

**STANDING COMMITTEE ON RAILWAYS  
(2006-07)**

**FOURTEENTH LOK SABHA**

**MINISTRY OF RAILWAYS  
(RAILWAY BOARD)**

**[Action taken by the Government on the Recommendations/  
Observations contained in the 13<sup>th</sup> Report of the Standing  
Committee on Railways (2005-06) on 'Procurement of Wagon']**



**LOK SABHA SECRETARIAT  
NEW DELHI**

November, 2006/Agrahayana, 1928 (Saka)

**SCR No. 108**

**TWENTY FIFTH REPORT**

**STANDING COMMITTEE ON RAILWAYS  
(2006-07)**

**FOURTEENTH LOK SABHA**

**MINISTRY OF RAILWAYS  
(RAILWAY BOARD)**

**[Action taken by the Government on the Recommendation/  
Observations contained in the 13<sup>th</sup> Report of the Standing  
Committee on Railways (2005-06) on 'Procurement of Wagon']**

***Presented to Lok Sabha on 28.11.2006  
Laid in Rajya Sabha on 29.11.2006***



**LOK SABHA SECRETARIAT  
NEW DELHI**

November, 2006/Agrahayana, 1928 (Saka)

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## APPENDIX

Minutes of the sitting of the Standing Committee on  
Railways held on 31.10.2006

## **STANDING COMMITTEE ON RAILWAYS**

**Shri Basudeb Acharia      -      Chairman**

### **MEMBERS**

#### **LOK SABHA**

2. Shri Prasanna Acharya
- 3 Dr. Dhirendra Agarwal
- 4 Shri Atiq Ahamad
- 5 Shri S. Ajaya Kumar
- 6 Shri Ramdas B. Athawale
- 7 Shri Bapu Hari Chaure
- 8 Shri H.D. Devegowda
9. Shri Kishan Lal Diler
10. Shri Giridhar Gamang
11. Shri Anwar Hussain
12. Shri Mahesh Kumar Kanodia
13. Ch. Lal Singh
14. Shri Sunil Kumar Mahato
15. Shri Ananta Nayak
16. Shri Laxmanrao Patil
17. Shri A. Sai Prathap
18. Shri Kishan Singh Sangwan
19. Shri Iqbal Ahmed Saradgi
20. Shri K. Subbarayan
21. Shri C.H. Vijayashankar

#### **RAJYA SABHA**

22. Shri Karnendu Bhattacharjee
23. Maulana Obaidullah Khan Azmi
24. Shri Satyavrat Chaturvedi
25. Shri Lalit Kishore Chaturvedi
26. Shri Shreegopal Vyas
27. Shri Tarini Kanta Roy
28. Shri R. Kamraj
28. Shri Isam Singh
30. Shri Harendra Singh Malik
31. Shri Abani Roy

**LOK SABHA SECRETARIAT**

1.	Dr,(Smt.) P.K. Sandhu	-	Additional Secretary
2.	Shri A.K. Singh	-	Joint Secretary
3.	Shri V.S. Negi	-	Director
4.	Shri Arun K. Kaushik	-	Assistant Director
5.	Smt. Archana Srivastva	-	Sr. Executive Assistant

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## INTRODUCTION

I, the Chairman of the Standing Committee on Railways (2006-07), having been authorised by the Committee to present on their behalf, present this Twenty Fifth Report of the Standing Committee on Railways (2006-07), 14<sup>th</sup> Lok Sabha on Action Taken by the Government on the Recommendations/Observations contained in the Thirteenth Report of the Standing Committee on Railways (2005-06 14<sup>th</sup> Lok Sabha) on 'Procurement of Wagons'.

2. The Thirteenth Report of the Committee was presented to Lok Sabha on 24.08.2005. The action taken replies of the Government to all the recommendations contained in the Report were received on 23.12.2005.

