Chapter 1 Introduction

1.1 Dual Freight Policy

On Indian Railway (IR), rate for charging freight for a commodity is decided on the basis of Goods Classification wherein a class is assigned to each commodity. The freight rate applicable to that class is charged for all commodities included in that particular class. Taking into account the socio-economic and commercial factors[1], IR also specifies, for the same distance and quantity, higher and lower rates for transport of same or various forms of a particular commodity.

'Iron ore' is an important commodity transported by the IR, both in terms of volume of traffic and also in terms of freight earnings. 'Iron ore' is transported for domestic consumption in the Country and also for non-domestic consumption like sale / export. So far as transport of 'Iron ore' for domestic consumption is concerned, IR is a major transporter, the share during 2007-2008 to 2011-12 ranged between 57 *per cent* and 79 *per cent*. However, of the total freight earnings of IR, percentage of earnings from transportation of 'Iron ore' for both domestic as well as non-domestic consumption was 17 *per cent* in 2008-09, which came down to 9 *per cent* in 2012-13. The decrease in earnings was on account of a ban imposed during this period by the Honorable Supreme Court on mining of Iron ore for export purpose in some parts of country.

With the primary objectives of lowering the cost of transport of 'Iron ore' for domestic producers and to keep freight charges for export of Iron ore in sync with its rising international spot market prices and garner high freight revenues in the event of increase in international price of Iron ore[2], IR Introduced (May 2008) the Dual Freight Policy (DFP)[3] under which, transportation of 'Iron ore' was categorised into two classes on the basis of end use viz. 'domestic consumption' and 'other than domestic consumption'. The former was assigned a lower Class[4] and the latter a higher Class[5]. The above classes cover various types of Iron ore viz., lumps, fines, calibrated form, pellets etc. The freight difference between the two assigned classes was on an average more than three times.

Manufacturers of Iron and Steel, Cement and Pellets are the authorised customers eligible for booking 'Iron ore' at domestic rate as per the Rate Circulars issued by Railway Board subject to laid down terms and conditions.

[1] Indian Railway Conference Association Goods Tariff Part I (Volume II)
[2] Source - Records maintained by the Railway Board.
[3] Rate Circular No. 24 of 2008
[4] Class 170
[5] Class 200 X

1.2 Types of Iron ore

Figure 1.1 Iron Ore Fines

Iron ore is the basic raw material used for making pig iron, sponge iron and finished steel. Mined iron ore contains lumps of varying sizes[6]. The blast furnace used for processing 'Iron ore' at manufacturing units requires lumps between 7 to 25 mm. As such, bigger lump ore is required to be crushed. Crushed ore is divided into various groups by passing it over sieves and lumps (7 to 25 mm in size) are separated from the fines (less than 7 mm). If the lump is of appropriate quality, it can be charged to the blast furnace without any further processing. Iron ore fines, which cannot be put directly in blast furnace, however, must be agglomerated, which means re-forming them into lumps of suitable size by a process called sintering/ pelletisation.

Figure 1.2 Iron Ore lump

Various varieties of Iron ore, except Pellets/ Sinters, are traded and loaded in wagons from mine areas/ loading points.

Figure 1.3 Iron Ore pellet

1.3 Freight Operation Information System (FOIS)

The Centre for Railway Information Systems (CRIS) is an Autonomous Organization under the Ministry of Railways. It develops and manages the Information Technology applications (like FOIS, UTS, CMS etc.) of the Indian Railways. All freight related activities in IR from booking of wagon rakes to issue of Railway Receipts (RRs) have been computerised and are handled through an IT system namely Freight Operation Information System (FOIS). This system has two modules namely Rake Management System (RMS) and Terminal Management System (TMS). The former covers operational activities and the latter, the whole gamut of commercial transactions. The Rake Allotment System (RAS) is an additional module introduced for the purpose of allotment of rakes to customers for two Divisions namely Chakradharpur of SER (January 2011) and Khurda Road of ECoR (May 2011), from where a large share iron ore traffic is loaded.

