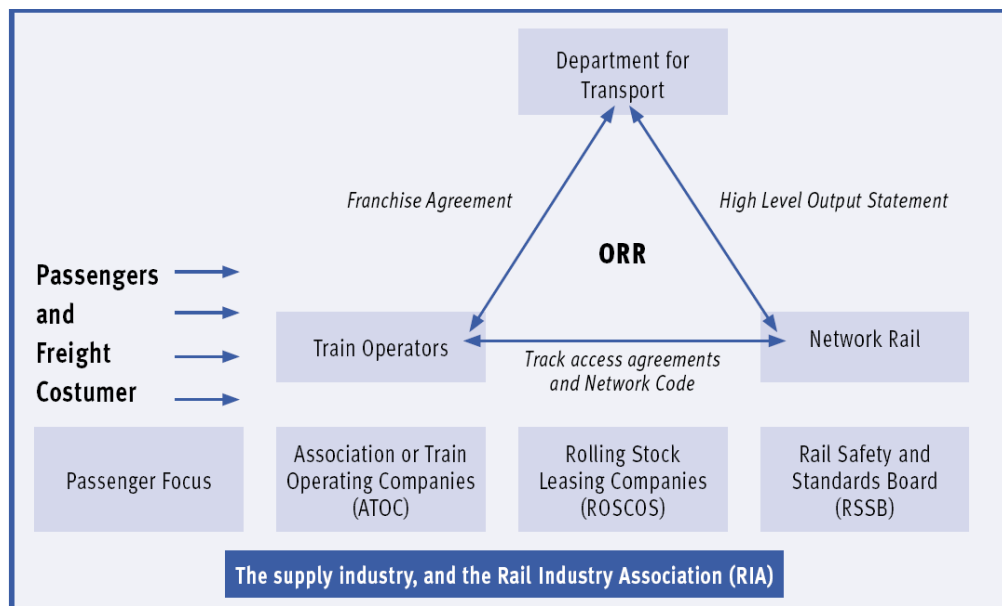
33. At the time, lots of ideas for a better way to structure the railway were canvassed and considered, but the Government concluded that these solutions missed the point. It was not the wheel-rail split which caused the accident, it was poor track maintenance. The Government did conclude, however, that the network operator should no longer be a public company owned by shareholders.

34. New management in a new “not for dividend company” took over Railtrack in October 2002 and renamed it Network Rail. One of its early decisions was to bring maintenance back in-house – Moral: You never outsource a problem!

THE CURRENT STRUCTURE OF THE INDUSTRY

35. The current structure of the industry is most commonly shown as a triangle. At the apex of the triangle is Government – more specifically, the rail division of the Department for Transport. At the bottom right hand corner is the infrastructure manager, Network Rail, and at the bottom left hand corner are the train operators and their passenger and freight customers. The Office of Rail Regulation (ORR) is shown in the centre. This office contains both economic regulation and safety regulation.

36. Freight operators, unlike passenger operators, are not franchised. They are fully independent companies which invest in their own assets, decide their own business strategy, and negotiate access to the track directly with Network Rail.



Source: CER Essay Series, George Muir

37. There are three ROSCOs. They are privately owned leasing companies, subsidiaries of large banks, from which train operators lease rolling stock on operating leases. They contribute technical and procurement knowledge as well as the funding of the €7 billion new rolling stock investment. ATOC is the body, controlled by passenger train operators, which provides the central services necessary for a multi-operator industry (such as revenue allocation and the distribution of timetable and fares information) and which represents operators in their relations with the rest of the industry, Government, and European institutions. It needs to be emphasized that there is excellent collaboration between the operators – a key factor for the success of the programme.

38. Passenger Focus is the body representing passengers. It is funded by Government, its members are selected to represent the passenger interest and its job is to speak up for the passenger, to articulate passenger concerns and the things passengers want, based on evidence and research.

39. The important components of the triangle are explained in more detail below:

A. THE OFFICE OF RAIL REGULATION (ORR)

ORR was established by Act of Parliament in 1993. It is required to protect the interests of users of the railway, to promote the use of the railway for passengers and freight, to promote the development of the network to the greatest extent economically practical, and to promote efficiency and competition.

