

EIGHTY-NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1986-87)

(EIGHTH LOK SABHA)

TOURIST SPECIAL TRAIN
THE PALACE ON WHEELS

MINISTRY OF RAILWAYS
(RAILWAY BOARD)



Presented to Lok Sabha on 28.4.1987
Laid in Rajya Sabha on 28.4.1987

LOK SABHA SECRETARIAT
NEW DELHI

April, 1987/Vaisakha 1909 (Saka)
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**CORRIGENDA TO THE EIGHTY-NINTH REPORT OF PUBLIC
ACCOUNTS COMMITTEE (EIGHTH LOK SABHA)**

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Minutes of the sittings of the
Public Accounts Committee held
on 15 December, 1986 and 20 April, 1987

Abbreviations used :

POW—Palace on Wheels
RTDC—Rajasthan Tourism
Development Corporation

*Not printed. One cyclostyled copy laid on the Table of the House and 5 copies placed in Parliament Library.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(1986-87)

CHAIRMAN

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Lok Sabha

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22. **Shri Virendra Verma**

SECRETARIAT

1. **Shri K.H. Chhaya** — *Joint Secretary*
2. **Shri Krishnapal Singh** — *Senior Financial Committee Officer*

INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 89th Report of the Committee on Paragraph 39(i) of the Report of the Comptroller and Auditor General of India for the year 1984-85, Union Government (Railways) on Tourist Special Train—the Palace on Wheels.

2. The Report of the Comptroller and Auditor General of India for the year 1984-85, Union Government (Railways) was laid in Lok Sabha on 8 May, 1986.

3. The Committee in this Report have noted that the Tourist Special Train—Palace on Wheels is the first pilot project of the Indian Railways for development and promotion of foreign tourism in India and was commissioned in October, 1982. The economic viability of this train had not been worked out before its introduction. An appraisal made by the Railway Administration in March, 1985 revealed that the Railways were sustaining loss in the running of this train. During the course of the examination of the subject the Committee were informed that projects in connection with promotion of tourism were not normally subjected to a detailed cost-benefit analysis. In such cases in absence of fixed parameters it is difficult to forecast the demand in terms of number of tourists that are likely to patronise the train with a good degree of accuracy. Moreover in Railways, quite often passenger trains are introduced without doing a specific cost-benefit analysis for that particular train.

4. The Committee have observed that it is rather unusual on the part of the Ministry of Railways (Railway Board) to have made comparison of this tourist special train with those of passenger trains on the Indian Railways in the matter of not doing specific cost-benefit analysis. This tourist special train caters to the requirement of a very small and affluent class of tourists whereas passenger traffic on Indian Railways caters to the needs of common man in India.

There is subsidy of Rs. 900 crores on passenger traffic which is distributed over about ten million passengers carried in 1983-84 everyday and would work out to per capita subsidy of Rs. 2.50. As against this 951 foreign tourists who travelled on this train were subsidised to the extent of Rs. 5000/- per passenger in the same year. The railways have, therefore, subsidised pleasure travel of affluent class which is not a healthy feature.

5. Upto March, 1987, 124 commercial tours of this train had taken place. The train could not reach even break-even level. Only during 1986-87 season, the train has been able to achieve 58.7 per cent occupancy. Profitability of the train is possible only when there is cent per cent occupancy. The Committee have noted that the Government have taken fresh initiative for publicity and promotion of Palace on Wheels in overseas markets both in traditional as well as in new markets and during 1986-87 season occupancy has shown sign of improvement also. The Committee have recommended that in case the materialisation of bookings for Palace on Wheels for 1987-88 tourist season is not found satisfactory and in view of continued operational losses incurred by the project since its inception, Government should review the performance of the train. The Committee are of the view that the project authorities should also undertake a survey to find out the preference of foreign tourists and consider the improvement they would like to be added to the Palace on Wheels. The Committee desire that review proposed above must be taken up expeditiously and results communicated to the Committee.

6. The Committee on Public Accounts (1986-87) examined this paragraph at their sitting held on 15 December, 1986. The Committee considered and finalised this Report at their sitting held on 20 April, 1987. The Minutes* of the sitting form Part II of the Report.

7. For reference facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

8. The Committee would like to express their thanks to the Officers of the Ministries of Railways (Railway Board) and Tourism for the cooperation extended by them in giving information to the Committee.

9. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee

April 23, 1987

3 Vaisakha, 1909 (Sakha)

*Not printed. One cyclostyled copy laid on the Table of the House and 5 copies placed in Parliament Library.

REPORT

TOURIST SPECIAL TRAIN—THE PALACE ON WHEELS

Audit Paragraph

1.1 With a view to promoting tourism and increasing country's foreign exchange earnings, the Railway Board approved in September 1981 a scheme to introduce a special tourist train 'Palace on Wheels' in collaboration with the Rajasthan Tourism Development Corporation (RTDC), a public sector undertaking of the Government of Rajasthan.

1.2 A review by Audit of the working of this tourist special train revealed that total running cost was not commensurate with the earnings, the scheme had not been commercially successful and detailed economics of its operation had neither been worked out before the service was introduced nor during its operation from January 1982. In consequence, no steps were taken to find out ways and means to make this scheme profitable.

1.3 In June 1981, the Railway Board decided that the special train would consist of saloons preferably those built for the use of former Maharajas and hauled by a vintage class of steam engine. One MG special train consisting of 18 bogies including 12 saloons, two modified first class coaches, one lounge car, one restaurant car and two sitting-cum-luggage-cum-brake vans (SLRs) was formed with a view to providing accommodation for 102 passengers. The train was to be hauled by a steam engine between Delhi Cantt. and Agra Fort *via* Bandikui and Agra Fort - Jaipur - Delhi Cantt. and by a diesel engine for journey beyond Jaipur. The existing carriages and saloons forming 'Palace on Wheels' were overhauled and provided with additional fittings at a cost of Rs. 136.91 lakhs (booked expenditure upto 1984-85). The accounts of the work have not so far been closed (December, 1985).