3. The Committee considered and adopted the Report at their sitting held on 31<sup>st</sup> October, 2006. Minutes of the sitting held on 31<sup>st</sup> October, 2006 form Part-II of the Report.

NEW DELHI;  
November, 2006  
 Agrahayana, 1928 (Saka)

**BASUDEB ACHARIA**  
**Chairman,**  
**Standing Committee on Railways**

## **CHAPTER I**

### **REPORT**

This Report of the Committee deals with the Action Taken by the Government on the recommendations and observations contained in the 13<sup>th</sup> Report of the Standing Committee on Railways (2005-06) on 'Procurement of Wagons'. The Report was presented in Lok Sabha on 24.08.2005 and simultaneously laid in the Rajya Sabha.

2. Action Taken Notes have been received from the Government in respect of all the 7 recommendations/observations contained in the Report. These have been broadly categorized as follows:-

- (i) Recommendations/Observations which have been accepted by the Government – Para Nos. 2(ii), 2(iii), 2(iv), 3, 4 and 6.
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies – Para Nos. 1, 2(i), and 7.
- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration - Para Nos.5.
- (iv) Recommendations/Observations in respect of which final replies are still awaited Para Nos. – Nil.

3. The Committee will now deal with the Action Taken by Government on some of their recommendations/observations.

#### **Coordination Mechanism** **(Para No. 2 (ii))**

4. In this Sub-paragraph the Committee had suggested that the Railways should work with the Ministry of Heavy Industry & Public Enterprises while finalizing the new orders from distribution quota for the Public Sector Units and

review the performance of these Units regularly. Both the Ministries must have a Coordination Committee at least at the level of Secretary in Department of Heavy Industries and Chairman, Railway Board, to cope up with crisis-management situations such as supply of raw materials particularly to see the configuration of steel in correct proportions to these units through regular meetings. An institutionalised and systemic approach and support should be created. The Railways should also hold regular 'Buyer Seller' meet.

5. In their Action Taken Reply, the Ministry of Railways have stated:-

"The timely supply of steel in matching sets to all wagon builders is monitored by Director (Iron and Steel) of this Ministry, who has his office in Kolkata.

Director level Coordination Committee consisting of Directors from Ministry of Railways and Ministry of Heavy Industries and Public Enterprises is being set up. The Committee may review the supply of free supply items to PSUs wagon builders and may also help in allocation of wagons.

The system of one to one discussion with every wagon builder is already in vogue to sort out their problems pertaining to wagon orders. However, the suggestion of the Committee to hold regular "Buyer Seller" meet will be implemented soon."

**6. The Committee find from the Action Taken Reply that the Ministry of Railways are in a process to set-up Coordination Committee consisting of Directors from Ministry of Railways and Heavy Industry and Public Enterprises to review the supply of 'free supply items' to Wagon Manufacturing Public Sector Units and also to help in allocation of wagon orders. Similarly, they also find that**



**holding of regular 'buyer-seller' meet is going to be implemented soon. The Committee desire that the final action taken on these two aspects be placed before them at the earliest.**

### **Freezing of Backlog Orders**

#### **(Para No. 2 (iii))**

7. The Committee in this sub-paragraph while taking note of the sizable backlog of orders with Wagon Manufacturing Public Sector Units had recommended that an undisputable way out to the existing backlog orders with these wagon manufacturing units be explored amicably without disturbing the extant contract regime and the obligations and it could be suitably done through mutual discussions between the Ministries of the Railways and the Heavy Industry and Public Enterprises. Freezing of those backlog orders might be one of the possible options.

8. In their Action Taken Reply, the Ministry of Railways have stated:-

“The main reasons that PSUs are not able to complete their backlog orders are their inefficiency and financial constraints. Freezing of backlog orders may not be a long term solution unless these PSUs strive hard to improve their performance.

However, recommendation of the Committee regarding freezing of old orders are being examined as a special case.”