B. NETWORK RAIL – THE COMPANY

- Network Rail is a normal limited liability company, but with some differences: for example, it has “members” instead of “shareholders” and its constitution prohibits the payment of dividends to members.
- The business of Network Rail is to be a network operator, for which it requires and has been granted a license by ORR.

- Network Rail owns the track, stations, etc.; but not the trains or other train operator assets.
- The license, a document of about 100 pages, requires Network Rail to operate the network and to maintain and enhance the railway assets efficiently and in accordance with best practice.
- The license requires a ten year business plan to be produced, updated each year, together with other more detailed documents.
- The income of Network Rail comes mainly from passenger and freight operators – its customers – who pay track access charges for access to the network.
- ORR determines the level of track access charges for passenger and freight traffic – and therefore Network Rail’s income – for successive five year periods, called “control periods”..
- While Network Rail receives track access income from train operators, franchised passenger operators, as a condition of their franchise agreements, can reclaim any increase (or rebate any decrease) to the Department for Transport as a change to their subsidy line. This is the mechanism through which most Government funding of the railway takes place. Freight operators, not being franchised, are not financially protected in the same way as franchised passenger operators.
- Enhancements to the network – new or improved track lay out for example – is mostly decided on and paid for directly, not through normal track access charges.

C. THE DEPARTMENT FOR TRANSPORT, THE HIGH LEVEL OUTPUT STATEMENT (HLOS) AND ORR

- The HLOS is to be produced by Government each five years, a year or so before the start of a Control Period.
- The HLOS sets out what the Government wants the railway to deliver (passenger carrying capacity, punctuality and safety) over the relevant Control Period, and beyond, and how much money the Government is prepared to provide – mainly via subsidies to train operators.

- It will be the job of ORR to confirm whether the money proposed by Government is sufficient to deliver the outputs required in the HLOS and then, working with Network Rail and in consultation with the train operators, to approve a Network Rail business plan setting things out in more detail.

D. TRAIN OPERATORS AND NETWORK RAIL

Train operators, to gain access to the network and run trains; require a track access agreement with Network Rail. This agreement sets out the access rights (e.g. a list of paths and times), the characteristics of the train to run on the track, bonuses/ penalties for delays caused by Network Rail, and financial charges. Included automatically in all the track access agreements is a set of standard conditions called the Network Code.

40. FRANCHISE AGREEMENTS

Franchise agreements have changed over the years. The key provisions are these:

- The duration of the franchise;
- A schedule of the train services which the operator will run – this is specified in various degrees of detail;
- The stations which the operator will manage, including opening hours for station booking offices, particularly the required opening hours for small stations
- Required punctuality, with financial bonus and penalty provisions.

There is a back to back arrangement with Network Rail whereby it compensates the train operator for the delays it causes;

- Requirements, possibly, to make specific investments, such as investment in passenger information systems, new trains, or a new train maintenance depot;
- Financial provisions covering subsidy or premium payments, etc;

There are now about 20 franchises. Typically a large franchise will have passenger revenue of about €500 million and employ about 3,000 people.

The income to a train operator includes passenger revenue plus Government subsidy where there is one. Costs also include premiums payable to Government for the most profitable routes.

Fares on British Rail

The Government regulates fares on British Rail on sections where the franchisees have a high degree of market power i.e where the franchisees have a virtual monopoly and commuters have no alternative except to travel by train.. Regulated fares account for half the top line of British Rail. Increases were initially capped at RPI, with regulation moving to RPI – 1 per cent from 1999 to 2003, and then to RPI + 1 per cent subsequently. The result is that regulated fares have fallen in real terms by 1.6 per cent in a decade. This policy of RPI + 1 per cent caps fares increases, while generating revenue that is re-invested in improving the railway. The Government has concluded that regulated fares should remain capped at RPI + 1 for the period covered by the HLOS, that is, until 2014.

Where rail is one of several travel options for passengers, fares are unregulated. Operators have matched fares to the requirements of the different markets they serve, producing a wider range of prices . At one end of the spectrum, the fully-flexible First and Standard Open tickets, used substantially by business customers, have increased in real terms by 46 per cent and 18 per cent respectively in ten years. They generate nearly a quarter of the railway's revenue, but account for only one in ten of passenger journeys. The majority of journeys (other than those for which fares are regulated) are made on discounted tickets, where the cheapest fares are lower in cash terms than they were a decade ago.