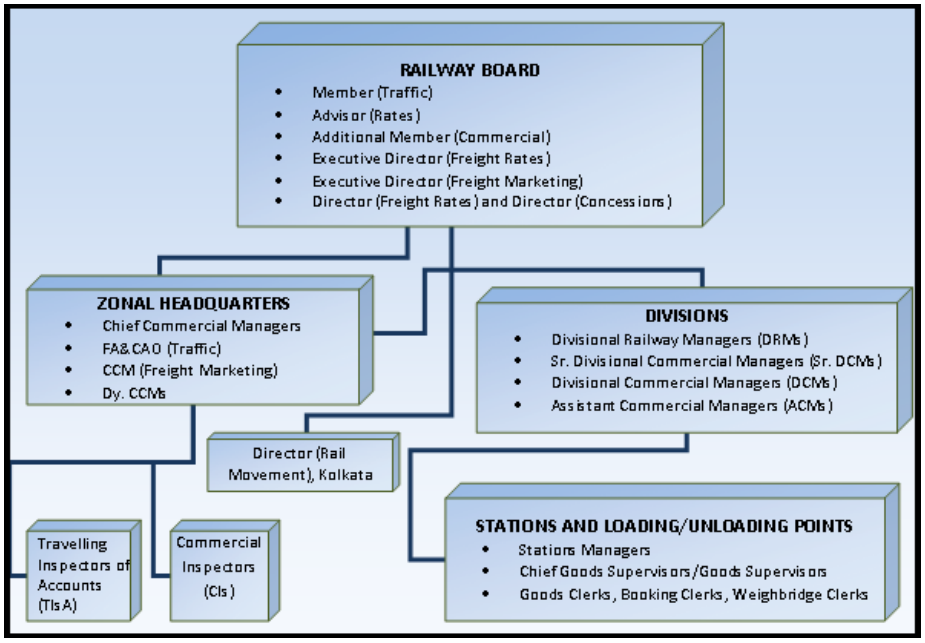
1.4 Organisational Structure of staff responsible for working of Dual Freight Policy with regard to Iron Ore

At the field level, the Divisional Authorities implement the policy at various loading and unloading points. Travelling Inspectors of Accounts (TIA) and Commercial Inspectors (CI) are the inspecting authorities at the Railway

[6] ranging from 1 mm to 1 meter

stations to check the basic records of traffic transactions to curb the leakage of revenue. Zonal Railways' headquarters implement the policy at the field level. The Organisational Structure in the IR for dealing with formulation, implementation and monitoring of freight policies is depicted in the Chart below:

Figure 1.4 Organisational Chart



1.5 Audit Coverage

The implementation of DFP for iron ore traffic was first highlighted in Audit Paragraph (No. 2.5 of CAG's Audit Report No. 32 of 2011-12 (Railways) that brought out irregularities in booking of 'Iron ore' traffic at domestic rate without ensuring receipt of stipulated documents from the consignors at three loading points of Waltair Division of East Coast Railway (ECoR) for the period from 22nd May 2008 to 31st March 2011.

Audit again examined implementation of DFP at 26 loading points and 10 unloading points over three Zonal Railways[7] for the period from 22nd May 2008 to March 2012 (Paragraph No. 2.2 of the Report No. 25 for the year ending March 2012) highlighting irregularities in submission of required documents for availing benefit of domestic freight rate besides availing of domestic rates by some manufacturing units while used the iron ore for sale/export and availing of domestic rates by some manufacturing units in respect of iron ore already utilised for other than domestic purpose like sale/export.

In the Action Taken Notes furnished in October 2012 and October 2014 by the Ministry of Railways (Railway Board) in regard to printed Audit Paragraphs mentioned above it was stated that the onus of conforming to the affirmed end-use was on the consignor /consignee as Railways does not/ did not have any

[7] South Eastern Railway (SER), South Western Railway (SWR) and East Coast Railway (ECoR)

obvious in-built mechanism for ascertaining the end-use to which the iron ore was ultimately put after its delivery had been taken by the consignee. Further, the submission of specific documents prescribed by Railway was to establish the bona fides of the party that it was transporting the 'Iron ore' for 'domestic consumption' and if the party then exports the material, it is a clear case of fraud.

