

WELCOME TO THE WEBINAR ON

Liberalization of Passenger Train Services in India - Regulatory Challenges

ORGANIZED BY

**Centre for Surface & Air Transport (CSAT),
Adani Institute of Infrastructure (AIIM), Ahmedabad, India**
In Collaboration with
Florence School of Regulation, Italy

DISTINGUISHED PANELISTS



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Director (Transport),
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Principal Academic
Advisor, NRTI



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MD, PRCL and VC,
CILT India



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Prof. Juan Montero
Professor, FSR



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(Moderator)
Head, CSAT, AIIM



Prof. Kamal Kishore Sharma
Head, CSAT, AIIM

- Fellow of IIM Ahmedabad, India
- Currently Professor of Practice at AIIM & Visiting Faculty at Indian Railways Institute of Transportation Management
- Formerly Professor, Dean & Vice Chancellor (A) at Ansal University Gurgaon
- Ex. CEO at an MNC subsidiary (ArcelorMittal Aktau, Kazakhstan) & Strategy Head at a large Steel Plant
- Ex. Indian Civil Servant (Indian Railways Traffic Service)
- Institution & Business building experience across a diverse range of socio-economic contexts



Prof. Matthias Finger
Director (Transport),
FSR

- **Ph.D. in Political Science in 1988 and his Ph.D. in Education in 1986, both from the University of Geneva**
- **Emeritus Professor at Ecole Polytechnique Fédérale Lausanne (EPFL), Switzerland**
- **Part-time Professor at the EUI and Director of Transport Area of The Florence School of Regulation (FSR Transport)**
- **Past Affiliations: Syracuse University, Columbia University, Swiss Graduate School of Public Administration in Lausanne**
- **Research interests - Transformation of network industries in the postal, telecommunications, railways, electricity, air transport, and water sectors**
- **Editor, Journal Competition and Regulation in Network Industries and in charge of special editions of Utilities Policy for Elsevier.**

LIBERALISATION OF PASSENGER TRAIN SERVICES IN INDIA – REGULATORY CHALLENGES

22 JANUARY 2021 @ 10:30 AM – 12:00 PM CET

WHY THIS HANDBOOK?

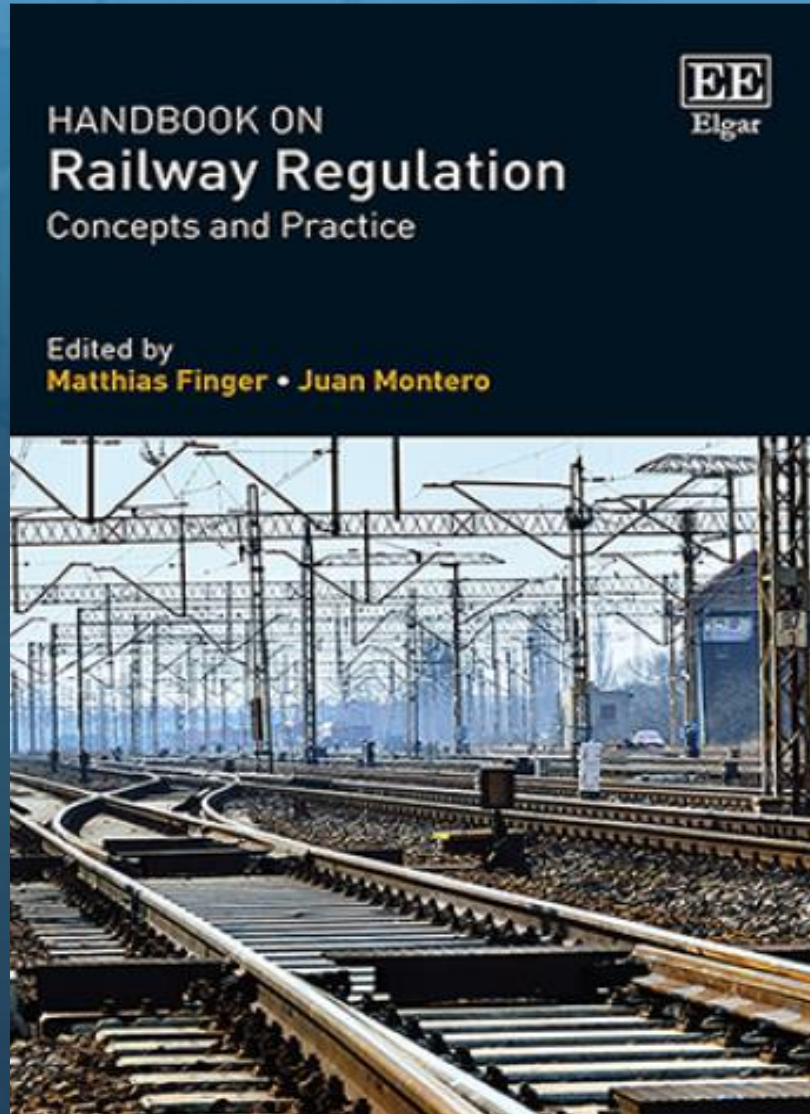
- Since 2010 we organize Florence Railway Forums together with the EC/DG MOVE, and accompany the COM in its efforts to reform Europe's railway systems
- Finger, M. & P. Messulam (eds.) (2015). *Rail economics, regulation and policy in Europe*. Cheltenham: Edward Elgar.
- Over the years, the EU's liberalization agenda has been complemented by a decarbonization and a digitalization agenda
- 2019: *Manifesto for the next five years of regulation of EU transport* (update in light of COVID-19 in May 2020)
- Next Monday, the EU will celebrate its full market opening, almost 30 years after the process started; in some countries, railway reform had started 10+ years earlier (US, UK, S, JP)
- 2021 will be the year of railways in the EU
- But now we need to look also beyond Europe/US, as there are interesting railway countries (CN, IN, KR, RU)