The ATOC has recently introduced a simplified system of fares (table below). The names of fare types are common across the network, regardless of operator. The new system makes it easier for passengers to decide which fare is the right one for the journey, to get a sense of price, and to work out whether or not there is a cheaper option available. This new structure makes the pricing of fares easier to understand. Passengers will know that

‘Anytime’ will always be most expensive, ‘Off Peak’ cheaper, and ‘Super Off Peak’ cheaper still.

Simplified fares structure		
Fare name	Validity	When bought
(Day) Anytime	Any train	Pre-book or ‘turn up and go’
(Day) Off-Peak	Any train outside of the peak times for travel	Pre-book or ‘turn up and go’
(Day) Super Off-Peak	Any train at less busy times of day	Pre-book or ‘turn up and go’
Advance	One specific train	Pre-book up to 18:00 the night before

‘Advance’ fares are always cheaper than the equivalent ticket bought on the day. They are aimed at filling empty seats in off peak periods. The further ahead tickets are bought the better the price. Season tickets continue as before and operators are permitted to offer additional promotional fares so passengers can take advantage of cheaper, special deals.

WHAT THE RAILWAYS HAVE DELIVERED

41. The most obvious success of the railway has been passenger growth and freight growth. For 25 years, from 1970 to 1995, people in Britain travelled more and more but they had turned to the car and there was no rail growth. However, the trend has been

reversed and Railways have posted a growth of over 50 % in the last 10 years in total traffic.

The investment which has pleased passengers most in the last ten years is in new trains. About half the national fleet is now new. Out of a total of about 10,700 passenger vehicles in the fleet, 4,800 are new at a cost of €7 billion – almost all funded by the ROSCOs, which have been a reliable source of capital for the industry.

42. Stations, though often a low priority for railway investment, have seen investments about €1.5 billion. About 60 entirely new stations have been opened. Some of these are “parkway” stations, with the big car park, situated just outside town. The largest investment has been on the upgrade to the West Coast Mainline on which €12 billion has been spent.

The industry is running nearly 25% more passenger traffic with only about 4% more rolling stock and nearly 50% more freight traffic than ten years ago over exactly the same network. The system is able to achieve 90 % punctuality levels now; though these had dipped to as low as 85 % in 2002.

The privatization of Railways in Britain is a success story - as is also evidenced by many consumer surveys done by independent agencies.

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Japanese National Rail (JNR) – Another Success Story

43. The JNR reforms that were undertaken in 1987 were one of the largest reforms of post-war Japan. Japanese National Railways was established in 1949 as a “public enterprise”. In Japan, for a while after the war, railways were the exclusive form of domestic transportation. However, the share of passenger traffic handled by rail sector went down from 51% to 22 %; that of freight traffic went down from 39 % to as low as 5 % from 1960 to 1987. Despite these major changes to the environment surrounding

railways, JNR could not undertake management reforms to respond to the changes or improve its productivity. As a result, the financial position of JNR rapidly deteriorated. After recording a deficit of 30 billion yen in 1964, debt continued to accumulate. The losses from fiscal 1980 to fiscal 1986 exceeded 1 trillion yen every year. The Japanese government provided subsidies of 600 billion to 700 billion yen to JNR every year. The shortfall was covered by loans at an interest rate equivalent to government bonds, and by the end of fiscal 1986, the long-term liabilities of JNR had reached 25 trillion yen. JNR's financial situation was critical, and the organization could, for all practical purposes, be regarded as bankrupt.

44. The fundamental factor that led JNR to bankruptcy was its organizational structure of a public corporation. It was not at all equipped for competition, despite being locked in severe competition with other transport modes. Being a public corporation, JNR was subject to government interference on budgets, fares, and personnel affairs. Furthermore, as construction of new lines proceeded without due regard for profitability, JNR had minimal managerial autonomy.

A secondary factor was that JNR was a “nationwide monolithic organization” with over 400,000 employees. For this reason, it was extremely difficult for business managers to grasp what was happening in field offices. In addition, in many cases, issues such as fares, wages, and train schedule diagrams, things for which local conditions should be taken into account, were decided by headquarters uniformly.