In view of the significance of the issue, during the present review Audit covered all major loading points and unloading points of all Railway Zones in order to examine the enforcement of the rules framed for the dual freight policy and the aspect of rake allotment for iron ore traffic. Audit also studied the internal controls, monitoring and reporting. The cases of short reporting of iron ore transported by Rail at domestic rate in Excise Returns by consignees vis-a-vis removal of iron ore from plant premises were also examined.

1.6 Audit Objectives

The main Audit Objectives were to

- Check compliance with laid down rules and procedures for booking and delivery of Iron ore at domestic rate by Railways and assess the quantum of freight evasion and leviable penalty due to non compliance, if any. To examine whether there was any diversion/removal/short reporting of Iron ore booked at domestic consumption rate.
- Examine the frame work of the DFP vis a vis the Internal Control mechanism adopted by IR for ensuring the effective implementation of the provisions of the policy, monitoring and reporting.

1.7 Audit Criteria

Railway Board's Rates Circulars on classification, booking and charging of freight for Iron ore and pellet (No. 95 of 2006, 24 of 2008, 30 of 2008, 54 of 2008 and 36 of 2009 and addendum/ corrigendum thereto), other related orders issued by the Railway Board and General Rules for Goods Traffic were used as main audit criteria. General Order no. 81 of the Railway Board dated 23.03.2007 and other General Orders was used as criteria for allotment of rakes.

Rules and provisions as laid down in the Indian Railway Commercial Manual (IRCM) (Volume II) regarding duties of the Commercial Inspection wing, submission of Commercial Inspection Reports after completion of the inspection by CIs and inspection of TIAs in connection with check of the basic records of traffic transactions, were also referred to.

1.8 Audit Scope

The present review covered the period from 22 May 2008 to 30 September 2013. The status in respect of loading points already covered in the earlier Reports was also updated from April 2012 up to September 2013. Aspects relating to Rake allotment were covered up to 19th May 2014.

1.9 Sample size

Iron Ore is mainly loaded from 97 loading points over seven Zonal Railways viz. SWR, WR, SER, SECR, WCR, SR and ECoR and unloaded at 180 unloading points spread over 15 Zonal Railways. To study the position of submission of documents, issue of Railway Receipts (RRs), monitoring and control mechanism by the Railway Administration, the following samples were selected:

a) Loading points: Out of total 97 main loading points at seven Zonal Railways, records in respect of 83 loading points (85 *per cent*) were reviewed in Audit. 97.20 *per cent* of total RRs issued at all loading points were checked. Summarised position for Zonal Railways are shown in **Statement-A**.

b) Unloading points: Out of total 198 unloading points spread across fifteen Zonal Railways, 180 unloading points (91 *per cent*) were covered in Audit. Summarised position for Zonal Railways are shown in **Statement-B**.

The list of loading and unloading points studied in audit is given in ***Annexure I and II*** respectively.

c) Rake Allocation/ Allotment

Sample size in respect of Rake allocation/ allotment was as follows:

i) Executive Director Rail Movement, Railway Board Office at Kolkata - For allocation made for SER, ECoR and SECR for the quarters ending December 2011, March 2012, March 2013 and March 2014. The records prior to September 2011 have been seized by Central Bureau of Investigation (CBI).

ii) Divisional Offices of WCR and SWR - Allocation/Allotments made by Railway Divisional Authorities for all the quarters during September 2008 to March 2014

iii) Chakradharpur Division of SER and Khurda Road Division of ECoR[8] - All allotment data from 1 January 2011 to 19 May 2014 in respect of Chakradharpur Division and from 1 May 2011 to 19 May 2014 in respect of Khurda Road Division.

d) Excise Returns and Annual Accounts of consignees

Out of total 303 consignees, Excise Returns pertaining to 188 consignees and Annual Accounts of 52 consignees, as provided by Central Excise Department and Department of Company Affairs respectively were examined in audit. For this purpose, companies unloading less than 10 rakes during five years period under review were excluded altogether. Out of the remaining, many

[8] RAS has been implemented from 1 January 2011 in Chakradharpur Division of SER and from 1 May 2011 in Khurda Road Division of ECoR

companies were common as those were unloading iron ore on unloading points of more than one Zonal Railways.

e) Monitoring System

To study the internal control system, monitoring and reporting, out of 97 loading points and 198 unloading points, 54 *per cent* of loading and unloading points were selected.