**9. The Committee had suggested that freezing of the backlog of orders might be one of the possible options as a way out for the Public Sector Units to get enhanced new orders. However, the Committee find from the Action Taken Reply of the Ministry of Railways that their suggestion regarding freezing of backlog orders are still being**

**examined as a special case. The Committee, therefore, desire that the examination be made at the earliest and the final outcome be intimated to them.**

**Association of Wagon Manufacturers in Development of Wagon Design**

**(Para No. 2 (iv))**

10. In the above sub-paragraph the Committee had recommended for associating wagon manufacturers in the development of new design of wagon right from the beginning, so that they are aware and prepared for manufacturing wagons of new specifications.

11. In their Action Taken Reply, the Ministry of Railways have stated:-

“RDSO, who is the nodal agency for design and development of wagons for Railways, will be advised to keep the Wagon Industry involved with new design developments.”

**12. The Committee are constrained to note from the Action Taken Reply that the Ministry of Railways have taken their recommendation in a very casual way. They find that even after a lapse of almost 13 months, the Ministry are yet to advise the RDSO, the nodal agency for design and development of wagons, for associating the wagon manufacturers in development of new designs of Wagons. They, therefore, desire that the Ministry should advise the RDSO immediately in this regard and action taken by the RDSO on their advise be placed before them within a period of three months.**

**Option Clause**  
**(Para No. 5)**

13. The Committee had come across a fact that the Railways had an option clause in their order that the latter can increase or decrease the quantity of

order by 30% at the same price. This clause proves detrimental to the interest of the wagon manufacturers in both the cases. In the first case, if the tender price of the wagon increases in the succeeding year, the wagon manufacturers may get 30% more orders at the price offered during the preceding year and hence it may cause loss to the manufacturer. Similarly, if the tender price for the next year go below that of the preceding year, the Railways may cut the order by 30%. Such arbitrary and not market savvy condition in the order should be done away with. These type of clauses be invariably withdrawn without any delay from the order of placement for wagons both for Private and the Public Sector Companies.

14. In their Action Taken Reply, the Ministry of Railways have stated:-

“(-) 30% Option clause has already been deleted since 2001-2002 in view of the representations received from Wagon Industry. Thus, at present only +30% Option Clause is there in the contract, which is found very useful to cater to additional demand of wagons during contract period.”

**15. The Committee find from the Action Taken Reply that the (-)30% Option Clause has been deleted by the Ministry from the Contract. However, the (+)30% Option Clause is still in vogue. They feel that (+)30% Option Clause is also not in the interest of the wagon manufacturers as they are bound to supply the additional 30% orders on the same prices offered during the preceding year and hence not market savvy. The Committee, therefore, desire that the Railway should re-consider withdrawing the (+)30% Option Clause also.**

### **Performance of Wagon Industry**

#### **(Para No. 6)**

16. In the above paragraph the Committee had noted that PSUs manufacturing wagons were continuously under performing for the last three years mainly due to coherent problems such as continuous and steep rise in steel prices, irregular supply of various free items, low efficiency level, inadequate working capital and low morale of workforce. They also found that now the proposed revival package for these PSUs includes concrete measures such as new remunerative prices taking into account the rise in cost of steel, liberal policy of free supply items viz. bogie and couplers and providing adequate working capital etc. The Committee felt that with this revival package and coordination the concerned PSUs should be able to execute the orders placed with them and enhance their supply percentage as compared to the previous years by optimum utilization of their capacity. They emphasized that in addition to the revival measures by the Government, these PSUs should make all out efforts to improve the efficiency and motivate their manpower. They also stressed that wholesome effort should be made by these PSUs with adequacy of material and motivated staff to enhance their performance and produce ordered number of wagons within the given time frame. This enhanced performance would also justify their demand for enhanced orders for the next year and lead to more capacity utilization.

17. In their Action Taken Reply, the Ministry of Railways have stated:-

“Ministry of Railways agrees with the observations of Hon’ble Standing Committee.”