In contrast, 14 major private railway companies were providing locally based train operations integrated with infrastructure management, and their operating revenues for fiscal 1986 amounted to 862.6 billion yen with a year-on-year increase of three percent. About 34 percent of the total revenue was from non-railway business.

GENERAL OVERVIEW OF JNR REFORMS

45. The JNR reforms were based on regional divisions and separation of train operation and infrastructure management. The JR Group consists of seven operating companies and two other companies that do not provide rail service. The operating companies are organized into six passenger operators and a nationwide freight operator. Unlike some other groups of companies, the JR Group is made up of independent companies, and it does not have group headquarters or a holding company to set the overall business policy.

The six passenger railways of the JR Group are separated by region. Nearly all their services are within the prescribed geographic area. However, some long-distance operations extend beyond the boundaries. Japan Freight Railway Company operates all freight services on the network previously owned by JNR. In addition, the group includes two non-operating companies. These are the Railway Technical Research Institute and Railway Information Systems Co Ltd.

THE NETWORK

46. JR maintains a nation-wide railway network as well as common ticketing rules that it inherited from JNR. Passengers may travel across several JR companies without changing trains and without purchasing separate tickets. However, trains running across the boundaries of JR companies have been reduced. JR maintains the same ticketing rules based on the JNR rules and has an integrated reservation system known as MARS. Some types of tickets (passes), such as Japan Rail Pass and Seishun 18 Ticket, are issued as "valid for all JR lines" and accepted by all passenger JR companies.

OWNERSHIP PATTERN

47. In 1987, the government of Japan took steps to divide and privatize JNR. Initially, the government retained ownership of the companies. By 2006, all of the shares of JR East, JR Central and JR West had been offered to the market and they are now publicly traded. On the other hand, all of the shares of JR Hokkaido, JR Shikoku, JR Kyushu and JR Freight are still owned by Japan Railway Construction, Transport and Technology Agency, an independent administrative institution of the state.

For passenger operations, a community-based regional division was applied to provide transport services that could respond in detail to local conditions and could be flexible. The regional divisions were made in consideration of consistency of measures, efficiency, and clarification of responsibilities, and having a single railway business managing both train operations and infrastructure.

48. On the other hand, the freight service had to survive in a competitive logistics industry. Therefore, by taking the necessary steps to set up a system with clear demarcation of responsibilities, the freight railway was separated from the passenger railways as an independent company. As a result, the freight company's trains were able to operate on the infrastructure of the passenger railways for minimum track usage fees, and this was a separation between freight train operation and infrastructure management. To operate freight transport smoothly and to utilize the railways for freight, a single nationwide operation was established.

Dividing the business into appropriate sizes for each company created a system of comparable private railway companies, creating mutual competitive consciousness between all operators. Other major features have been the elimination of interference from outside due to the reduction of government involvement, business diversification for improved corporate profits, and flexibility in the business activities.

HANDLING OF LONG-TERM OBLIGATIONS AND MEASURES FOR SURPLUS WORK FORCE

49. At the time of the JNR reforms, the long-term liabilities were 37.1 trillion yen. The three companies of JR East, JR Central, and JR West took over a debt burden of 14.5 trillion yen. Assets other than what were transferred to the new companies and the remaining obligations of 22.6 trillion yen were transferred to the JNR Settlement Corporation. It was decided that the settlement corporation would take all possible measures to sell the ex-JNR assets and the shares of stock of the new companies to pay

off the obligation. It was also decided that the remaining liabilities after taking all possible measures by the settlement corporation would become a public financial burden.

For the surplus work force, the government implemented nationwide employment measures to promote reemployment of the displaced workers .s. The scheme also included private companies. In addition, the new JR companies also employed about 20 percent more employees than was required for business operation. As a result, out of the 277,000 JNR employees as of a year prior to the JNR reforms, 203,000 persons were hired by the new companies and 71,000 changed jobs or retired.

Fares on JNR

From 1949 until 1977, JNR fares were determined by the debate in the Diet while increases in private railway fares were regulated by the Minister of Transport under the principle that fares should cover all costs. In 1977, the government permitted JNR to raise fares in accordance with the same rules governing private railways, and since the 1986 Railway Business Law was passed, the same regulations have been applied to fare adjustments proposed by both the private railways and the JRs.

