



Carriage by Road Index

Moving towards a systemised future

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One of the biggest concerns of the road transport industry has been freight rate. The transporters always feel that they are paid inadequately, while the customers feel there is always some room to squeeze the freight rate further. The debate gets volatile whenever there is a revision in the price of essential inputs, especially diesel. Diesel form a large part of the operating cost and the slightest variation in the price of diesel has a significant impact on the operating cost. So much should the freight be revised in case of an increase or decrease in the price of diesel? Similarly toll rates are revised every year based on the Wholesale Price Index and tyre prices too keep fluctuating depending upon the manufacturing cost of tyres. However there is no barometer to measure the required increase or decrease of freight rate that would compensate the transporter adequately, if not entirely. So far there has been no mechanism to measure these changes. However the Indian Road & Development Association (IRTDA) has come with a formula that would give an indication of the same. This formula has been named Carriage by Road Index (CRI) and consists of 7 parameters, which have been named FREIGHT.

Transtopics met IRTDA President Mahendra Arya and spoke about the journey from conceptualising CRI to starting the Index score from 100. The following are excerpts from the conversation with Mahendra Arya on various aspects related to the CRI.

The Need for CRI:

Transporters across the country have always been reeling under the pressure of steep increase in diesel prices. The impact of this has been significant and severe after the deregulation of diesel prices. Due to various reasons the transporters were never compensated adequately for any such increase. At the same time it was not possible to go to the customers every 15 days asking for a revision in freight. Freight revision has always been a slow process and there has never been a systemised way of doing the same. It is usually a negotiation method that is followed with the customers always having an upper hand. The customers are very well aware of the increase in diesel prices. But their contention is that if other transporters are not asking, why are only a handful of them asking for a revision. However there have been a few customers who had included a clause in the contract whereby freight was revised if the diesel prices increased beyond a certain percentage. But yet again the extent of freight increase has been questionable. The extent of increase in freight that transporters got was anywhere between 20-40 percent of increase in diesel prices. The rest had to be absorbed by the transporter because of excessive competition and lack of transparency between the transporters. At the end of the day it was a push and pull situation between the customer and the transporter and in almost all the cases the transporters were pushed against the wall. Situation has reversed in last one year when the diesel prices have

been going down. Now the service user is confused as to how frequently and how much reduction in the freight should be expected with respect to reduction in diesel prices. The problem is two way. Both sides need to be reasonable to each other. Therefore we thought that it would be helpful if there was an indicator or an index that would give a picture of how much revision is required in the freight rate to compensate for any kind of increase or decrease in the input cost.

Involving IRTDA:

I was a managing committee member of IRTDA and later was elevated to the post of Vice President. After Dr P G Patankar retired from the post of President, I assumed responsibility of the same. IRTDA has always been an advisory body and it has been interacting with government departments and other officials on various subjects. The former presidents and office bearers of the association have been eminent scholars and experienced people from the industry. After I took

over as President, we decided to focus more on the road transport business and this was a good platform to work for the CRI as it could later be presented to the government. We had a brainstorming session and at the end of the discussion we concluded that the CRI would help the customers and also the transporters in the long run. The thought process that if there is an index for everything, why not have one for freight rate as well since it would benefit the country on the whole.

Acceptance of the thought process:

When we first floated this idea, we got a lot of appreciation on the theory of the CRI. However not many people believed that we could devise or implement such a thing. However I decided to start working on the same and I was supported by my small team that assisted me in various ways.

Putting the CRI together:

When we talk of cost of transportation, there are two parameters to the same. One is the freight rate and the other is



the actual cost of transportation or the operating cost. The latter is an absolute factor and is measured by parameters that are well defined and applicable to all in an almost similar fashion. The freight can differ from company to company – but the operating cost does not vary much. So we decided to list the parameters that made the operating cost. We split the various components that go into the operating cost and for the same of convenience we named it FREIGHT. The definition or components that form the FREIGHT are:

F: Fuel

R: Rubber (Tyre)

E: Expenses

I: Investment

G: Government Taxes

H: Human Resources (Driver, etc)

T: Toll Tax

Once we had these parameters in place, we tried to break them down to cost per km. Once we tabulated these, we calculated their relevance on the overall operating cost and when these were put together we got the CRI.

Starting with a Century:

We have been collecting data on the above for the last 3 years. After a lot of research and calculations, based on the costs as on December 31, 2015, we released the CRI at 100. From hereon the CRI will fluctuate based on increase or decrease of various costs and also their relevance to the CRI. The CRI will be released in the first week of every month.

The road ahead:

This is going to be a slow process since a lot of education and awareness creation is required. Neither the transporters nor the customers are used to any such thing. They have never experienced any such thing before so it is going to be a while before we see the results of the same. However we will be talking to various customers as well as transporters across India to spread the message of CRI and hope that the benefits of the same will be reaped by everyone. However this is not going to be easy since such a mechanism is like a double-edged sword. For certain you will have the customers benefiting and for some periods the transporters. Both will have to take this in their stride and work towards a system that will remove any kind of ambiguity as far as freight revision is concerned. Once this CRI is implemented the customer and the transporter will have a base from where they can determine their freight and revise it based on the need. That eventually will be the agreement between the customer and the transporter – but the CRI be an indicator or a guide for revising freight rates.

The Team:

The biggest challenge during the initial stages was collecting data. Although the data was available, it had to be collected and put together in the right perspective. This required a team that would be dedicated and at the same time understand the concept well. I was fortunate to have a small yet effective team and my

backbone in this project was Abhishek Gupta. Others who were a great help were Girish Agrawal, Mohinder Singh Ghura and Ashok Goyal. There have been others also who have been helping us from time to time and I would certainly take this opportunity to thank all of them.

Involving the Government:

We are trying to present our case to the Government since their involvement will speed up the process of implementing the CRI and will authenticate our cause.

Role of Media:

The media can play a critical role by publishing the CRI regularly as a regular column so that the customers as well as the transporters take notice of the same and implement it at their end.

Conclusion:

CRI is an attempt to record a time series of cost structure of cost of road transportation. People can use to systemise the method of freight revision by taking reference of this index. Government may study the pattern of changes in the input cost which may help them in forecasts and projections. Industry as a whole will find it like a lighthouse guiding it about changes in cost of transportation..