**18. The Committee had recommended for wholesome efforts to be made by the PSUs manufacturing wagons with adequacy of material and motivated staff to enhance their performance and produce ordered number of wagons within the given time frame which would**

**also justify their demand for enhanced orders for the next year and lead to more capacity utilization. The Committee find from the Action Taken Reply that the Ministry of Railways have not taken any concrete action on their observation. Mere acceptance of their observation would not suffice the purpose for which the Committee had expressed their views. They, therefore, desire that their observation should be brought to the notice of all the Wagon Manufacturing PSUs either directly or through the Ministry of Industry (Department of Heavy Industry) so that PSUs may motivate their manpower and improve their efficiency and execute the orders within the given time frame. The Committee would like to be apprised of the action taken in this regard.**

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT**

#### **Coordination Mechanism (Para No. 2 (ii))**

- (ii) The Railways should work with the Ministry of Heavy Industry & Public Enterprises while finalizing the new orders from distribution quota for these Units and review the performance of these Units regularly. Both the Ministries must have a Coordination Committee at least at the level of Secretary in Department of Heavy Industries and Chairman, Railway Board, to cope up with crisis-management situations such as supply of raw materials particularly to see the configuration of steel in correct proportions to these units through regular meetings. An institutionalised and systemic approach and support should be created. The Railways should also hold regular 'Buyer Seller' meet.

In their Action Taken Reply, the Ministry of Railways have stated:-

"The timely supply of steel in matching sets to all wagon builders is monitored by Director (Iron and Steel) of this Ministry, who has his office in Kolkata.

Director level Coordination Committee consisting of Directors from Ministry of Railways and Ministry of Heavy Industries and Public Enterprises is being set up. This Committee may review the supply of free supply items to PSUs wagon builders and may also help in allocation of wagons.

The system of one to one discussion with every wagon builder is already in vogue to sort out their problems pertaining to wagon orders. However, the suggestion of Hon'ble Standing Committee to hold regular "Buyer Seller" meet will be implemented soon."

### **Freezing of Backlog Orders**

#### **(Para No. 2 (iii))**

- (iii) An undisputable way out to the existing backlog orders with these wagon building units in Public Sector be explored amicably without disturbing the extant contract regime and the obligations and it could be suitably done through mutual discussions between the Ministries of the Railways and the Heavy Industry & Public Enterprises. Freezing of those backlog orders might be one of the possible options.

In their Action Taken Reply, the Ministry of Railways have stated:-

"The main reasons that PSUs are not able to complete their backlog orders are their inefficiency and financial constraints. Freezing of backlog orders may not be a long term solution unless these PSUs strive hard to improve their performance.

However, recommendation of Hon'ble Standing Committee regarding freezing of old orders are being examined as a special case."

#### **(Para No. 2 (iv))**

- (iv) Associating wagon manufacturers in the development of new design of wagon right from the beginning, so that they are aware and prepared for manufacturing wagons of new specifications.

In their Action Taken Reply, the Ministry of Railways have stated:-

“RDSO, who is the nodal agency for design and development of wagons for Railways, will be advised to keep the Wagon Industry involved with new design developments.”

**Timely Placement of Orders**  
**(Para No. 3)**

The Committee were given to understand during the examination of the subject that there is a considerable delay in placement of orders with the wagon manufacturing units after finalisation of bids. According to the Ministry of Railways as soon as tender is finalized wagon orders are released immediately between 15-20 days. However, the Secretary, Department of Heavy Industry while contradicting this informed the Committee that on an average there was a gap of minimum 3-4 months between the tender opening and placement of orders. The Committee noted that the RSP/05-06, the tender were opened on 18.2.2005 but orders have not been placed up till now i.e. even after lapse of 5 months. The Committee deplored this tendency of late finalisation of orders and recommended that Railways should take invariably minimum time while placing new orders after the opening of the tender and the finalization of L1 rate. The Committee felt that early finalisation of tender and release of orders should be emphasized so that the PSUs are able to accomplish their task of supplying wagons as per the orders placed during the same year.