The ‘yardstick approach’ was introduced in 1997 to regulate fare increases. This approach provides for a strict cost review before fares can be raised. Thus, the old, inflexible government regulations have been replaced by regulations that place an upper limit on fares. Deregulation, including the new entry measures introduced in 2000, has given companies more freedom to determine their own fares.

About 60% of all rail passengers in Japan travel on commuter or student season tickets but revenues from these tickets account for just 28% of all ticket sales. Thus, 72% of passenger revenue comes from the sale of ordinary tickets bought by only 40% of passengers. Though most season ticket holders ride trains during the morning and

evening rush hours, peak- load pricing under which higher fares are charged during peak periods has not been introduced in Japan.

The three JRs on Hokkaido, Shikoku and Kyushu raised fares in 1996, but the three JRs on the main island of Honshu have never changed their fare structures (except to include a 2% increase in the government Consumption Tax). One reason for breaking up JNR was to let each JR determine its own fare structure reflecting costs. This has not happened so in some sense one reason for establishing the JRs has not been achieved.

Ticket prices are based on the type of train (Shinkansen bullet trains are the most expensive), the distance traveled, the number of zones traveled , whether your seat is reserved and the season; with slightly higher prices during peak season. The fare ticket is valid regardless of number of transfers. Long-distance travelers are allowed unlimited number of stopovers along the route subject to the duration of the validity of the fare ticket. In addition, a ride on a specific train and/or coach may require a surcharge ticket.

There are many types of surcharges. For example, in JR, surcharges include:

- Express fee for travel on an "express train"
- Limited express fee for travel on a reserved seat of a "limited express train"
- Non-reserved limited express fee for travel on a non-reserved seat of a "limited express train"
- Reserved seat fee for travel on a reserved seat of trains except for a "limited express train"
- Green fee for travel on a special coach called "Green Car"

As stated above, pricing based on the time of travel (peak or off-peak) is not common in Japan. A recent development in the fare collection system is the stored value card systems shared by multiple operators in large cities, such as Suica and Pi Ta Pa, by which passengers can avoid consultation with complicated fare tables and lineups for ticket machines before each train ride.

LESSONS FROM THE JNR REFORMS

50. As a result of the JNR reforms, the 6 passenger railways have been adhering to the principles of autonomous and independent management. The current situation is that all the 6 companies have reduced the work force by about 25 % and reduced the long term debt obligations by as much as 40 to 50 %.

For the past 20 years since the privatization of JNR, the 6 companies have achieved management performance better than expectations. In the beginning, the companies were planning on fare rises every year. However, they have not raised fares except for fare revisions due to the introduction of the consumption tax and increases to it. In addition, the seven JR companies have paid an annual average of about 260 billion yen to the government or municipalities for corporate tax, fixed asset tax, and other fees and charges. Compare this to the time of JNR, when it was receiving a subsidy of about 600 billion yen per year. So from the perspective of national finances, it can certainly be said that the JNR reforms were successful.

In addition, JR East, JR Central and JR West have achieved total privatization by selling their stock and getting listed.

The privatization of JNR is an encouraging example of how to transform a heavily subsidized, loss making company into a profitable modern service provider transporting more passengers than ever before and competing on cost and service with other modes of transport.

Argentina Rail - A Failed Example of Privatization

51. Since railway nationalization in 1948, the rail network in Argentina had been operated by the state-owned company Ferrocarriles Argentinos (FA) which comprised the six relatively independent divisions. Before privatization began in 1990 FA ran a national network of about 35,000 km, employed 92,000 people and was losing more than US\$1.0 billion a year with much of the track and many of the locomotives and rolling stock in poor condition.

The plan was to break up the network into segments and to grant concessions to private companies for their operation through competitive bidding. Freight and passenger services were separated and, since most of the intercity passenger services were not commercially attractive to the private sector, the government offered these to the provinces. The remaining passenger services in the city of Buenos Aires, including the five lines of the Metro, were potentially more viable and were treated separately.

Privatization began with the granting of long-term concessions (30 years with an optional 10 year extension) to six companies for the operation of freight services. These companies were responsible for all operations and maintenance and for the implementation of the investment programme detailed in their bid. The fixed assets remained the property of the state and the operators had to pay for their use and to rent rolling stock. Freight tariffs were deregulated but were subject to state approval. The concessionaires were expected to hire as many FA employees as were required and redundancies were financed by the government with the help of the World Bank.