1.4 The agreement executed in January 1982 between Western Railway and the RTDC which was valid till 25th January 1985 and further extended upto 31st March 1988 provided, *inter-alia*, that Railways would be responsible for the operation and maintenance of the train and the RTDC for providing house keeping including the provision of linens, its replacement and laundry services, catering (on board and on ground) local sight seeing and entertainment of guests and selling the tickets which would be inclusive of the tariff and also catering,

house keeping, sight seeing and entertainment services. The RTDC would be working as a nodal agency for marketing promotion and publicity and the Railway would reimburse their share of expenditure, to be mutually agreed, on publicity, both domestic as well as international, in equal share. Initially, 30 members of staff and officers of RTDC were to travel in this train to look after the management, but the number was increased to 48 in November, 1982 and 55 in January 1983.

1.5 The tariff which included cost of travel, catering charges, conducted sight seeing tours in deluxe buses at the places of tourist interest, elephant and camel rides, cultural entertainment, etc., in force from October 1984 to March 1985 was as under :

	Total charges per person per night	Railway's share	R.T.D.C.'s share
	Rs.	Rs.	Rs.
Coupe	1290	765	525
Single supplement in coupe	2125	1525	600
Two persons in 4—berth luxury cabin	2125	1525	600
Three persons in 4—berth cabin	1620	1020	600
Four persons in 4—berth cabin.	1250	745	505

(Half fare for children between 5 and 12 years).

1.6 The tourist train was to operate between October to March each year. Five promotional tours were programmed between 26th January to 31st March 1982. The first spell of its itinerary commenced on 26th January 1982. On commercial basis, the train operated as mentioned below :

Year	No. of tours	No. of passen- gers carried	Average occupa- tion per trip	Minimum occupation required to break even per trip	Percen- tage utili- sation of the capacity
1982-83	26	1056	41	89	40
1983-84	26	951	37	77	36
1984-85*	21	781	37	89	36

*Full capacity of train was 98 only as against 102 originally provided.

1.7 Out of the total earnings collected by RTDC by the sale of tickets, the Railway's share and the amounts actually remitted by the RTDC were as under :

Year	Amount of Railways' share Rs	Amount remitted by RTDC Rs.	Amount outstanding Rs.
1981-82	129759.65	307746545	6,18,674.28
1982-83	3566380.08	.	
1983-84	4315728.73	4264367.49	51,361.24
1984-85	3573457.89	3573457.89	—
Total	11585326.35	10915290.83	670035.52

1.8 The economic viability of this scheme had not been worked out before the special train was introduced. However, an appraisal made by the Railway Administration in March 1985 revealed that the loss sustained by the Railway in operating this train during 1982-83, 1983-84 and 1984-85 was to the tune of Rs. 42.34 lakhs, Rs. 47.66 lakhs and Rs. 50.61 lakhs** respectively as detailed below :

	1982-83	1983-84	1984-85
	Rs.	Rs.	Rs.
Total direct cost	57,39,878	63,01,854	60,38,604
Total indirect cost	7,55,167	13,97,997	11,96,915
Other incidental cost	13,05,881	13,81,555	12,92,417
Total cost	78,00,926	90,81,406	85,27,936
Total gross earnings	35,66,380	43,15,729	34,66,888**
Loss	42,34,546	47,65,677	50.61,048**

NOTE: **Figures of earnings (provisional) as adopted by the Railway Administration in March 1985. Amount of Railway's share was Rs. 35.73,457.89 and on this basis loss would be Rs. 49.54 lakhs during 1984-85.

[Paragraph 39(i) of the Report of C & AG of India for the year 1984-85, Union Government (Railways)]

Objectives

1.9 According to the Ministry of Railways (Railway Board) the idea of introduction of special tourist train 'Palace on Wheels' was conceived some time in the year 1981. This came about as a result of certain wide-ranging discussions between U.K. and India in connection with the promotion of trade between the two countries.

In the same year (1981) the Ministries of Commerce and Finance (Department of Economic Affairs) forwarded the Railway's pilot project for tourist promotion to the Indian High Commission in U.K. with a view to considering the possibilities of including it in the bilateral aid programme of U.K. Government or the Fund for Technical Cooperation of common-wealth Secretariat. The U.K. Government's Board of Trade, to whom the project was referred to by the High Commission in London, commented that a market did exist in U.K. for this type of project. Subsequently, during the visit of Minister of Railways and the Chairman, Railway Board in U.K. in May, 1981, an opportunity was taken by them to discuss the project with the High Commission officials; Manager, Air India; Director, India Tourist Office; Director, Export Market Development Division of Common wealth Secretariat; important Travel Agents, etc. The general consensus at this meeting was that the Indian Railways have the potential of providing certain travelling facilities in a suitable package deal for making tourism more convenient, comfortable and enjoyable.

It was decided that this train should ply in the State of Rajasthan and should be hauled by a steam locomotive, which has its own fascination for the foreign tourists. The idea was to sell a tourist package, which offers an old world regal charm with a touch of class.

This scheme was introduced from 26th January, 1982. The commercial operation of this train commenced from October, 1982.

1.10 The Ministry of Railways have admitted that the Railways had not been able to do much in the area of tourism development in the past due to various constraints. They took a policy decision in 1981 to set up a machinery to deal exclusively with matters relating to both domestic and foreign tourism and to take necessary measures for development of tourism, in liaison with the Indian Tourism Development Corporation and other allied agencies.

It has also been stated that "the purpose of Railways' pilot project—'Palace on Wheels'—was not only to promote in isolation railway tourism in India but also to increase country's foreign exchange earnings and to promote the corporate image of India abroad with its manifold indeterminable gains."

1.11 The total number of passengers carried and the average occupation per trip are as under:—

Year	No. of Tours	No. of passen- gers carried	Average occupation per trip	Percentage utilisa- tion
(Oct-Mar.)				
1982-83	26	1056	41	42
1983-84	26	951	37	38
1984-85	21	781	37	38
1985-86	25	1142	47	48
1986-87	26	1375	58	59
(Sale of seats : 1496)				

Note: (1) Full capacity is 98 persons.

(2) Maximum number of tours that can be arranged in the tourist season of six months is 26.