In their Action Taken Reply, the Ministry of Railways have stated:-

“The observation of Standing Committee in this para is based on two different statements from Ministry of Railways and Ministry of Industry regarding time for tender finalization. The time frame given by



Ministry of Railways was for the time taken after finalization of tender to release of contract as per the wording of the Question. Whereas the time frame of 3-4 months quoted by Ministry of Industry is for the time taken from tender opening to release of contract.

So far as delay in finalization of tender for 2005-06 is concerned, it is informed that wagon manufacturers have quoted abnormally high rates. Though during negotiations prices for some type of wagons have been reduced by a firm by 15% but even then the rates were considered on higher side. Besides, this year, 3 new types of wagons are being procured for which no last purchase rates were available. All these factors contributed to delay in finalization of tender. However, concern of the Standing Committee has been noted and all possible efforts would be made to ensure that tender case is finalized well in time.”

#### **Supply of Free Items** **(Para No. 4)**

Ensuring of timely availability of free supply items like steel, wheel sets, bogies and couplers had been an area of discord between the Railways and the wagon manufacturers in the Public Sector. The latter had submitted that erratic and delayed supply of these items by the Railways had resulted in the cost escalation of wagons and resultantly the concerned PSUs suffered Liquidated Damages. The Committee desired that the Railways should ensure adequate and regular availability of free supply items such as wheel sets, Steel, Couplers etc. Further, the liquidity damages should not be imposed on account of failure on the wagon manufacturers wherever these items are not supplied on time by the Railways or by any agency on behalf of the Railways. Imposition of liquidated damages for delays beyond control of wagon manufacturers should be exempted.

In their Action Taken Reply, the Ministry of Railways have stated:-

“Supply of free supply items to wagon manufacturers are planned based on the projections furnished by respective wagon manufacturers for next six months. After finalization of the contract, supply of ‘free supply items’ is closely monitored by Railway Board. Special Attention is paid for timely supply to PSUs.

In case it is found that delivery of wagons was delayed due to non-availability of free supply items, the request of wagon builders for waiver of LD is always considered.”

**(Para No. 6)**

The Committee noted that PSUs manufacturing wagons were continuously under performing for the last three years mainly due to coherent problems such as continuous and steep rise in steel prices, irregular supply of various free items, low efficiency level, inadequate working capital and low morale of workforce. They also found that now the proposed revival package for these PSUs includes concrete measures such as new remunerative prices taking into account the rise in cost of steel, liberal policy of free supply items viz. bogie and couplers and providing adequate working capital etc. The Committee felt that with this revival package and coordination the concerned PSUs should be able to execute the orders placed with them and enhance their supply percentage as compared to the previous years by optimum utilization of their capacity. They emphasized that in addition to the revival measures by the Government, these PSUs should make all out efforts to improve the efficiency and motivate their manpower. They stressed that wholesome effort should be made by these PSUs with adequacy of material and motivated staff to enhance their performance and produce ordered number of wagons within the given time

frame. This enhanced performance would also justify their demand for enhanced orders for the next year and lead to more capacity utilization.

In their Action Taken Reply, the Ministry of Railways have stated:-

“Ministry of Railways agrees with the observations of Hon’ble Standing Committee.”

### **CHAPTER III**

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

##### **A Perspective Plan** **(Para No. 1)**

The Committee had noted that the projected target of freight traffic for the year 2005-06 had been revised from 635 million tonnes to 675 million tonnes during the mid term appraisal of the X Plan keeping into account the buoyancy in general economy and steady growth in freight sector. With the sustainable growth in the general economy over the last few years, the requirement of adequate number of wagons had assumed a significant role. Though the total number of wagons had declined to about 4,40,000 in 2004-05 from 4,85,000 in the years 1991-92 and 1992-93, the loading of freight by the Indian Railways had registered an upsurge particularly during the years 2001 to 2005.