PASSENGER SERVICES IN BUENOS AIRES

52. In March 1991 the government separated the urban passenger rail services and metro operating within the city of Buenos Aires from the rest of the rail network, and to this end created the holding company Ferrocarriles Metropolitanos S.A. Whilst the freight concessionaires were expected to make a profit, it was recognized that the operation of these services would require public subsidy. Concessions were granted to the bidder who would require the lowest subsidy. Four companies bid successfully for the seven lines originally operated by the six divisions of FA, together with the Metro.

In spite of these companies receiving large government subsidies, the services operated by Metropolitano deteriorated to a point where the concession for the operation of Línea San Martín was revoked in 2004 and concessions for the operation of the other two lines by the company were revoked in 2007. All three lines are currently operated by the consortium UGOFE which Ferrovías joined in 2004.

As in the case of the freight concessions, the government maintained ownership of the assets, whilst the concessionaires undertook to operate their services as described in their original bid. Maximum fares were set by the government but were subject to automatic increases according to service quality and the prevailing rate of inflation. Financial penalties were to be levied if agreed levels of service were not achieved.

OTHER PASSENGER SERVICES

53. On 20 May 1992 the government announced that all inter-city passenger services, other than Buenos Aires to Mar del Plata, would be discontinued on 1 January 1993, unless provincial authorities either agreed to assume responsibility for them or selected a private concessionaire to operate them on their behalf. While the services survived on some routes in this way, several were discontinued and later resuscitated

THE POST PRIVATIZATION SCENARIO:

54. The privatization of Argentina's railways was considered to be a good business deal in the 1990s for the companies that began to run the train service with subsidies from the state. But a decade later, the private management of the passenger and cargo railway services through concessions turned out to be a fiasco for both passengers and the public

sector. The total network of railway lines shrank from 35,000 to 8,500 km, and the number of employees from 95,000 to 15,000. The state also did not benefit from the privatization as it now spends the same amount on subsidies to the private companies that it used to spend on maintaining the railway lines. The government is now trying to find solutions for the worst problems by rescinding some contracts and issuing new public tenders.

The inter-urban lines that did not turn out to be profitable were dismantled, and a number of cities in the interior thus lost their rail connection to the capital, while railway links between provincial capitals, and with other countries, disappeared. As a result, a number of villages became ghost towns, and regional economies sustained enormous damage.

55. A study by the Latin American Faculty of Social Sciences (FLACSO), says "the privatization of the railway system constitutes one of the biggest failures of the vast privatization programme" undertaken by Argentina in the 1990s. The public tender had two objectives: alleviate the deficit in the treasury and modernize the rail system. But neither was fulfilled, and now Argentina is left with a much smaller, disintegrated system with trains that are 15 years older, and a huge transfer of funds from the state that is much bigger than the deficit. Shortly after the privatization, the state was forced to renegotiate the contracts, because the concessionaires wanted to raise ticket prices and fees, demanded that the state cover the necessary investments, were pushing for the elimination of the annual concession fee that they were charged, and refused to pay fines for breach of contract. The successive renegotiations further strengthened the advantages enjoyed by the concessionaires. In some cases the annual usage fee was waived, the government subsidies were increased -- to keep the companies from raising ticket prices - - and the contracts were extended from 10 to 30 years.

56. In Feb 2003, the courts had ordered the company to provide "decent and efficient service". And also stated at the time that it had found the railway cars and stations in the Roca line "in a calamitous state", and the passengers travelling "like cattle". The court

ruling fined the company for every day that went by without solutions to the problems. But the companies neither improved the service nor paid the fines.

The privatization of Railways in Argentina has been a big failure and several important lessons can be learnt from the same. The most important lesson being that PPPs do not work where they are not driven by 'value for money for the consumer' philosophy but are used as a resource augmenting strategy by the Public Sector. Secondly, a holistic view has to be taken while privatizing the Railways and a piece meal approach is a recipe for disaster.