1.12 The Rajasthan Tourism Development Corporation maintains a separate account of the foreign exchange earnings from the sale of tickets for 'Palace-on-Wheels'. The number of foreign tourists who travelled by the Palace on Wheels and foreign exchange earned therefrom yearwise, is tabulated below:—

Year	No of foreign tourists	Rupee equivalent of foreign exchange earned. (in lakhs)
1982-83	909	54.90
1983-84	806	64.56
1984-85	613	55.00
1985-86	839	72.30
	3167	246.76

C *Profit Analysis and Economic Viability*

1.13 According to Audit Paragraph the working of the special tourist train 'Palace on Wheels' revealed that this scheme had not been commercially successful and detailed economics of their operation had neither been worked out before its introduction nor during the period of operation.

1.14 The Committee enquired why it was not considered necessary to undertake a study about the economics of operation of this

tourist special train before its introduction. The Ministry of Railways (Railway Board) in their reply have stated *inter alia* as follows:—

“Projects in connection with promotion of tourism are not normally subjected to a detailed cost-benefit analysis. In most cases, the demand profile is not precisely known, nor is adequate data available to project the demand in terms of number of tourists that are likely to patronise a particular project. More often than not, the objective behind launching such projects is to stimulate the demand itself. Tourism projects serve as catalysts for the growth of the country's economy as a whole, in addition to yielding other unquantifiable, invisible gains in the cultural, social and other spheres.

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No specific cost study, of this project was undertaken before its introduction because the main idea was to project tourism and to attract tourists. However, in January, 1983, during the first season of commercial working of ‘Palace-on-Wheels’, an economic appraisal of the project was attempted by the Economic Adviser, Railway Board on the basis of certain broad assumptions and the data available at that time. The conclusion reached by the Economic Adviser was as under:—

‘It is seen that the break-even level of occupancy varies from a minimum of 60% to a maximum of 83% under various alternatives. On the whole, therefore, the economic viability of the project will depend on how good the response from the foreign tourist is to the services offered.

The project earnings, the direct as well as indirect in terms of foreign exchange, building up of an image of the country are other very important aspects (but not quantifiable). All these also go in favour of the project. The project is considered worthwhile if the minimum response from the foreign tourists is as mentioned in the above table.’

Later in March 1985, Western Railway submitted to the Railway Board a study regarding cost of operation for ‘Palace-on-Wheels’ for the years 1982-83, 1983-84 and 1984-85 (upto 6th March, 1985).

It would be pertinent to mention here that these studies were undertaken with a view to have a general idea of the occupation ratio that would make the project financially viable and not to determine the tariff as such. However, the tariff for ‘Palace-

on-Wheels' was fixed carefully by the Railways; the general approach being that while it should be pitched at a sufficiently high level, at the same time the all-inclusive tariff should not become prohibitive for the tourists.

The commercial success of a project like 'Palace on Wheels' mainly depends on the extent of its patronisation by the foreign tourists which takes a number of years to build up. This, in turn, to a large extent, depends upon the marketing efforts and the publicity back-up for the project. At the same time, the conditions prevailing in the country have to be conducive to the flow of foreign tourists.

Having regard to the fact that 1982-83 was the first year of commercial operation, booking of 1056 passengers with an average occupation of 41% per trip was a good start. The subsequent decline in the bookings during the years 1983-84 and 1984-85 was mainly due to disturbed conditions prevailing in the country. This decline was not restricted only to the railways' tourist traffic from abroad and during this period the tourist industry as a whole suffered a set back in country. Thereafter, the performance of the train has shown improvement as the number of passengers booked during 1985-86 was 1102 which is the highest so far. The projected level of traffic of 1600 passengers furnished by RTDC for the next season 1986-87 is indicative of the good prospects ahead."

1.15 Explaining why cost-benefit analysis was not done before introduction of Palace on wheels, the Chairman, Railway Board, stated during evidence as follows:—

"First of all, quite often, passenger trains are introduced on the Indian Railways without doing a specific cost-benefit analysis for that particular train. In passenger traffic, there is heavy subsidization, extended by freight traffic. As a national policy, we do not wish to keep passenger fares too high, because a very large majority of people travelling by Indian Railways are from the economically weaker sections. There is a subsidy on passenger traffic, from freight traffic, to the extent of Rs. 900 crores per year. Indian Railways do not make a profit on passenger traffic. Overall Indian Railways do make a profit; but separately on passenger traffic, not.

In most countries of the world, passenger traffic is subsidized by Government, and on freight, Railways manage on those profits. As long as we can cross subsidize passenger from freight in India, we shall do so. Whatever deficit is there in the Indian

Railways, is there on the passenger side. In totality, we are expected to make a profit, and give a dividend of 6.5% on the money given to us by Government.

In the background of passenger tariff, where there is a subsidy of nearly Rs. 900 crores, this is a small experiment involving may be a small loss and in the interest of tourism promotion. It was supposed to be a very good scheme from the point of view of tourism promotion. We did not do a study on it before introduction. But since the matter came up for an in-depth study by the Hon'ble Committee we have made a study of actually what happened after the introduction. Therefore, we have taken... and there are... various scenarios, in which this is done. I will submit that if we take the marginal cost, this will break even, which that is taking the marginal cost, perhaps is the reasonable thing to do in a case like this and we also take into account the fact that foreign exchange earned because of this Palace on Wheels should also get a 25% notional 'shadow credit' which is the standard established methodology adopted by the Planning Commission in all project appraisals. Then the train is virtually breaking even in fact making a profit and I think this is a very reasonable position. Another scenario can be taken that we take the fully distributed cost and not the marginal cost which would be a harsh way of doing things. Suppose, however, if we take the fully distributed cost then the position will be that all the overheads will be flowing into the case. We should in that case also take the secondary and tertiary benefits of foreign exchange earnings from tourism."

1.16 The Chairman, Railway Board referred to the following figures of earnings and costs of Palace on Wheels in support of his contention:—

Year	Fully Distributed costs	Earnings	Amount in lakhs of rupees		
			Incremental costs (56.02% of Col. 2)	Earnings 125% of Col. 3	Gain(+) Loss(—) (Col. 5— Col.4)
1982-83	78.01	35.66	43.70	44.58	(+) 0.88
1983-84	90.81	43.16	50.87	53.95	(+) 3.08
1984-85	85.28	34.67	47.77	43.34	(—) 4.43
1985-86	110.69	48.83	62.00	61.04	(—) 0.96

1.17 The Chairman, Railway Board submitted that taking into consideration, the 'shadow credit' (i.e. shadow price of foreign exchange which is done by overvaluing of foreign exchange to the extent of 25 percent by the Planning Commission) in the light of incremental/marginal cost "this train has turned to be positive and it should be treated as positive."