The Committee appreciated the efficiency acquired by the Railways in terms of better utilization of their assets and scientific management of their freight operations. However, transparency in the availability and equitable distribution of wagons had been a prime concern of the Railways and the feeder industry. The Committee were equally concerned over the state of affairs of five wagon manufacturing units in the public sector, which were beleaguered with low level of morale and efficiency, inadequate, working capital and inadequate, untimely and unviable wagon orders from the Railways. As per the Railways the total installed capacity as on date is 35,296 FWUs consisting of 15661 FWUs in the public sector and 19635 FWUs in the private sector. The Railways also had an in-house wagon manufacturing capacity of around 2200 FWUs which is fully utilized. The off-take of wagons by the Railways had never crossed 24000 wagons a year during the last 6-7 years. The average off take of

wagons had hovered around 15000 FWUs per year, which was much below the installed capacity of wagon manufacturing units. The utilization capacity of the wagon manufacturing public sector units had touched the lowest figure of 22.3% in the year 2004-05 due to unrealistic perspective Plan of the Railways particularly while projecting their wagon requirement and delay in placement of orders. Considering the current trend of upbeat growth in the industrial and services sector, the Committee were of the view that there would be a huge requirement of wagons in the years to come. They, therefore, recommended that the Railways must formulate a perspective plan for their requirement of wagons on the realistic basis and simultaneously apprise the wagon manufacturing industry of the same well in advance. The Committee opined that this will go a long way in spiking the wagon industry to chalk out their strategy to meet the projected demand in time. They had also stressed that while placing orders to PSUs manufacturing wagons, Railways must avoid sharp variation in the order quantity.

In their Action Taken Reply, the Ministry of Railways have stated:-

“As the Hon’ble Committee has been apprised that Rolling Stock Procurement is based on the broad based requirement assessed for Five Year Plan Period and fine tuned on annual basis from year to year on the basis of trend analysis considering future commodity-wise potential, condemnation of overaged wagons and the impact of projected operational efficiencies likely to be achieved in the wagon utilization performance as a result of system improvement. The fleet of the Rolling Stock including wagons is being upgraded with incorporation of modern technologies. Apart from above, through maintenance has improved the mobility of wagons KMs per wagon day. It has helped Railway to carry additional freight with existing rolling stock.

Ministry of Railways have always considered to utilize the capacity of PSUs to the extent possible within the existing policy framework. Though the total installed capacity of PSUs is 15661 FWUs. But actual production was at much lower side, despite the fact they had adequate orders. Thus there is a wide gap between the installed capacity and actual production from Public Sector Units.

Despite poor performance over the years and heavy outstanding load, orders for adequate numbers are being placed on these Public Sector Units to help them out.”

**Procurement Policy**  
**(Para No. 2 (i))**

The Committee found that up till 1993-94, Railways used to place orders for wagons directly on member units of Wagon India Limited without calling for tender and prices of wagons were determined on the basis of cost analysis. But this policy underwent a tremendous change after the year 1993-94 when the partial introduction of open tender was introduced. At present Railways execute 100% procurement of wagons through open tender. However, they followed a distribution system of tendered quantity amongst all the established wagon manufacturers both in the Public and Private Sector based on their past performance with a view to make the distribution more broad based. All the wagon builders were required to supply orders at the lowest rate determined by the open tender. The bidder who quoted the lowest price was provided with 25% of the quantity of wagon requirement and the remaining 75% were distributed in the ratio of 60:40 to the Public Sector Units and Private Sector Units respectively.

