

## Part V-Pricing of Rail Transport

### Power to fix rates

1. The power to fix rates for the traffic carried by the Railways has been vested in the Central Government by Section 30 of the Railways Act. The power to classify/re-classify any commodity for the purpose of determining the rates to be charges has also been vested in the Central Government by Section 31 of the same act. However, section 32 gives some powers to the Railway Administration to quote station to station rates and lump sum rates.

### Basic considerations in fixing rates

2. For an industry to remain viable it must earn from the sale of its products adequate revenue to cover all its cost including interest on capital and overheads and should have enough earning left to cover the cost of replacement of assets such as machinery, etc. by way of depreciation and at the same time earn a reasonable amount of profit. Railway being an industry producing and selling transport must also keep this objective in view in fixing the freight rates and passengers fares. The Railways all over the world have, therefore, traditionally followed the principles of what are known as “cost of service” and “value of service” principles. What these principles mean is explained in the subsequent paragraphs. Indian Railways have in addition to keep 3 more factors in view while fixing their rates and fares. There are :-

- (i) The need to balance their Annual Budget.
- (ii) Govt’s policy of charging very low rates for items of daily use by the common man such as foodgrains, salt, sugar, kerosene oil, etc. and
- (iii) Keeping the passengers fares specially for second class and the suburban and non-suburban season tickets at low level, again in the in the interest of the common man.

3. Fixing the level of rates for goods traffic, keeping the above 5 principles in view thus becomes quite a complex problem. Railways carry thousands of commodities which are heterogeneous in nature. They include articles of daily use, industrial raw materials, finished products, coal which is basic fuel for thermal power stations and industry, petroleum products, perishables, chemicals, dangerous goods, etc. different rates are charged for different commodities. But as can be easily appreciated it is not practicable to have a separated rate for each of the thousands of commodities. Therefore, for the purpose of charging, the commodities are grouped into what are known as classes. At present the total number of classes is 15(for Trainload), the lowest being class LR 4 and the highest being Class 200. These classes are generally represented as percentage of basic class 100 although Class 80 will not be an exact 80% of Class 100 not for that matter will class 200 be exactly 3 times of class 100 because certain items such as terminal expenses remain uniform and therefore become constant factor in every class. Further, while exempting from year to year items of daily use of common man from the increase in freight rate

introduced as part of the Railway Budget, certain classes have got split. For example, Class 80 has got split into 3 subclasses, 80A, 80C and 80. similarly, Class 85 has been split into 3 subclasses as 85A,85C and 85 with different rates being charged for each subclass. How much the rates for different classes vary can be seen from the lowest and the highest rate given below; (as on 1.7.2006)

Distance in km.	Per Tonne Rate at Class LR 4 In Rs.	Per Tonne Rate at class 200 in Rs.
100	50.00	166.80
200	84.70	282.20
300	118.00	393.40
500	184.90	616.40
1000	355.10	1183.80
2000	657.80	2192.80
3000	841.60	2805.20

4. Another point to be noted from the above Table is that the rate for 200 km is not 2 times that for 100 km. nor the rate for 1000 km 10 times that for 100 km and so on. This point is commented upon in subsequent paras. Certain broad principles and empirical considerations are kept in view in determining the classification of a particular commodity.

#### 5. Cost of service Principle

It stands to commonsense that the freight earned from carrying a commodity should cover the cost of its carriage. The cost includes not only the haulage cost but also the cost of terminals, namely, the forwarding and the destination points and also the cost of marshalling the train en-route. Thus when a full train load moves through from its point of origin to its-destination station, the cost of its transportation will be lower than that of a train which have wagons for different destinations though in the same direction and has, therefore, to be stopped at intermediate yards for shunting and marshalling. Therefore, wherever a train load classification has been given for a commodity it is always lower than the rate for the same commodity moving in wagon load.

#### 6. Value of service

Freight rates cannot be based only on the basis of cost of service and have to be moderately based on what is called the value of service. The value of service has been defined as the extent to which the value of a commodity is increased by virtue of its having been transported, namely the difference between value at the point of departure and at the point of arrival. The price paid for transporting such a commodity should not increase the amount by which its value is augmented. If there is only one source of supply, the consumer is perforce to bear the whole cost of carriage for whatever rate is charged for transport must be added to the price of commodity at the point of its sale. But it generally happens that supplies can be drawn from many sources and the selling

price is affected by the lowest price at which goods of the same quality can be put on the market. Further if the cost of transportation is too high the item may become prohibitively expensive and may not sell at all. The Railways have, therefore, to keep in mind if a commodity can bear the freight to be charged for and have to keep the rates within that limit.