1.18 Explaining the difference between the direct cost and the marginal/incremental cost, the Ministry of Railways (Railway Board) in a note have stated:

"The terminology 'direct cost' used in the costing calculations of the Palace on Wheels are those costs which have been incurred due to operation of this train. These costs include the following:—

- (i) Provision (Interest and Depreciation) and Repairs and Maintenance of Motive Power as also cost of Fuel, lubricating oil and crew.
- (ii) Provision (Interest and Depreciation) and Repairs and Maintenance of Coaches.
- (iii) Cost of Power generation.
- (iv) Cost of Train examination enroute, and
- (v) Cost of staff on train.

Incremental costs are those costs which vary proportionate to incremental traffic as these are costs which are incurred only due to running of such incremental traffic. There is no additional capital investment required for such running. As per the methodology used, the incremental cost is worked out as a percentage of the total expenses. This percentage is worked out for any particular segment, in this case for the metre-gauge portion of the Western Railway, coaching side. The expenses which are booked in the Railway accounts, identified as allocated to the coaching portion of the metre-gauge are taken and only those expenses which are likely to vary with incremental traffic are extracted. This extracted figure in relation to the total expenses booked forms a percentage of the incremental cost. This percentage is then used to arrive at the incremental cost of traffic."

1.19 The Committee desired to know whether the Railway Board or the Railway Administration periodically worked out the economics of the working of the special train 'Palace on Wheels' and raise

the tariff to cover at least the direct and indirect cost. In a note to the Committee, the Ministry have intimated the position as follows:—

“The Railways did periodically work out the economics of the working of the special tourist train ‘Palace on Wheels’. These studies were undertaken more with a view to have a general idea regarding the occupation ratio that would make this project commercially viable rather than for the purpose of determining the tariff as such.

These studies made after the introduction of ‘Palace on Wheels’ were duly taken note of by the Railway Board. According to these studies the project would have been viable at very high occupancy levels. As indicated in the C & AG’s Report, the minimum occupation (per trip) required to break even i.e. to balance overall fully distributed cost with the total gross earnings, is as high as 89 (out of total capacity of 98) for the year 1984–85. It would be appreciated that adoption of this high break-even occupation factor as the basis for revising the tariff would have made it prohibitive and thus would not have a pragmatic commercial approach.

However, the Railway’s share of tariff was pitched at a sufficiently high level of 174% of the full tariff rates applicable to special trains. This worked out to Rs. 725/- per night per passenger to which was added Rs. 450/- as RTDC’s share. The all-inclusive rate of Rs. 1175/- (Rs. 725 + Rs. 450) was, *inter-alia*, discussed at the high level Inter-Departmental Meeting convened by the Secretary, Ministry of Tourism and Civil Aviation on 9.3.1982 and was finally approved as a package rate.

The Railway’s share of the tariff, however, did not remain static. The Railway’s share of tariff which was Rs. 725/- in 1982–83 was raised to Rs. 765/- in 1983–84 which rate prevailed upto 1984–85. This tariff has been further increased to Rs. 920/- for the commercial season commencing from October, 1986. This represents an overall increase of 27% in railway’s portion of the tariff (increase from Rs. 725 to Rs. 920). Similarly, the all-inclusive combined tariff both for Railways and RTCD has undergone an upward revision from the level of Rs. 1175/- in 1982–83 to Rs. 1550/- for the season 1986–87. This represents an overall increase of 32%.

It may also be mentioned that passenger train operation, as a whole, gives a loss of more than Rs. 900/- crores per year. If we go by strict profitability, Indian Railways should not introduce

a single short or medium distance passenger train in the country, because it will give a loss. But can this be accepted as a policy by the Indian Railways? Many actions have to be taken by the Railways to satisfy pent-up demand, as also to project a better image of our Railways and our country."

1.20 Railways being a Government commercial undertaking, the Committee enquired whether it was not desirable to work out detailed economics of the operation of 'Palace on Wheels' and to apprise the Department of Tourism of the results thereof. The Ministry of Railways (Railway Board) in their reply have stated:

"The economics of working of the Railway's tourism promotional project 'Palace on Wheels' was not undertaken before its introduction, as there was no possible way of determining the number of foreign tourists who would like to patronise this project unless the product itself was launched in the market. When the scheme was formulated and launched in the market as a promotional venture, it was fully known that the commercial success of the scheme will depend upon a number of factors, more important ones being the marketing campaign and publicity back-up abroad in which the Railways had no direct role but were entirely dependent upon the Ministry of Tourism which is the nodal agency for all tourism projects.

Studies made after the introduction of the project were duly taken note of by the Railway Board. Since earnings were in US Dollars, a 'Shadow Price' factor of 25% should be added to the earnings as explained during the course of oral evidence tendered before the P.A.C. on 15.12.1986."

1.21 Speaking of some news reports about this train, the Chairman, Railway Board, stated:

"Apart from the financial and economic return of this train, this train has earned a very good image for the country abroad. We have got many letters of appreciation from everywhere. If you go outside the country you can see it. We have received news reports about it. This has really promoted tourism. People sometimes comes as to enjoy this train.

It is not catering to the affluent classes of the tourists. The fare are high by our standards. They are reasonable from their

standard. They are neither very high nor low. Frequently, congratulations and good words for us have been sent. Even if many affluent tourists travel and by attracting them we get more foreign exchange than other tourists can give us. It is good for us. By getting this foreign exchange we can buy essential commodities like fertilizer, which is good for agriculture. It is not that this is a small amount. Through tourism we help the other programmes which are meant for the eradication of poverty."

1.22 Explaining to what was things that attracted this train to foreigners, the Secretary, Ministry of Tourism stated:

"In the West, there are two or three things which have great appeal to the people so far as India is concerned. One is the appeal of the Maharaja whether it be the Festival of India in the United States and here also the Maharajas proved to be very popular. This has a sort of let us say a romantic appeal to the whole people.