HISTORY

- It all starts in Europe ... which is exporting the model
- “Peak rail” at the beginning of the 20th century, then nationalization in many countries
- “Divergence” after modal competition from road and air:
 - freight vs passengers
 - high-speed as a new vision (JP, F)
- “Diverging policies” re railway reform:
 - horizontal competition in the US
 - vertical separation and infrastructure harmonization in the EU
 - competition for the market (PSO, tendering)
- ... re-evaluating reform policies: have they delivered? (investment, technical harmonization, competition, modal share)
- ... and new challenges and opportunities: decarbonization and digitalization

THE MAIN MESSAGES

- Rail has (must have) a future!
- But which rail?
 - high-speed?
 - mass-transit?
 - long-distance?
 - freight?
 - regional?
- ... and where?
 - historical railway countries
 - emerging railway countries
 - “experiment EU/SERA”
- A broader, more systemic policy and regulatory perspective is required:
 - rail in light of modal shift
 - rail in the context of multimodality



STRUCTURE AND TOPICS

- 14 countries: leaders, large railway countries, small interesting countries
- 10 transversal issues: technical issues, high-speed, mass-transit, modal shift, digitalization
- 24 chapters authored by the main internationally recognized railway experts

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Prof. Rachna Gangwar
Associate Professor,
AIIM

