REPORT

Keeping India on Track

New industrial policies aim to guide public investment in transport sector

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Since March 2020, India has seen a major shift in its industrial policies, particularly in the transport sector. With over 68,000 km of track and eight billion passengers per year, Indian Railways is one of the world's most complex transport systems.

Of course, passenger traffic isn't the whole story, Indian Railways intends to increase freight transported via rail to 45% by 2030. It's going to take commitment and substantial investment to meet the expansion, operation and maintenance needs of India's transport sector and the country wants to make sure that a fair portion of that capital stays inside the country.

That's why India's government has changed public procurement policy to give preference to companies whose goods and services have 50% (or more) local content, promoting "Make in India" and the concept of self-reliance.

The revised Public Procurement policy introduced the idea of Class-I, II, and non-local suppliers. Class-I local suppliers will be preferred for all government purchases. They will be followed by Class-II suppliers, whose value addition range is more than 20% but less than 50%. Companies with less than 20% 'domestic content' won't be allowed to participate in most government tenders as they're categorized as "non-local suppliers".

Many think that these moves are also intended to reduce China's foothold in India, as were earlier restrictions on Foreign Direct Investment (FDI) adopted in April 2020, aimed at preventing "opportunistic takeovers" of Indian firms hard-hid by the Covid-19 lockdown by requiring government approval of any investments made by countries sharing a land border with India.

According to a recent paper published by Brookings India, the total current and planned investment by China in India is at least $26 bn. The shift in public procurement policy seems to be designed along the same lines. *The Times Of India* reported in late July that any bidder from countries sharing a land border with India will only be eligible to bid in any procurement whether of goods, services (including consultancy services and non-consultancy services) or works (including turnkey projects) if they are registered with the Registration Committee constituted by the Department for Promotion of Industry and Internal Trade (DPIIT).
Political and security clearance from the ministries of external and home affairs respectively will be mandatory. The order covers public sector banks and financial institutions, autonomous bodies, Central Public Sector Enterprises (CPSEs) and PPP projects receiving financial support from the government. These new provisions will apply to all new tenders. For outstanding tenders, if the first stage of evaluation of qualifications has not been completed, unregistered bidders will be treated as not qualified.

These policies have taken center stage when it comes to Indian Railways. India's financial periodical *The Economic Times* as well as *The Times of India* have featured a series of stories marking major developments for this institution, often perceived as slow when it comes to institutional transformation. A notable development was when, following a bid by Chinese state owned company CRRC Corporation, the tender for procurement of 44 Vande Bharat train sets was cancelled in August. The official reason given was that the railway ministry intended to align the procurement process with the revised Make in India guidelines.

What are those revised guidelines? For this tender, it means that a Class-I supplier has been defined as one whose goods, services or works have a local content of 75% or more. According to railway ministry officials, up to five companies are eligible to form a consortium between them to be eligible for bidding. This move causes another setback to the ambitious project. The ministry had planned to introduce these trains in 2021-22, but a recent estimate by ICF revealed that it could take more than six years for the trains to come on track. Two Vande Bharat Train sets are already operational between Delhi-Varanasi and Delhi-Karta.

This shift in the rules is clearly having an effect as in September 2020, the National High Speed Rail Corporation (NHSRCL) opened the bids for the first tender (an investment of around Rs 20,000 crore) for construction on the Ahmedabad-Mumbai bullet train project. All 7 bidders for this 237 km of line in Gujarat are Indian companies. This work also includes construction of four stations. According to an official release, three bidders involving seven major infrastructure companies have participated in the competitive bidding. Two of these are consortiums, Afcons Infrastructure– IRCON International–JMC Projects India and NCC–Tata Project-J Kumar Infra Projects, and the company that has put in a bid on its own is Larsen and Toubro.

Among other historic changes is the Request for Qualifications (RFQs) for private companies to operate 151 passenger trains on 109 Origin-Destination (OD) pairs of routes along with the adoption of the Green Railways by 2030 initiative which aims to complete electrification and the use of new and renewable energy resources to power the extensive railways infrastructure. However, many transport projects have been hampered by the pandemic, Indian Railways' traffic revenue through August 2020 declined by 42% over last year as train operations shut down on March 24, as India went into a nationwide lockdown. Regular passenger train operations remain suspended. An increasing number of so-called 'special trains' are being allowed, with 100 of these inter-state and intra-state trains announced around the end of August and another 200 to cater to passengers travelling during the festive season (between October 15 and November 30).

To compensate for lost passenger revenue, the railway ministry has taken several steps to simplify freight policy and boost revenue, including: Demurrage, Wharfage and other ancillary charges being exempted from duties from 22 March - 17 May; providing logistics support for movement of essential goods; discounting Haulage Charges for loaded containers, among others. In addition, automobile and parcel traffic has been opened for export to Bangladesh.