### **7. Cross subsidization**

Since the cost of carriage as well as the ability to bear freight rates varies from commodity to commodity, certain commodities get charged at comparatively lower rates while the others get charged at comparatively higher rates. These factors coupled with the govt. policy of subsidizing passenger fares and the transportation of essential commodities like foodgrains, salt, sugar, kerosene, etc. account for such a large number of classes being in force on the Indian Railways for the purpose of charging freight rates. The loss in carriage of certain low rated commodities is made up by gain in carriage of the high rated commodities and loss in carriage of passenger traffic is made up by freight so that in the aggregate Railways earn enough revenue to balance their Budget and also to make provision for payment of dividend to General Revenue even after making adequate provision for the depreciation of assets being a public utility. The Railways do not utilize their predominant position as carriers to make undue profits and try to keep the freight rates as low as economically possible.

### **8. Classification of commodities**

As mentioned, for the purpose of charging freight rates, commodities are grouped into classes. The main factors kept in view in classifying a commodity are mentioned below :-

1. Value or price of the commodity.
2. Use to which a commodity is put.
3. Relativity between finished products and their raw materials.
4. Load ability of a commodity.
5. Susceptibility to damage in transit.
6. Nature of commodity dangerous or non-dangerous.

### **9. Value of commodity**

Commodities with higher value which can bear higher freight rate are given a comparatively higher classification than those of low value. For example, machinery is classified at class 250 whereas bricks are classified at class 105.

### **10. Use of the commodity**

Essential commodities are given comparatively lower classification. For example, coal is classified at class 135 urea and fodder at class 90.

### **11. Relativity between finished products and raw materials**

Raw materials are generally given lower classification as compared to the finished products.

For example, iron ore is charged at class 120 iron or steel scrap at class 160.

### **12. Load ability of a commodity**

A commodity which gives a higher weight per wagon is charged at a lower rates as compared to the one whose load ability is low. Even for the same commodity, different rates are charged depending upon its packing. For example raw cotton when machine pressed and giving a weight of 170 quintals per 4 wheeler broad gauge wagon is assigned the classification of 170 where as the same commodity when hand pressed and giving a load ability of 110 quintals per wagon is assigned the classification of 180.

### **13. Susceptibility of damage during transit**

Damageable commodities are assigned relatively high classification.

### **Dangerous products**

**14.** Petroleum products dangerous in nature are charged at a higher class, namely, class 250.

**15.** All the classifications mentioned above are for the traffic offered in full wagonloads. For train loads, wherever provided the classification is slightly lower.

**16.** It must, however, be borne in mind that the factors mentioned above do not translate themselves into any mathematical formula. These are guidelines to be kept in view in fixing the classification of a commodity in the overall freight structure. The total transportation characteristics of the commodity keeping in view the cost of service and value of service are to be borne in mind while taking a decision.

### **Telescopic basis of charging freight rate**

**17.** It goes without saying that the rate to be charged per tonne has to have a relation with the distance over which the traffic is carried. However, in Railways, the rate per tonne does not increase in direct proportion to the distances of haul. On the contrary, the rate per tonne per kilometer decrease as the distances of haul increases. This feature of railway rating take into account both the cost of service and value of service With terminal expenses remaining the same, the cost of haulage per kilometer goes down as the length of haul increases. Similarly, the capacity of traffic to bear more and more freight with the increase in length of haul also diminishes. Hence the practice of following telescopic basis for fixing rates.

### **Distance blocks for which rates are charged**

**18.** Both for the sake of simplicity of tariff and telescopic principle mentioned above, Railways do not charge freight charges for each kilometer of haul. On the contrary, same rate per quintal is charged for distances falling into a certain block.

It means that the same rate per quintal will be charged whether the distance is 2401 or 2425 kms. and so on.



## Part VI- Claims and Liability of Railways as carriers

1. Consignments booked by rail can sometimes get lost or damaged in transit. In such cases, claims for compensation can be lodged with the Railways. Liability of the Railways as carrier is contained in section 93 to 112 of the Railways Act, 1989. Certain other sections of the Railways Act having a bearing on the subject are Section 64,65,67,69,76,80 & 81. The main sections are explained below-

### General responsibility of Railways as carrier of goods

2. General responsibility of Railways as carrier of goods is contained in section 93 of the Railways Act 1989, which is reproduced below :

“93. General responsibility of a railway administration as carrier of goods. – save as otherwise provided in this Act, a railway administration shall be responsible for the loss, destruction damage or deterioration in transit, or non-delivery of any consignment, arising from any cause except the following namely :-

- (a) act of God;
- (b) act of war;
- (c) act of public enemies;
- (d) arrest, restraint or seizure under legal process;
- (e) order or restrictions imposed by the Central Government or a State Government or by an officer or authority subordinate to the central Government or a State Government authorized by it in this behalf;
- (f) act or omission or negligence of the consignor or the consignee or the endorsee or the agent or servant of the consignor or the consignee or the endorsee;
- (g) natural deterioration wastage in bulk or weight due to inherent defect, quality or vice of the goods;
- (h) latent defect;
- (i) fire, explosives or any unforeseen risk; Provided that even where such loss, destruction, damage, deterioration or non-delivery is proved to have arisen from any one or more of the aforesaid causes, the railway administration shall not be relieved of its responsibility for the loss, destruction, damage, deterioration or non-delivery unless the railway administration further proves that it has used reasonable foresight and care in the carriage of the goods”