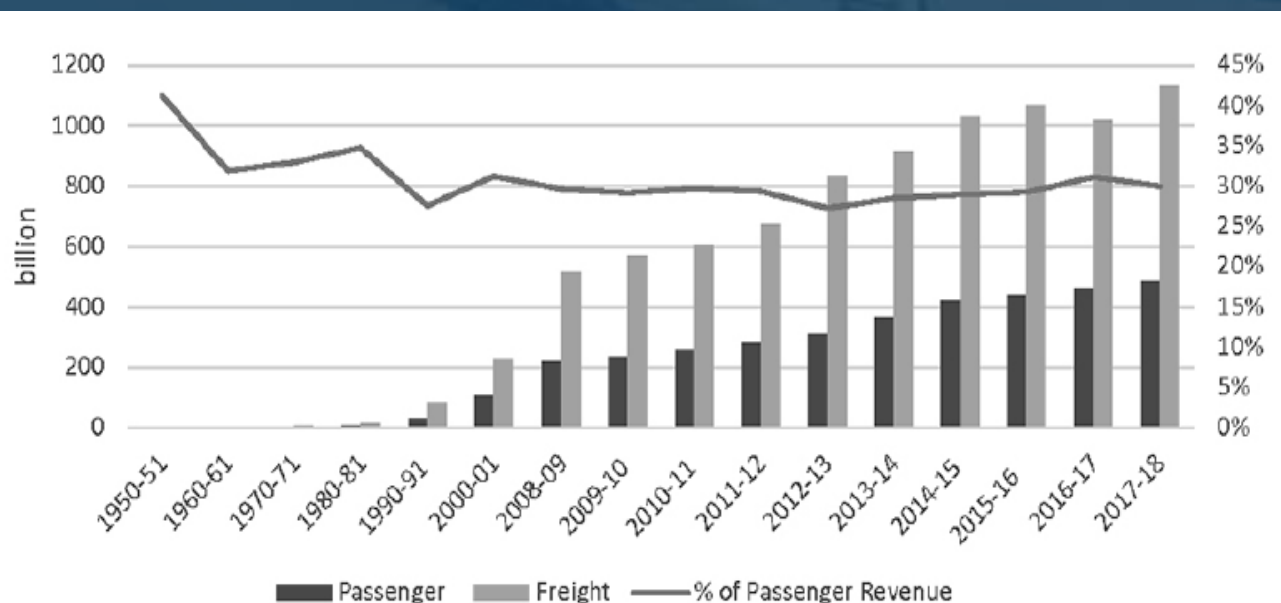
- **PhD – CEPT University (Ahmedabad), MS – University of Karlsruhe (Germany)**
- **Earlier Affiliations: Institute of Management Technology (IMT) Ghaziabad, Indian Institute of Management (IIM) Ahmedabad & University of Karlsruhe Germany**
- **Worked with PTV Group , a leading consulting firm of Germany in Transportation and Logistics**
- **Research Interests: contemporary issues in transport and public private partnerships in the Indian context**

Indian Railways

- 4th largest railway network in the world
- Largest passenger and 4th largest freight transporting railway system
- Vertically integrated
- State owned rail infrastructure (except for few lines built by private companies)
- State operated (partial liberalization in freight)

Indian Railways

- Market share 30% in freight and 15% in passenger traffic
- 2/3rd revenue from freight
- Passenger services cross subsidized by freight
- Huge capital investment requirement



- Limited sources of finance
- Increased reliance on private sector
- New railway line projects on PPP
- Schemes of investment in wagons

Liberalization of Container Train Services

- Till 2006, IR was the monopoly service provider for all freight and passenger services
- Container train business was the first major initiative
- 15 new players along with incumbent CONCOR obtained the license
- Competition in the market



- Haulage (charge per TEU) to be paid to IR
- Mandatory investment in infrastructure

Liberalization of Container Train Services

- Haulage to railways
 - Frequency of revision, cargo specific or freight all kind, full rake vs consolidation
- Access to terminals and pricing
- Maintenance facilities
- Service levels by IR – transit times
- Level playing field with incumbent – terminals on rly land vs land on market rate
- Absence of independent regulator



Issues..

- Distinction between policy making (Ministry of Railways) and national transport operator (Indian Railways) is blur
- Railway Board, is the apex body of IR, also the chief administrative and executive body of MOR
- IR inevitably becomes part of the policy making process
- IR is policy maker, licensor, infrastructure owner, operator, regulator
- Conflicts of interests (entry barriers and level playing field)

Future Outlook

- Thrust and political will
- Significant increase in budget allocations
- Projects on mission mode– DFC, electrification, station redevelopment, network expansion, HSR
- Ambitious targets – 45% market share and 100% electrification by 2030 and many more..
- US \$700 billion envisaged between 2018-30

The Road Ahead...

