

Hitting a rail tender spot  
The awards for two closely scrutinised rail sector projects have been marred by a series of glitches in the tender process, intense lobbying and charges of political favouritism. 14

# Hitting a rail tender spot

BY Ben Shane Lim

International companies are starting to sour on the country's booming rail sector.

Intense lobbying, constant glitches to the tender process and charges of political favouritism

have marred the awards for two closely scrutinised contracts worth RM2.6 billion. The roughly RM1 billion award for the upgrading of a section of the Kuala Lumpur light rail transit (LRT) system has been delayed three times over the last one year. Meanwhile, the contract award for the supply of trains, valued at roughly RM1.6 billion, for the country's mass rail transit (MRT) system has been marred by the refusal of three short-listed candidates to make submissions for the tender. This was after the government extended the bidding process to draw more players into the game.

With contracts valued at more than RM1 billion up for grabs in the coming months, industry executives argue that international engineering companies may shy away from upcoming tenders and that, in turn, would deprive the country of a high-quality rail system. More than RM70 billion worth of rail projects have been slated for the next decade, including the prized RM50 billion Klang Valley MRT project.

"Most tenders start off well. It is in the evaluation process where things get very murky and you are often left feeling that it is not a level playing field," says one representative of a foreign company, which has been actively pursuing engineering contracts in Malaysia.

Government officials acknowledge the sometime less-than-transparent decisions in the tender process of large contracts and note that open tenders are a relatively new phenomenon. "It is a learning process, but the government is committed to the open ten-



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der system," says an official from a government transport agency that oversees the country's rail networks.

Since the late 1980s, Malaysia has preferred direct negotiations in the award of public works and the construction of infrastructure projects over public tender because the government was keen to speed up the development of the country's infrastructure. But the practice has long been criticised because the awards have often favoured politically well-connected business groups. Critics also gripe that the negotiated tender practice is littered with failed projects that have resulted in costly government bailouts.

Industry executives note the government needs to quickly deal with the grievances faced by international companies to salvage the open tender system. "Not attracting bids only raises more questions about the tender process," says a foreign engineer-

ing consultant involved in several rail projects.

Consider the tender for the Ampang LRT extension contract award, which is estimated to be worth RM1 billion. After three delays over a 14-month period, the contract may be finally awarded this week. The tender process closed in mid-June last year, and since then, the validity of the bid has been extended three times. The long waiting period for the tender also stirred speculation that a re-tender would take place to compensate for higher costs. There could be fresh controversy because Syarikat Prasarana Negara Bhd, the regulatory agency for the country's LRT networks, is leaning in favour of a consortium comprising Malaysia's George Kent, China Railways and Thales of France.

The George Kent-led group isn't the cheapest bid, say industry executives. The lowest bid came from a consortium led by the UK's Invensys Plc, which has long been considered the front-runner for the contract. But that

consortium is plagued with a different set of problems, industry executives say. According to a source close to the deal, Invensys' troubles stem from the souring relations between the UK's Balfour Betty Plc and its Malaysian partner Ingress Corp Bhd.

Industry executives say several parties have been trying to muscle Ingress out of the picture and Balfour Betty has offered to buy the stake held by Ingress in the consortium. But pricing issues have been the main stumbling block.

The MRT rolling stock tender has been disappointing. Only three of six prequalified companies submitted bids when the tender closed on June 11, confirming earlier reports by *The Edge* that interest in the tender had been waning for some time.

South Korean train-maker, Hyundai Rotem Company, pulled out on June 8. Kawasaki Heavy Industries Rolling Stock Co from Japan and Canada's Bombardier Transportation waited until the closing date to inform MRT Corp, the

agency overseeing the mammoth MRT project, that they would not be submitting bids. That leaves Siemens SMH Rail Consortium from Germany, and Chinese train makers Changchun Railways Vehicle Co Ltd and CSR Zhuzhou Electric Locomotive Co Ltd, as the only bidders in the mix to supply 58 four-car electric train sets.

The turnout was described by MRT Corp CEO, Datuk Azhar Abdul Hamid, as "disappointing". MRT Corp had expected all six companies to place bids.

Several executives involved in the tender exercise say they decided not to participate because China's CSR Zhuzhou seemed to enjoy an edge. "Submitting a tender is an expensive exercise. There is no point going into the tender if it is not going to be a level playing field," says one senior executive who represents a company which decided not to participate in the tender.

MRT Corp denies allegation of favouritism and insists that the tender process is transparent.

"CSR Zhuzhou is very strong in Malaysia," says one industry executive. He says that the group displayed its clout when it beat Hyundai Rotem to supply the national railway company KTM with 38 six-car electric train sets. The company also recently secured a RM530 million contract to supply 20 six-car electric multiple units (EMUs) for the Ampang LRT extension project, beating Bombardier for the award. Both Hyundai Rotem and Bombardier were frontrunners.

At least two companies wrote queries to MRT Corp, questioning how CSR Zhuzhou could qualify for the tender without any track record with driverless train EMUs.

MRT Corp's public relations director, Amir Mahmood Razak denies that MRT Corp ever received such letters. "All queries were technical," he says. **E**