Secondly the vintage concept, that you are travelling in a vintage rolling stock brought out from side yards, that is also there.

Then they find it a fascinating way to travel during night, live on the train, and during day time they come out and they have sight-seeing tours and others. I might just read out a small piece which appeared in a British Airways journal.

Vast majority of passengers who have travelled with us have agreed that it is a once-in-a life-time experience and a fascinating way to tour India. But we would like to remind you that the train is composed of historic rolling stock, interior space is limited and one cannot expect luxury hotel style facilities. However, with this in mind you can look forward to a unique and memorable adventure."

1.23 The Chairman, Railway Board, stated:

"When we have increased the fare, the total revenue did not go down. That means, the demand continued to rise. At the moment the occupancy is still going up."

1.24 The Member (Traffic), Railway Board, added:

"We have already raised the fare by 32 per cent and still the demand is good."

1.25 In reply to a question, the Chairman, Railway Board, stated:

"The whole project is a promotional venture We have not received any complaint. Generally, the train has been well received."

1.26 The Committee enquired whether the project did not cause any drain on the Railways, the Chairman, Railway Board replied:

"I am satisfied that this project is not a big drain on the Railways."

1.27 Explaining the position from the commercial point of view, the Chairman, Railway Board, stated:

"At present, there is a loss. But it is not a major loss in totality. We are in touch with the Ministry of Tourism. We have been increasing the fares of this train gradually from time to time and we do hope that when the promotional period is over, we will be able to increase the fares further. We hope that in the coming years, we will be able to make profit. We do hope that time will come when even on financial side, there will be no loss."

1.28 In reply to a query, the Chairman, Railway Board, submitted:

"There is no line capacity constrain for the train operation. It is an experiment. It has shown some hopeful sign in 1985-86. We will always watch. We have crossed the 1982-83 figures also. We will watch. We can close this train at any time. There has been a great contribution by Palace on Wheels in the development of tourism in Rajasthan."

1.29 In regard to compensation of losses in the operation of this train, the Chairman, Railway Board, stated:

"We have to see the economic return as a public undertaking. We are a commercial-cum-public utility organisation. 25 per cent shadow credit can be legitimately allowed."

1.30 The Committee enquired whether the tourists who have taken advantage of the Palace on Wheels would not otherwise have gone to Rajasthan. The Chairman, Railway Board, replied:

"Rajasthan is an attractive place. It is very difficult to separate as to how much is due to Rajasthan tourism and how

much is due to Palace on Wheels. This is subjective. We can only make an estimate. In certain cases there is no way of quantifying it and we have to go by our subjective judgement. By talking to people and getting their reaction we learnt that there has been a great contribution by Palace on Wheels in the development of extra tourism in Rajasthan area."

Expenditure on renovation

1.31 The Ministry of Railways (Railway Board) have informed in a note that :

"The total expenditure on renovation/refurnishing the coaches before putting them into commercial operation was Rs. 49.44 lakhs. This expenditure was incurred in 1981-82. Subsequently, a further expenditure of Rs. 49.58 lakhs, 30.41 lakhs, 7.11 lakhs and 21.79 lakhs was incurred during 1982-83, 1983-84, 1984-85 and 1985-86 respectively towards renovation and overhauling. Thus the total expenditure on this account was Rs. 158.33 lakhs. (The vetted figure is Rs. 160.01 lakhs).

The total service expected from the renovated coaches was 10 years out of which 4 years are already over. Thus the coaches will be in service for a further period of six years from 1986-87 to 1991-92."

Profits earned by R.T.D.C.

1.32 Though the total running cost of this train was not commensurate with earnings, as far as the Railways were concerned, the Rajasthan Tourism Development Corporation earned profits from it during the years 1982-83 to 1986-87 (December 1986) as indicated below:

Particulars	1982-83	1983-84	1984-85	1985-86	1986-87 (Oct. 86 to Dec. 86)'
	(R U P E E S I N L A K H S)				
a) Earnings	25.89	31.84	29.42	36.07	20.99
b) Operating expenditure	23.92	29.16	29.53	26.41	16.88
c) Results	(+) (—)	(+) 1.97	(+) 2.68	(—) 0.11	(+) 9.66
					(+) 4.11

Publicity Arrangements

1.33 According to the agreement executed between the Western Railway and the Rajasthan Tourism Development Corporation Ltd., RTDC would be working as the nodal agency for marketing, promotion and publicity of the Palace on Wheels and that the Railways would share the expenditure with the RTDC.

According to the information furnished by RTDC, through the Railway Board, measures taken to attract more traffic on this train are as under :

- (1) After negotiation between RTDC and Air India in January and October 1985, Air-India have agreed to undertake publicity and promotion of P.O.W. through their offices all over the world, short duration Video Film have been supplied to them for the purpose.
- (2) Besides the foreign publicity campaign by Government of India Tourist Offices in London, Sydney, Geneva and New York, it has been decided to tap the market in the Gulf Countries as well as the Far East, by appointing G.S.As in Dubai and Singapore.
- (3) A new destination Chittorgarh was added in tour itinerary.
- (4) Allocation to the foreign publicity budget for the 'Palace on Wheels', was enhanced.

1.34 The foreign publicity budget is sanctioned by the Ministry of Finance (Department of Economic Affairs) on the recommendation of the Ministry of Tourism, Government of India. The expenditure on foreign publicity is shared by the Indian Railways, Rajasthan Tourism Development Corporation and the Department of Tourism, Government of India in the ratio of 40:40:20, respectively.