- Despite recommendations from several committees, institutional and policy reforms are slow...
- Piecemeal approach not sustainable in long term
- Decentralization, organizational restructuring, competition in services, independent regulation..
- Separation of roles as licensor, operator, and regulator



Prof. G Raghuram
Principal Academic
Advisor, NRTI

- PhD from Northwestern University, USA, Masters IIM Ahmedabad and Graduate from IIT Madras.
- Indian Railways Chair Professor from January 2008 to August 2010 at IIM Ahmedabad
- Director, IIM Bangalore, from Feb 2017 to Jul 2020, Professor and Chairperson of the Public Systems Group at IIMA. He has been Dean (Faculty), IIMA, Vice-Chancellor of the Indian Maritime University. Served on various government policy making and advisory committees
- Research Interests: Infrastructure, transport systems logistics and supply chain management in railway, port, shipping, aviation and road sectors
- Fellow of the Operational Research Society of India, and Chartered Institute of Logistics and Transport
- Awarded the 'MC Puri Memorial Award' for Contribution to Operational Research in India, 2016; 'Academician of the Year' by the Chartered Institute of Logistics and Transport in 2012, and 'Lifetime Achievement Award' for contribution to logistics and infrastructure by EXIM News in 2014



Mr. Sanjiv Garg
MD, PRCL and VC,
CILT India

- Chevening Gurukul Scholar at London School of Economics & Political Science, Masters in Economics from Delhi School of Economics, MBA from MDI Gurgaon
- Experienced logistics and rail transportation professional
- Currently Managing Director at Pipavav Railway Corporation Limited managing a PPP joint venture of APM terminals & Ministry of railways , Govt of India
- Vice Chairman, Chartered Institute of Logistics & Transport
- Served in Senior Management Cadre with Indian Railways for 36 years (1983-2018)
- Skilled in operational management, negotiations, freight and ports

BACKGROUND

- Railway Minister Budget Speech (2015-16) proposed a regulatory mechanism for tariff, performance standards, protection of consumer interests
- The Government with the approval of Cabinet, decided on **5th April 2017** to constitute a **Rail Development Authority** (“RDA”). Gazette Notification was issued on **8th May 2017**.
- It shall consist of a **Chairman** who shall be responsible for overall functioning of RDA and three Members viz **Member (Tariff), Member (PPP) , and Member (Efficiency, Standards & Benchmarking)**
- The appointment of the Chairman and three Members is to be done by the Central Government from the panel of names recommended by the **Search and Selection Committee** having Cabinet Secretary as Chairman with other 3 Members (Chairman Railway Board, Secretary DoPT and Chairman Competition Commission nominated by Cabinet Secretary)

ORGANIZATIONAL STRUCTURE



Main Objectives of RDA

- Pricing of services commensurate with costs.
- Protection of consumer interests.
- Promoting competition, efficiency and economy.
- Encouraging market development and participation of stakeholders.
- Creating positive environment for investment.
- Benchmarking of service standards against international standards and enforce with respect to the quality, continuity and reliability .
- Providing framework for non-discriminatory open access to DFC infrastructure in future.
- Suggesting measures to absorb new technologies for achieving desired efficiency and performance standards.
- Suggesting measures for human resource development to achieve any of its stated objectives

Functions of RDA :

Tariff Determination

- RDA will perform following tariff determining functions:
 - Framing guiding principles/rules/models for tariff determination — Freight and Passenger
 - Make recommendations on tariff setting including suggesting proposed tariff and revision of tariff
 - Framing principles for determining classification / reclassification of commodities.
 - Framing principles for subsidy/ social service obligation
 - To Lay down guidelines/ rules to determine Track Access Charges to DFC and others in future.

Functions of RDA (cont.)

Ensuring Fair Play And Level Playing Field For Private Investors

- Propose modifications and send suggestions / advisory notes to MOR for realigning the risks distributed between the parties
- Interpret all future concession agreements subject to such clause being available.
- Make suggestions regarding policies for infrastructure creation through private investments/PPP
- Dispute resolution regarding future concession agreements subject to a specific clause in the Concession Agreement

Functions of RDA (cont.) SETTING EFFICIENCY & PERFORMANCE STANDARDS

- Define Standards of performance and efficiency for customer satisfaction in passengers and Freight
- For enforceability Standards will need to be adopted as Rules under the Railways Act
- To check deviations from Performance Standards and suggest remedial measures
- To suggest measures for absorbing new technologies for achieving desired efficiency and performance standards

Functions of RDA (cont.)