The Committee noted that the wagon manufacturing units in the Public Sector were facing crisis. Their share in the new orders for wagons has

drastically declined to 4057.5 in 2004-05 from 8760 in 2003-04. These units could not go for cost cutting beyond a certain limit due to their coherent limitations such as overhead costs. As a result their utilization capacity had touched the lowest figure of 22.3% in 2004-05 from 40.4% in 2000-01. In view of the extant criteria of distribution of orders and their incompetitiveness, the PSUs, could not get more than 45% of the new orders every year. Moreover, new orders would further go down keeping into account the sizeable backlog of orders pending with these PSUs, which could not be honoured due to certain disputable reasons. Under these circumstances the Committee visualized an imminent critical situation where no new orders would be awarded to these Units.

The Committee were also informed that all the wagon manufacturing PSUs were slated for disinvestments but with the change in disinvestments policy of the Government, an attempt was being made to revive these public sector companies. In sequel to that, the Board for Reconstruction of Public Sector Enterprises had approved three out of four cases and the same was being placed before Cabinet Committee on Economic Affairs for approval of revival package. In this backdrop of affairs, the Committee were of the considered view that a holistic approach was required to deal with the revival and viability of these sick units. They were of the opinion that the Railways cannot formulate their perspective plan in isolation, and therefore they must work in tandem with the Government and supplement latter's efforts in this sacrosanct cause of revival. However, the Committee were equally concerned over the constraints of the Railways particularly in the context of maintenance of transparency and open bidding system in a contract regime prevailing all around. Nonetheless, they urge upon the Ministry of Railways to consider the following:-

#### **Preferential Distribution**

- (i) The Committee found that Public Sector Units were solely dependent upon the Railways for orders. They, therefore, desire that these PSUs

should be given a probation period of 4-5 years to get adequate new orders at workable price as worked out mutually in consultation with the Ministry of Heavy Industry and Public Enterprises under the preferential distribution quota of 75 % in case they don't bid or are found incompetent in the tender. In any case, placement of orders should be made on workable and reasonable price to avoid unhealthy competition.

In their Action Taken Reply, the Ministry of Railways have stated:-

"Railways are following a system of distribution of 75% of the quantity against the tender amongst all the established wagon building units as per their past performance with a view to make the distribution more broad based. Remaining 25% is considered for ordering on competitive basis with certain preference to PSUs as per Government Policy. By following this method of distribution, all the established wagon building units are assured of orders on their past performance and at the same time it helps Indian Railways to obtain competitive price in the tender. With this equitable method of distribution, there are hardly any chance of wagon Industry becoming sick unless any particular unit does not keep appropriate efficiency in manufacturing of wagons. Ministry of Railways have always extended full support to the Wagon Industry specially PSUs in their revival process. As the Hon'ble Committee is aware that keeping in view the hardships being faced by the wagon manufacturing units especially PSUs in procurement of bogies and couplers, Ministry of Railways have decided to provide bogies and couplers also as free supply items from 2005-06 onwards.

In regard to price of the wagon, it may be pointed out that market forces ensure that quoted prices are reasonable unless there is a cartel



formation. Some of the PSUs may find the existing prices unremunerative only due to delay and inefficiency on their part."

**(Para No. 7)**

The Committee had earlier recommended for making Public Sector Wagon manufacturing units as its captive units. The Committee reiterated that the Ministry of Railways must examine this proposal for assured supply of wagons.

In their Action Taken Reply, the Ministry of Railways have stated:-

"The issue of taking over of Public Sector Wagon manufacturing units by Railways was examined by a High level Committee of this Ministry and the same was not found feasible."

## **CHAPTER IV**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED AND WHICH REQUIRES REITERATION**

#### **Option Clause (Para No. 5)**

During the course of examination of the subject the Committee came across a fact that the Railways have an option clause in their order that the latter can increase or decrease the quantity of order by 30% at the same price. This clause proves detrimental to the interest of the wagon manufacturers in both the cases. In the first case, if the tender price of the wagon increases in the succeeding year, the wagon manufacturers may get 30% more orders at the price offered during the preceding year and hence it may cause loss to the manufacturer. Similarly, if the tender price for the next year go below that of the preceding year, the Railways may cut the order by 30%. Such arbitrary and not market savvy condition in the order should be done away with. These type of clauses be invariably withdrawn without any delay from the order of placement for wagons both for Private and the Public Sector Companies.