1.35 The publicity budget for overseas promotion and publicity sanctioned for the different seasons is as follows:—

	Total Amount	Deptt. of Tourism	Railways	R.T.D.C
1981-82	Rs. 828000	Rs. 4 lacs	Rs. 2.14 lacs	Rs. 2.14 lacs
1982-83	Rs. 1223396	Rs. 4 lacs	Rs. 4.115 lacs	Rs. 4.115 lacs
1983-84	Rs. 885000	Rs. 2.45 lacs	Rs. 3.20 lacs	Rs. 3.20 lacs
1984-85	Rs. 10 lacs	Rs. 2 lacs	Rs. 4.00 lacs	Rs. 4.00 lacs
1985-86	Rs. 4.8 lacs (provi)	—	Rs. 2.40 lacs	Rs. 2.40 lacs

1.36 The Ministry of Tourism have submitted the following suggestions for improving the performance of this train:

"It is a fact that commercial venture of this nature (Palace on Wheels) do face problems and likely to incur losses to begin with. However, the fact remains that it is an excellent venture which has definitely been received well particularly in the overseas market. However, it is of utmost importance that the publicity part of this train has to be geared up and well equipped and if the right steps on right publicity material is produced and the markets overseas are flooded with this as a back up support for its advertising in consumer and trade media and visual media it would definitely bring desired results. It is of utmost importance that the reservation system for this train is updated and foolproof system evolved to enable the overseas tour operators and Indian operators to book the seats on the train so that there is no loss of revenue for want of information regarding availability of seats on this train."

1.37 The Department of Tourism, Government of India has since agreed to bear the entire cost of foreign publicity for the 'Palace on Wheels' train in a joint meeting with the representatives of the Railways, RTDC and Department of Tourism on 3.1.86. Accordingly, the overseas Regional Directors of the Department and DTO London were requested to include their budget proposals for publicising this train for their annual programmes on publicity and promotion. The budget estimates as requested by these offices during the year 1986-87 and 1987-88 are as under: —

Operation	Budget Estimate 1986-87	Projected 1987-88
(Rs. in lakhs)		
EUROPE	2.00	3.00
AUSTRALIA	0.85	1.50
U.K.	3.00	3.00
EAST ASIA (POW+GIR)	3.50	3.00
WEST ASIA	—	yet to be
U.S.A.*	—	decided.
U.S.A.*	—	5.00
	<hr/> 9.35	<hr/> 15.50

This print media campaign for an amount of Rs. 1.25 lakhs launched through M/s. Tarasinha Associates in U.S. market contains an advertisement on the 'Palace on Wheels' train. This campaign has been launched with the byline 'Have the Festival of your life—in India its wonderful'. In order to cater to the demand for literature in respect of coupon response, a brochure has also been brought out by the Department for free distribution.

The overseas offices undertake the following activities for promoting the 'Palace on Wheels' train from time to time.

1. Advertising in print media both consumer and trade.
2. Extending brochure buy-back support to tour operators/Travel agents publicising India in general and promoting the Palace on Wheels train in particular.
3. Organising India Evenings and Trade Seminars for promoting the train also.
4. Including information on this train in the publicity material brought out by DOT and the language brochures printed by the overseas offices.
5. Organising promotional seminars and talks wherein due attention is paid to promote this train.
6. Dissemination of information on this train in respect of postal or oral enquiries made by foreign tourists.

1.38 In a note, the Ministry of Tourism have also stated:

"Till now, there was no single authority for publicity and promotion of Palace on Wheels. Now, this publicity and promotion of POW particularly overseas markets will be handled by one agency i.e. Department of Tourism. There will be a complete coordination with the concerned organisations in the matter of publicising POW."

1.39 The Committee desired to know whether the Railways/Rajasthan Tourism Development Corporation maintained feed back

system for passenger reactions during and after travel. In their reply the Ministry of Tourism have stated:—

“The feed back system for passenger reaction is maintained by the Corporation firstly by having a ‘Visitors Book’ on the train and secondly through a “Guest suggestion form” which is supplied to each guest alongwith other stationery in a folder. These forms are filled in by the guests and returned either on conclusion of each tour or by post. The guest opinions and the suggestions so received by the Corporation are scrutinised and remedial measures taken by the Corporation as well as by the Railways. From their opinion it can be said that the guests fully enjoy their tour and are well satisfied with the facilities provided to them both on board the train and on ground. Enchanted by the glories of Rajasthan, the folk music and dance, elephant and camel rides, the guests return with a happy memory of their trip on Palace on Wheels. A few minus points which are pointed out by the guests regarding defects and deficiencies in the train are extensive rattling of coaches, low pressure in bath showers and upper berths being uncomfortable due to not being broad enough. These points have already been examined jointly by the Corporation and Railways and it was felt that due to the carriages being very old the said defects cannot be rectified.”

1.40 The Ministry of Railways (Railway Board), however, added the following:—

“Since the Railway’s share of responsibility in ‘Palace-on-Wheels’ Project is restricted mainly to operation and maintenance of the special train, they do not maintain the feed back system for obtaining passenger reactions.”

OBSERVATIONS/RECOMMENDATIONS

1.41 The Committee note that a special tourist train Palace on Wheels was thought of in 1981 as a result of certain wide-ranging discussions between U.K. and India in connection with the promotion of tourist trade between the two countries. In June, 1981, the Ministry of Railways, in consultation with the Department of Tourism, decided to introduce a train 'Palace on Wheels' comprising of saloons, mostly of old vintage, belonging to the erstwhile Maharajas of princely States and run the train through places of tourist interest in the State of Rajasthan and Agra. This scheme was introduced from 26 January, 1982. The commercial operation of this train commenced from October 1982. The object of this project was, not only to promote in isolation railway tourism in India, but also to increase country's foreign exchange earnings and to project the image of India abroad.

The role of Indian Railways in promoting tourism, both domestic and foreign, has not been significant except for introducing convenient direct trains, with better class of accommodation to a few places of tourist interest. Introduction of 'Palace on Wheels' was the Railway's first pilot project for development and promotion of foreign tourism in India.

1.42 According to Audit the economic viability of this train had not been worked out before it was introduced in 1982. An appraisal made by the Railway Administration in March, 1985 revealed that the Railways were sustaining loss in the running of this train. During the course of the examination of the subject the Committee were informed that projects in connection with promotion of tourism were not normally subjected to a detailed cost-benefit analysis. In such cases in absence of fixed parameters it is difficult to forecast the demand in terms of number of tourists that are likely to patronise the train with a good degree of accuracy. Moreover in Railways, as stated by the Chairman, Railway Board, "quite often passenger trains are introduced on the Indian Railways without doing a specific cost-benefit analysis for that particular train" It was admitted that the Indian Railways did not make a profit on passenger traffic. The Committee were given to understand that there was a subsidy on passenger traffic from freight traffic to the extent of Rs. 900 crores per year. With

the existing trend of passenger earnings not being self-sufficient all over the world, it was admitted that though there was a loss in running the Palace on Wheels, it did result in promoting tourism in the country.