DISSEMINATION OF INFORMATION

- Act as Data repository-Collect the data from the Indian Railways and other operators and disseminate
- Dissemination of information based on global best practices and benchmarking and standards
- Recommend the process for dissemination
- Collect information from concessionaire/ operators and sharing the same with public

What RDA will NOT undertake

- RDA shall have below-mentioned specific exclusions while performing the functions :-
 - Policy making
 - Tariff Determination and Classification (can frame guiding principle /rules/models)
 - Operations and Maintenance of Rail System
 - Financial / expenditure management
 - Setting technical standards
 - Compliance of safety standards and practices.
 - Those already explicitly covered under statutes
 - Subjects covered by Rates and Claims tribunals of Railways

Limitations

- Recommendatory Body
- Can't seek compliance
- List of exclusion includes Tariff Determination
- List of exclusion also includes those issues which are explicitly covered under statutes.
- Not sufficient measure in the regime of private passenger train operators and multi freight train operators.
- Not sufficient to ensure safeguards for the customers.

Possible Measures

- To set up a regulatory Body like TRAI, either through separate act or amendment of Railways Act.
- Tariff determination which is with Government, under Chapter VI of Railway Act (Sec 30 – 32) needs to be amended.
- Provisions in other Act if in contravention also needs to be amended.
- The regulatory Body may be empowered to make rules.
- The decision of the Regulatory Body within the mandate should be binding on rail infrastructure owner and service providers.



Prof. Juan Montero
Professor, FSR

- **PhD Law, European University Institute**
- **Currently Professor of Administrative Law and Economic Regulation in the Universidad Nacional de Educación a Distancia (UNED) in Madrid**
- **Working with FSR Transport since 2016 and as a part-time Professor since February 2018**
- **Associate-Editor in Chief of the Journal of Competition and Regulation in Network Industries,**
- **Member of the board of 360 Revista de Alta Velocidad and other journals**
- **Research Interests: Regulation of network industries, both traditional like railways, telecommunications and posts, and new network industries like digital platforms, and the interaction between them, particularly in transportation**
- **Advises carriers and governments on institution building, liberalization and public service schemes**

HANDBOOK ON RAILWAY REGULATION

Regulatory Challenges In Europe

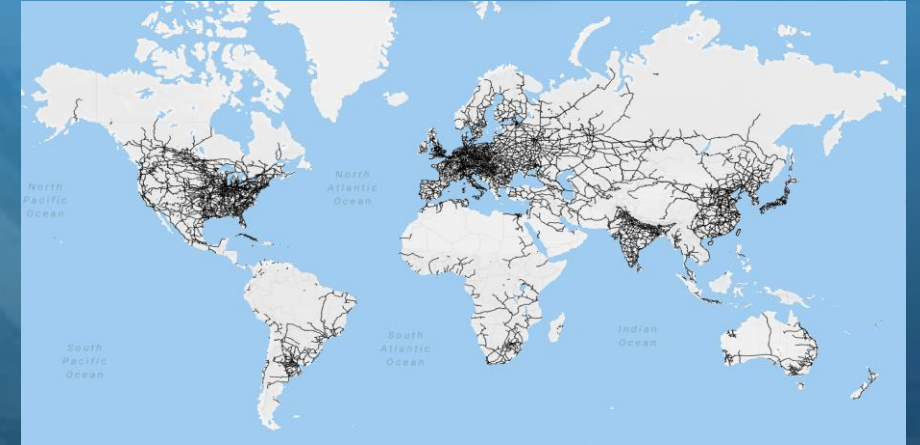
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EUROPE

- Dense railway infrastructure...
- Successful high-speed services...
- Popular rail commuting services... **BUT...**



CHALLENGE: EVOLUTION FROM NATIONAL TO EUROPEAN NETWORK



- Infrastructure built as national systems...
- Bottlenecks in internal borders...
- Interoperability problems...
- No EU market for rolling stock...
- Cross-border freight services not reliable