1.10 Audit Methodology

Audit studied the records in respect of assessment of Customers Rake Requirement[9] done by Executive Director of Rail Movement Kolkata, (EDRM/Kolkata) and other Divisional authorities, allocation plan generated in the Rake Allotment System/ by the Divisional authorities and allotment of rakes through RAS/manually were also examined.

Further, the documents submitted by various consignor/consignees while placing indents for allotment of rakes at loading points/to Sr. DCM office and at the time of delivery at the unloading points were examined to study the compliance to laid down provisions.

To assess the actual use of iron ore at manufacturing unit and their removal if any, for other than domestic use, the Excise Returns and Annual Accounts submitted by the consignee to the respective Government Departments were also collected and examined. While the Excise Returns for selected companies were collected from respective Excise Authorities, the Annual Accounts of these companies were collected from the Registrar of Companies, Ministry of Corporate Affairs, GOI and/or as available on their websites. The issues of monitoring and control mechanism in the field, Zonal Headquarters and Railway Board, supervision at various levels, training to staff and measures taken by railway administration for bringing about improvement in the system from time to time were also examined.

The reports for each Zonal Railway were issued to the Zonal Railways Administration and Exit Conferences was held with the Zonal Railways Administration by the Zonal Railway Audit Offices.

The review report was issued to Ministry of Railways in October 2014 and the reply received on 15th January 2015. Exit Conference with the Railway Board was held on 16th January 2015. Views of the Railway Board as contained in reply and stated during Exit Conference has been suitably incorporated.

1.11 Acknowledgement

We acknowledge the support and information/data provided by the Indian Railways during the course of audit. We also acknowledge support given by the Excise Authorities and Registrar of Companies towards collection of company-wise information.

[9] Assessment of monthly requirement of rakes for CBT, Priority C and WIS customers

Statement-A

Sample - Loading points				
Name of the Zonal Railway	**No. of loading points**	**No. of loading points examined in audit**	**Total no. of RRs issued during the review period from all the loading points at domestic rate (excluding RRs covered for the period 22 May 2008 to 31 March 2012 in the earlier report)**	**No. of RRs checked in audit**
SER	51	37	64718	63380[10]
EcoR	18	18	12108	10861[11]
SWR	17	17	4393	4393
WCR	5	5	444	444
SECR	2	2	11500	11500
WR	2	2	41	41
SR	2	2	175	147[12]
Total	**97**	**83**	**93379**	**90766**

Note : Fourteen loading points on SER were not covered in scope of Audit as these were very minor loading points where loading was not substantial.

[10] 261 RRs pertained to remaining 14 loading points, where total number of RRs during the period of review were less than 100 and not checked. 1077 RRS were not made available to audit.
[11] Remaining 1247 RRs not available.
[12] Remaining 28 RRs not traceable

Statement-B

Sample - Unloading points				
Name of the Zonal Railway	**No. of unloading points**	**No. of unloading points examined in audit**	**Total no. of RRs issued during the review period for all the unloading points at domestic rate**	**No. of RRs checked in audit**
SER	46	28	43773	41343[13]
ECoR	39	39	26776	26760
SWR	10	10	4226	4226
WCR	1	1	83	83
SECR	37	37	30512	30061[14]
WR	6	6	290	290
SCR	18	18	1142	1142
ER	5	5	10478	10478
NCR	1	1	203	203
ECR	4	4	981	981
NR	5	5	118	112[15]
SR	10	10	2461	2443[16]
CR	13	13	1712	1597[17]
NER	1	1	100	100
KR	2	2	269	269
Total	**198**	**180**	**123124**	**120088**

Note : Eighteen unloading points on SER were not covered in scope of Audit as these unloading points did not have substantial activity. As many as 97.53 *per cent* of total RRs received at unloading points were checked in all Zonal Railways (15).

[13] 2430 RRs pertained to remaining 18 unloading points, where total number of RRs during the period of review were less than 100 and not checked. 781 RRS were not made available to audit.
[14] Remaining 451 RRs not traceable/available
[15] Remaining 6 RRs not traceable
[16] Remaining 18 RRs not traceable
[17] Remaining 115 RRs not traceable