1.43 It is rather unusual on the part of the Ministry of Railways (Railway Board) to have made comparison of this tourist special train with those of passenger trains on the Indian Railways in the matter of not doing specific cost-benefit analysis. This tourist special train caters to the requirement of a very small and affluent class of tourists whereas passenger traffic on Indian Railways caters to the needs of common man in India.

This subsidy is distributed over about ten million passengers carried in 1983-84 everyday and would work out to per capita subsidy of Rs. 2.50 p. As against this 951 foreign tourists who travelled on this train were subsidised to the extent of Rs. 5000/- per passenger in the same year. The Railways have, therefore, subsidised pleasure travel of affluent class which is not a healthy feature.

1.44 After the Committee had taken up this subject for examination, the Railways did undertake another study, which according to the Chairman, Railway Board, revealed "that if we take the marginal cost, this will break even... and taking into account the fact that foreign exchange earned because of this train should also get a 25% notional 'shadow credit'—then the train is virtually breaking even". In the opinion of the Committee in a promotional effort for development of tourism shortfalls are inherent for the promoters, but they act as catalytic agents in developing tourist infrastructure. If they succeed in catalyst role the effort is worth making. As the Railway are a Government run commercial undertaking, it would be prudent on their part to see that schemes introduced by them are economically viable. The working results of such promotional activities should be brought out distinctly with a view to drawing lessons for assessing the demand properly, computing the costs and benefits reliably and avoiding operational losses in future.

1.45 The Palace on Wheels (POW) a vintage train, is a novel, innovative and interesting concept of tourism. It is a prestigious project launched jointly by the Indian Railways and Rajasthan Tourism Development corporation providing transport, facility of a hotel on wheels, local sight-seeing to best known tourists sites in the country and entertainment to tourists at all destinations covered by the train. It offers an old world regal charm with a touch of class. In spite of all the opulence in tourism that this train offers to foreign tourists, POW has not become increasingly

acceptable to main stream tourists. The train has been able to achieve average occupancy of 59 foreign tourists per trip during 1986-87 out of full capacity 98 passengers only, which is insignificant in the light of more than 2.50 lakhs foreign tourists visiting Rajasthan every year.

The Committee have a feeling that POW has certain inherent deficiencies. It lacks the quality of comforts of a top-class hotel to which affluent foreign tourists are accustomed and who wants to stay comfortable at night after hectic local sight-seeing during day. Long duration of itinerary is another factor. There are other minus points pointed out by the tourists such as extensive rattling of coaches causing jarring effects on tourists and upper berths being uncomfortable due to not being broad enough. Going by the past performance of the train and in view of these inherent defects, there is little possibility of this train achieving break-even level leave aside profitability.

1.46 Another important matter which the Audit paragraph has raised is that the total running cost was not commensurate with the earnings and the project had not been commercially successful. It had incurred loss of Rs. 42.35 lakhs in 1982-83, Rs. 47.66 lakhs in 1983-84, Rs. 50.61 lakhs in 1984-85 and Rs. 61.86 lakhs in 1985-86. According to the Ministry of Railways (Railway Board) the commercial success of the Palace on Wheels mainly depends upon the extent of its patronage by the foreign tourists. This in turn, to a large extent, depends upon the marketing efforts and publicity back-up for the project abroad in which the Railways had no direct role but were entirely dependent upon other agencies for development of tourism projects. The Committee are now informed (February 1987) that the Ministry of Tourism will be the sole authority for publicity and promotion of Palace on Wheels particularly in overseas markets through its network. The factors which weighed with the Ministry of Railways and the Ministry of Tourism in selecting a State Government Tourism Development Corporation—in this case RTDC, for doing publicity abroad, when the project was taken up in 1982, are not known to the Committee. Since the RTDC had no mechanism for publicity in foreign countries, they depended on the channels of the Central Government for this purpose. In retrospect, it can be said that since the response of tourists in Palace on Wheels was not encouraging, attempts for publicity were not upto the mark. Had the right publicity been made and market campaign launched with foresight and vigour at the very beginning, the things would not have come to such a sorry pass. The Committee hope that the belated attempt now being made by the Ministry of Tourism will bear fruits.

1.47 The Committee would recommend that the analysis of the feed back obtained from the passengers travelling on this train, should be done jointly by all the three organisations viz., the Railways, the Ministry of Tourism and the RTDC at regular intervals instead of by the Ministry of Tourism alone as at present.

1.48 The tourist special train Palace on Wheels is the first pilot project of the Indian Railways for development and promotion of foreign tourism in India and was commissioned in October 1982. Upto March 1987, 124 commercial tours of this train had taken place. The train could not reach even break-even level.

Only during 1986-87 season, the train has been able to achieve 58.7 per cent occupancy. Profitability of the train is possible only where there is cent per cent occupancy. The Committee note that the Government have taken fresh initiative for publicity and promotion of Palace on Wheels in overseas markets both in traditional as well as in new markets and during 1986-87 season occupancy has shown sign of improvement also. In case the materialisation of bookings for Palace on Wheels for 1987-88 tourist season is not found satisfactory and in view of continued operational losses incurred by the project since its inception, the Committee recommend that Government should review the performance of the train. The Committee is of the view that the project authorities should also undertake a survey to find out the preference of foreign tourists and consider the improvement they would like to be added to the Palace on Wheels. The Committee desire that the review proposed above must be taken up expeditiously and results communicated to the Committee.

NEW DELHI

E. AYYAPU REDDY,

April 23, 1987

Vaisakha 3, 1909 (Sakha)

Chairman,

Public Accounts Committee

APPENDIX

Observations/Recommendations

S. No.	Para No.	Ministry/ Deptt. Concerned	Observations/Recommendations
1	2	3	4
1	1.41	Railways (Railway Board)	<p>The Committee note that a special tourists train Palace on Wheels was thought of in 1981 as a result of certain wide-ranging discussions between U.K. and India in connection with the promotion of tourist trade between the two countries. In June, 1981, the Ministry of Railways in consultation with the Department of Tourism, decided to introduce a train 'Palace on Wheels' comprising of saloons, mostly of old vintage, belonging to the erstwhile Maharajas of Princely States and run the train through places of tourist interest in the State of Rajasthan and Agra. This scheme was</p>

Railways
(Railway Board)

introduced from 26 January, 1982. The commercial operation of this train commenced from October 1982. The object of this project was, not only to promote in isolation railway tourism in India, but also to increase country's foreign exchange earnings and to project the image of India abroad.