In their Action Taken Reply, the Ministry of Railways have stated:-

"(-) 30% Option clause has already been deleted since 2001-2002 in view of the representations received from Wagon Industry. Thus, at present only +30% Option Clause is there in the contract, which is found very useful to cater to additional demand of wagons during contract period."

**CHAPTER V**

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

**-NIL-**

**NEW DELHI;  
November, 2006  
Agrahayana, 1928 Saka**

**BASUDEB ACHARIA  
Chairman,  
Standing Committee on Railways**

**MINUTES OF THE SIXTH SITTING OF THE STANDING**  
**COMMITTEE ON RAILWAYS (2006-07)**

The Committee sat on Tuesday, the 31<sup>st</sup> October, 2006 from 1100 hours to 1145 hours in Committee Room 'C', Parliament House Annexe, New Delhi.

**PRESENT**

**SHRI BASUDEB ACHARIA       -       CHAIRMAN**

**MEMBERS**

**LOK SABHA**

2. Dr. Dhirendra Agarwal
3. Shri S. Ajaya Kumar
4. Shri Ramdas B. Athawale
5. Shri H.D. Devegowda
6. Shri Mahesh Kumar Kanodia
7. Ch. Lal Singh
8. Shri Kishan Singh Sangwan
9. Shri K. Subbarayan
10. Shri C.H. Vijayashankar

**RAJYA SABHA**

11. Shri Karnendu Bhattacharjee
12. Shri Lalit Kishore Chaturvedi
13. Shri Shreegopal Vyas
14. Shri Tarini Kanta Roy
15. Shri Harendra Singh Malik
16. Shri Abani Roy

**SECRETARIAT**

- |                         |   |                    |
|-------------------------|---|--------------------|
| 1. Shri A.K. Singh      | - | Joint Secretary    |
| 2. Shri V.S. Negi       | - | Director           |
| 3. Shri Arun K. Kaushik | - | Assistant Director |

2. At the outset, the Chairman welcomed Shri H.D. Devegowda former Prime Minister and a Member of the Committee to the sitting of the Committee and expressed confidence that the Committee would definitely be benefited by his vast experience and contributions.

3. Thereafter, the Committee considered the draft Report on Action Taken by the Government on the recommendations/observations contained in their 13<sup>th</sup> Report (2005-06) on - 'Procurement of Wagons' and adopted the same with minor changes.

4. The Committee authorized the Chairman to finalise the Report and present the same to the House during Winter Session.

**The Committee then adjourned.**

**APPENDIX-II****ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS/ OBSERVATIONS CONTAINED IN THE 13<sup>th</sup> REPORT 2005-06 (14<sup>TH</sup> LOK SABHA) ON 'PROCUREMENT OF WAGONS'.**

<b>Total number of Recommendations/Observations</b>		<b>07</b>
(i)	Recommendations/observations which have been accepted by Government ( <i>Vide</i> recommendations/observations)  Para Nos. 2(ii), 2(iii), 2(iv), 3, 4 and 6.  Percentage of total	04     57.1%
(ii)	Recommendations/observations which the Committee do not Desire to pursue in view of Government replies ( <i>Vide</i> recommendations/observations)  Para Nos. 1, 2(i) and 7  Percentage of total	02     28.6%
(iii)	Recommendations/observations in respect of which replies of which replies of Government have not been accepted by the Committee which require reiteration. ( <i>Vide</i> recommendations/observations)  Para No. 5  Percentage of total	01     14.3%
(iv)	Recommendations/observations in respect of which final replies of Government are still awaited. ( <i>Vide</i> Recommendations/observations)  Para Nos. Nil.  Percentage of total	Nil     