Freight has saved the day for railways, with Railway Board Chairman Vinod Kumar Yadav reporting in the first week of October that revenue grew by 15% in September compared to the same period last year. "Almost all commodities have shown positive growth (in the month of

September 2020) and that gives a good indication of revival of the Indian economy in general and rail freight in particular," Yadav said.
September loading included 42.89 mn t of coal, 13.53 mn t iron ore, 6.3 mn t of foodgrains, 5.34 mn t fertilizers, 6.05 mn t cement (excluding clinker), 3.85 mn t clinker, and 3.52 mn t mineral oil. In addition, focused on increasing its freight revenue, the railways have developed an exclusive portal for freight clients with features including a Freight Calculator, GIS based consignment tracking, terminal dashboard, info on freight incentive, own-a-terminal, and own-a-Wagon schemes.

Clearly freight can't provide all of the answers. In late September 2020 The Ministry of Railways was accused by the Controller and Auditor General of India of resorting to 'window dressing' in presenting its assessment of railways' finances for FY 19. Pointing out that the Indian Railways would have ended with a negative balance if, among other things, they had not included receipts for advance freight. The audit also noted that there was heavy dependence on transportation of coal (around 47% of the total freight earnings for 2018-19). "Any shift in bulk commodities transport pattern could affect the freight earnings significantly," it said. Railway board officials felt that the remark was unwarranted as the accounting practices were the same as those used in the previous accounting period.

India is also looking to privatization as a way to solve funding and capacity problems by monetizing the existing rail network. Currently, the railways runs around 13,000 passenger trains, but circa 20,000 trains are required to meet the demand. In summer 2020, the railway ministry announced an initiative for private players to operate passenger trains by April 2023. The initiative aims to improve the availability of transportation services provided by the railways. More than 20 companies including Bombardier, Adani Ports, France's Alstom, Spain's Talgo, Macquarie group, Tata Realty, NIIF and CAF India are known to have participated in several stakeholder meetings as well as BEML, Bharat Forge, BHEL, CAF India Pvt. Ltd., Gateway Rail, Hind Rectifiers Limited, I-Board India Pvt Ltd, IRCTC Limited, ISQ ASIA INFRASTRUCTURE INVESTMENTS PTE LTD, JASAN INFRA PVT Ltd., JKB Infrastructure Pvt Ltd, L&T, Medha Engineering, National Investment and Infrastructure Fund, PSGG Technologies Pvt Ltd, R.K. Associates & Hoteliers Pvt. Ltd, Sterlite Power, and Titagarh Wagons.

Officials emphasize that procurement will be done strictly under the 'Make in India' policy. Private companies looking to operate passenger trains in the country, will be given complete freedom to procure trains, whether they want to purchase, or lease them, and the national transporter is looking to have major infrastructure upgraded by the time private trains are brought on track. Around 11,000 km of high-traffic routes will be upgraded from 110 km per hour to 130 kmph, said railway board chairman VK Yadav. The railway ministry aims to enable passenger trains to run at 160 kmph on Delhi-Mumbai and Delhi-Howrah routes.

But how exactly will this PPP work, and will it be regulated? In early September, the *Hindustan Times*' Anisha Dutta reported the chairman Yadav's statements: "This is the vision for the next few years. Private train operators will be introduced and we will provide them with the rolling stock [trains] and the locomotive drivers while the staff and operations will be handled by them, just as how private airlines operate."

Yadav added that a revamped regulatory authority will also be set up to monitor the fares and safety of the trains. Plans to set up a Railway Development Authority (RDA) have been pending since it was approved by the Union cabinet in 2017. The RDA is aimed at regulating tariff determination, ensuring fair play and level playing field for stakeholders' investment, setting efficiency and performance standards, suggesting measures to enhance non-fare revenues and dissemination of information.

In mid-September 2020, Amitabh Kant, NITI Aayog CEO said regarding PPP in passenger train operations. "We are looking at 109 Origin Destination pairs, divided into 12 clusters requiring 151 trains. They are being taken up for transparent competitive bidding and some most attractive routes, based on huge unmet demand, will be put out to run premium passenger services," he added. Request for quotation has already been floating and the due date for applications is October 7, 2020.

Passenger train service is not the only context in which PPPs are being considered. Indian Railways is now looking into having private firms operate freight trains as well. Dedicated Freight Corridors (DFC) projects are being expedited and the railways are working to allow private actors to operate double-stack containers or wagons on the DFC route on revenue sharing basis. As of July, 56% of Western Dedicated Freight Corridor and 60% of Eastern Dedicated Freight Corridor was completed said railways.