The role of Indian Railways in promoting tourism, both domestic and foreign, has not been significant except for introducing convenient direct trains, with better class of accommodation, to a few places of tourist interest. Introduction of 'Palace on Wheels' was the Railways' first pilot project for development and promotion of foreign tourism in India.

According to Audit the economic viability of this train had not been worked out before it was introduced in 1982. An appraisal made by the Railway Administration in March, 1985 revealed that the Railways were sustaining loss in the running of this train. During the course of the examination of the subject the Committee were informed that projects in connection with promotion of tourism were not normally subjected to detailed cost-benefit

analysis. In such cases in absence of fixed parameters it is difficult to forecast the demand in terms of number of tourists that are likely to patronise the train with a good degree of accuracy. Moreover in Railways as stated by the Chairman, Railway Board, "quite often passenger trains are introduced on the Indian Railways without doing a specific cost-benefit analysis for that particular train." It was admitted that the Indian Railways did not make a profit on passenger traffic. The Committee were given to understand that there was a subsidy on passenger traffic from freight traffic to the extent of Rs. 900 crores per year. With the existing trend of passenger earnings not being self-sufficient all over the world, it was admitted that though there was a loss in running the Palace on Wheels, it did result in promoting tourism in the country.

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It is rather unusual on the part of the Ministry of Railways (Railway Board) to have made comparison of this tourist special train with those of passenger trains on the Indian Railways in the matter of not doing specific cost-benefit analysis. This tourist special train caters to the requirement of a very small and affluent class of tourists whereas passenger

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Railways (Railway Board and Tourism)

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This subsidy is distributed over about ten million passengers carried in 1983-84 everyday and would work out to per capita subsidy of Rs. 2.50 p. As against this 951 foreign tourists who travelled on this train were subsidised to the extent of Rs. 5000/- per passenger in the same year. The Railways have, therefore, subsidised pleasure travel of affluent class which is not a healthy feature.

After the Committee had taken up this subject for examination, the Railways did undertake another study, which according to the Chairman, Railway Board, revealed "that if we take the marginal cost, this will break even ... and taking into account the fact that foreign exchange earned because of this train should also get a 25% notional 'shadow credit'—then the train is virtually breaking even". In the opinion of the Committee in a promotional effort for development of tourism shortfalls are inherent for the promoters, but they act as catalytic agents in developing tou-

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rist infrastructure. If they succeed in catalyst role the effort is worth making. As the Railway are a Government run commercial undertaking, it would be prudent on their part to see that schemes introduced by them are economically viable. The working results of such promotional activities should be brought out distinctly with a view to drawing lessons for assessing the demand properly, computing the costs and benefits reliably and avoiding operational losses in future.

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The Palace on Wheels (POW) a vintage train, is a novel, innovative and interesting concept of tourism. It is a prestigious project launched jointly by the Indian Railways and Rajasthan Tourism Development Corporation providing transport, facility of a hotel on wheels local sight-seeing to best known tourist sites in the country and entertainment to tourists at all destinations covered by the train. It offers an old world regal charm with a touch of class. In spite of all the opulence in tourism that this train offers to foreign tourists, POW has not become increasingly acceptable to main stream tourists. The train has been able to achieve average occupancy of 59 foreign tourists per

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5	1.45	Railways (Railway Board) and Tourism	<p>trip during 1986-87 out of full capacity 98 passengers only, which is insignificant in the light of more than 2.50 lakhs foreign tourists visiting Rajasthan every year.</p> <p>The Committee have a feeling that POW has certain inherent deficiencies. It lacks the quality of comforts of a top-class hotel to which affluent foreign tourists are accustomed and who wants to stay comfortable at night after hectic local sight-seeing during day. Long duration of itinerary is another factor. There are other minus points pointed out by the tourists such as extensive rattling of coaches causing jarring effects on tourists and upper berths being uncomfortable due to not being broad enough. Going by the past performance of the train and in view of these inherent defects, there is little possibility of this train achieving break-even level leave aside profitability.</p>
6	1.46	-do-	<p>Another important matter which the Audit paragraph has raised is that the total running cost was not commensurate with the earnings and the project had not been commercially</p>

successful. It had incurred loss of Rs. 42.35 lakhs in 1982-83, Rs. 47.66 lakhs in 1983-84, Rs. 50.61 lakhs in 1984-85 and Rs. 61.86 lakhs in 1985-86. According to the Ministry of Railways (Railway Board) the commercial success of the Palace on Wheels mainly depends upon the extent of its patronage by the foreign tourists. This in turn, to a large extent, depends upon the marketing efforts and publicity back-up for the project abroad in which the Railways had no direct role but were entirely dependent upon other agencies for development of tourism projects. The Committee are now informed (February 1987) that the Ministry of Tourism will be the sole authority for publicity and promotion of Palace on Wheels particularly in overseas markets through its network. The factors which weighed with the Ministry of Railways and the Ministry of Tourism in selecting a State Government Tourism Development Corporation—in this case RTDC, for doing publicity abroad, when the project was taken up in 1982, are not known to the Committee. Since the RTDC had no mechanism for publicity in foreign countries, they depended on the channels of the Central Government for this purpose. In

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Railways
(Railway
Board) and
Tourism

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The Committee would recommend that the analysis of the feed back obtained from the passengers travelling on this train, should be done jointly by all the three organisations viz., the Railways, the Ministry of Tourism and the RTDC at regular intervals instead of by the Ministry of Tourism alone as at present.

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The tourists special train Palace on Wheels is the first pilot project of the Indian Railways for development and promotion of foreign tourism in India and was commissioned in October 1982. Upto March 1987, 124 commercial tours of this train had taken place. The train could not reach even break-even level. Only during 1986-87 season, the train

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