Some Large PPP Rail projects under implementation:

Belgium: Antwerp Port Rail Tunnel – Ist PPP Project

57.A 16km double-track Liefkenshoek Rail Link which will connect Antwerp's new Deurganckdok container port with existing track in docks on the other side of the river, thereby improving access to and from Antwerp, one of Europe's busiest ports, to the continent's Trans-European Transport Network (TEN-T) is being implemented at a cost of Euro 841 mn..

The European Investment Bank (EIB) is lending EUR 313 million for the construction of a tunnel under the Scheldt river to link container terminals in the Port of Antwerp with Europe's main railway network. The project takes the form of a public private partnership (PPP) between Infrabel, Belgium's railway infrastructure company, and Locorail NV, a special purpose company owned by a consortium of European construction groups. The project is the EIB's first rail PPP operation in Belgium and the country's largest ever PPP.

58. The project should result in a significant reduction in greenhouse gas emissions , help reduce local road congestion, air pollution and accident risk and, by diverting freight traffic from commuter lines, increase capacity for commuter train services in Antwerp,

one of Belgium's biggest cities with nearly half a million inhabitants. It involves boring a new 5.5km tunnel under the Scheldt, the renovation of an existing 1.2 km tunnel as well as other tunneling work.

Locorail, the borrower, is a special purpose vehicle owned by CFE NV (25 percent), BAM PPP Investments Belgie BV (50 percent) and Vinci Concessions SAS (25 percent). The consortium, selected after a tender launched in 2006, will design, build, finance and maintain (DBFM) the tunnel for a period of 42 years, including construction, which is expected to take four years. The European Investment Bank lending is for a period of up to 35 years.

Locorail is raising a total of EUR 714 million in financing facilities. The EIB support will be in two tranches of EUR 200 mn unguaranteed and EUR 113 million guaranteed by a consortium of banks. Co-financing is being provided by six commercial banks: Bayern LB, N.V Bank Nederlandse Gemeenten, Fortis Bank SA/NV, ING Bank N.V., Banco Santander S.A. and Societe Generale Corporate and Investment Banking.

South Europe Atlantic High Speed Line:

59. On March 1st 2007, Reseau Ferre de France (RFF) invited bids with a view to awarding a concession contract for the construction of the SEA HSL **from Tours to Bordeaux**. The contract with the future concessionaire is due to be signed following the declaration of public utility for the Tours-Angoulême section of the line, for which the public inquiry is currently underway. The contract is expected to be signed in 2009, with the line scheduled to open to traffic in late 2015.

The South Europe Atlantic High Speed Line is a new 300 kilometer-long infrastructure running between Tours and Bordeaux, with an additional 40 kilometers of connections, which will help boost infrastructures in the areas served by the line. This line, which will bring Bordeaux to within just over 2 hours of Paris, will prolong the existing Atlantic

HSL (Paris Montparnasse – Tours). By providing a new high-speed link between the south-west regions of France, the north of Europe and the Iberian Peninsula it will, amongst other things, help to free-up additional capacity for regional trains (TERs) and freight trains on the existing line.

60. The estimated cost of this project is expected to be 7.2 billion in current Euros by 2015. On implementation of this project, the two regions to the south-west of France will be able to benefit from the major advantages high speed rail transport brings in terms of sustainable development and territorial planning. RFF has proposed innovative financing solutions for the implementation of this major project which is being implemented as a PPP.

The concessionary company will be responsible for designing, constructing, maintaining, renewing, operating and financing the South Europe Atlantic High Speed Line project at its own risk within the framework of national and EC regulations. In return, it will be the sole beneficiary of all the revenue generated by operating the line.

61. France is actively pursuing the PPP route for implementing various railroad projects through Réseau Ferre de France (RFF), the organization responsible for infrastructure management for Railways in France. Some of the other major initiatives are :

- a) A 182-kilometer high-speed line extension (€2.4 billion project) to west of France will be built under a DBFO contract;
- b) A concession contract is being negotiated to build and manage the future 32-kilometer light rail link between Paris city and Charles de Gaulle International Airport (€640 million project). Starting operation in 2012, this new line will be built without public funding.
- c) A 45-kilometer cross-border high speed line from Perpignan to Barcelona (Spain), (€952 million project) financed 40% by private funds under a 50-year concession

contract. The project has a major public commitment because of high capital costs due to an 8.2-kilometre tunnel crossing the Pyrenees Mountains.

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