Construction of the single European railway area

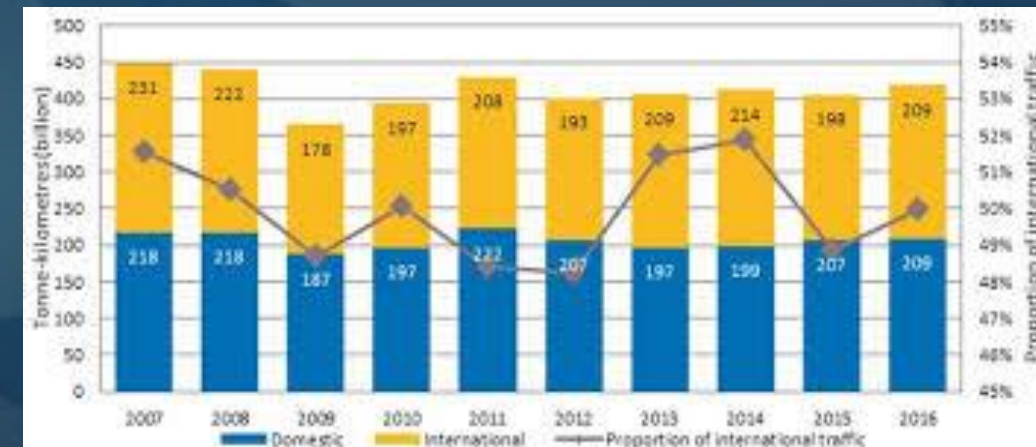
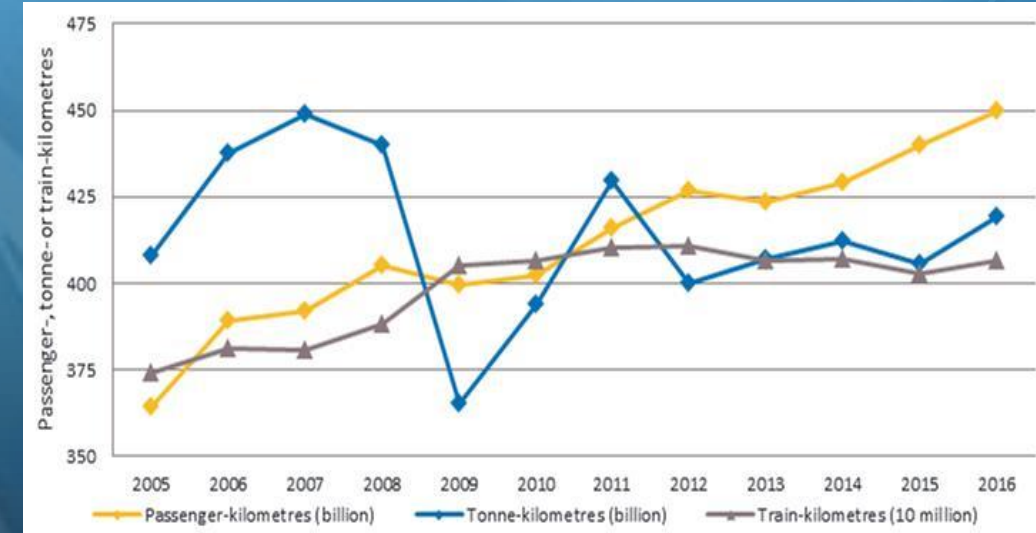
- Rail infrastructure: natural national monopolies
- EU investment in TransEuropean Networks.
- Special attention to missing cross-border links.
- Interoperability (ERTMS).
- Rail Freight Corridors.

CHALLENGE: 27 infra managers...1 network



Competition In Freight Services

- Market liberalized in 2007.
- Newcomers have 39% market share.
- BUT... no growth in modal share (17%).
- OPPORTUNITY: long-distance, cross-border services.
- The pace of change needs to be accelerated.



Competition In Passenger Services

- Dec. 14th, 2020: Competition in the market.
- Pioneers:
 - UK: Franchises since 1990s... under review.
 - Italy: Successful competition in HS.
 - Czech Rep.: Three competitors, expanding in Central Europe
 - Other: Austria, Sweden...



Situation In Liberalized Markets:

- Competition limited in scope: only main corridors.
- Competition limited in number: 1 newcomer (2 in CR).
- Reduction in prices: up to 50%.
- Increase in frequencies: up to 100%.
- Financial challenges for railway undertakings.



Competition In Pso Services

- PSO 60% of EU rail passenger-km.
- Competition for the Public Service Obligation markets.
- Competitive tendering already in 41% of services.
- Tenders for PSO contracts as from 2023.
- Next: France





Any Questions?



Thank You.