



Secretary/Chairman Railways

D.O. No. 1-3/2008-S (PM) - Pt.

Ministry of Railways  
(Railway Board)  
Government of Pakistan  
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Islamabad, April 16, 2013

SUBJECT: VIOLATION OF PUBLIC PROCUREMENT RULES 2004 IN  
PROCUREMENT OF 75 DIESEL ELECTRIC LOCOMOTIVES AT A  
COST OF RS. 12.700 BILLION, CONTRACT AGREEMENT OF \$ 105,143 MILLION

Dear Syed Ali Gilani

I am writing to you with reference to your letter dated February 20, 2013 regarding the above subject. Had you sent me a copy of this letter, I would have responded immediately to set the record straight.

2. At the outset, let me clarify that this is an old contract where the procurement process commenced in 2007. The delay in this procurement, it is my considered view, is one of the major factors responsible for downward slide of railway operations over the last four years or so.

3. While I appreciate your concerns about violation of procurement rules, I think you need to know that this Ministry has proposed either condoning of the violations to proceed with the procurement, or allowing this Ministry to scrap the tender and to invite offers all over again. Accordingly, this Ministry is not pushing for procurement but aims to resolve the issue one and for all.

4. Perhaps you are not aware that indecision is costing the Ministry an amount of US\$ 1,489.53 per day as commitment charges on the loan obtained to finance the procurement. Because the loan became effective on January 21, 2010 and as many as 1,204 days have elapsed since then without the procurement coming to fruition, we have run up a liability of US\$ 1.8 million so far merely on commitment charges applicable to the loan, which increases on a daily basis. To this we must add non-refundable costs of obtaining the loan and insurance, as also 15 percent advance paid to the manufacturer which could also be forfeited. Further, we should not forget that every day that we delay a decision translates into potential revenues losses for

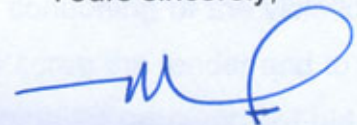
Pakistan Railways of at least Rs. 100,000 per locomotive per day. Finally, these locomotives are to be procured at the rate of US\$ 1.4 million apiece whereas the current market price for a similar locomotive is US\$ 3.2 million at an average.

5. Keeping the aforesaid in view, your letter of February 20, 2013 has unnecessarily sullied the waters and caused substantial losses for Pakistan Railways. I must also take this opportunity to point out that it has already been stated during a previous meeting of the Cabinet by no less than the Managing Director, Public Procurement Regulatory Authority, that violations or deviations of procurement rules in the acquisition of these locomotives are minor in nature. Most significantly, if there is a decision to condone these deviations, it will be subject to judicial review by the Honourable Supreme of Pakistan.

6. I would not go to the extent to state that you are unnecessarily interfering in state affairs and assuming without any logical basis that government decisions are taken without considering facts. I have written to you in the past and would again now advise you to exercise due caution, discretion and good sense, if not common sense, before jumping to illogical conclusions.

With regards.

Yours sincerely,



(Arif Azim)

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