

Executive Summary

Background

China Approved Destination Status (ADS) is a bilateral tourism arrangement between the Chinese Government and a foreign destination. Only countries with ADS status are permitted by China to host Chinese tourists undertaking leisure travel in groups. ADS is a requirement of and granted by the Chinese government to countries that wish to host group leisure tourists. Without ADS, Australia would not be permitted to market itself as a tourist destination in the Chinese market.

Australia and New Zealand were the first western destinations to be granted ADS by the Chinese Government in 1999. Australia's position as one of the first western destinations to be granted ADS status has given it a head start over other western countries keen to market their tourism product to potential Chinese tourists.

As part of the exchange of letters, Australia is required to improve the quality of the experience for the ADS tourist. Australia has introduced numerous measures to satisfy this requirement.

The Australian Government assumed management of the strengthened scheme in 2005 from the Australian Tourism Export Council (ATEC).

The Department of Resources, Energy and Tourism (RET) coordinates administration of the ADS scheme (the scheme) with the Department of Immigration and Citizenship (DIAC) and Tourism Australia (TA). The objectives of the scheme are to:

- restore integrity, competition and fair trading to the Chinese inbound group leisure market; and
- empower Chinese inbound tourists with knowledge and choice to exercise effective consumer power in the market.¹

RET's primary focus is tour quality which encompasses all aspects of ADS travel, eg. accommodation, transport, meals, attractions, etc. TA contributes to quality via its Premier Aussie Specialists (PAS) and Premier Aussie Specialist Program (PASP) training², in China, though TA's primary focus is on marketing Australia as a foreign destination in China. DIAC's focus is on immigration aspects of the scheme.

¹ ADS Fact Sheet - www.ret.gov.au/tourism

² Aussie Specialists are a dedicated and specialised group of retail travel agents actively selling and promoting Australia around the world. These 'Aussie Experts' have been educated and trained in the Aussie Specialist Program run by Tourism Australia. The PASP aims to further coach the most capable and passionate Aussie Specialists for the delivery of high quality Aussie travel experiences for Chinese tourists.

The key elements of the scheme include an application process for Inbound Tour Operators (ITOs), the ADS *Code of Business Standards and Ethics* (the Code), ongoing reporting processes and an active compliance monitoring regime.

An important aspect of the scheme is the inter-relationship between ITOs (RET/TA/DIAC trains and approves) and Outbound Tour Operators (OTOs) (DIAC/TA trains and approves); both must be approved before they can conduct ADS business. ADS operators can only conduct ADS business with other approved ADS operators. The scheme is designed to regulate and monitor the various elements throughout the group leisure tour process to ensure a minimum standard of tour quality for ADS tourists.

Focus of the evaluation

This evaluation focussed on assessing the appropriateness, effectiveness and efficiency of the current arrangements, with the view to identifying options for improvement. The funding associated with the ADS scheme is due to lapse in June 2010, therefore this evaluation also included consideration of whether the scheme should seek future funding and whether it should continue in the current or an amended form.

In addressing each of these elements of the evaluation, the following approach has been undertaken: a literature review of other countries' ADS regimes, specific consideration of the legislative framework and approach to compliance, stakeholder consultation, analysis of the scheme and related data.

Appropriateness

There remains a clear need for the Australian Government to continue to protect the interests of Chinese group leisure tourists. Such intervention supports Australia's strong desire to continue its positive bi-lateral relationship with China, as a rapidly developing country and having an increasing influence over the global economy.

Based on the evidence gathered in this evaluation, the current regulatory regime should remain. The improvements made by RET in recent years to strengthen the scheme have been highly valued by stakeholders. Further recommendations for improvement include:

- To further support the legal basis of the scheme, standard contracts or deeds could be introduced for approved ITOs. Such a mechanism would set out the roles and responsibilities of ITOs to enable them to participate in the scheme, and be in a more 'business-oriented' or common form eg. contract/deed;
- The regulation (*Migration Regulation 1994*) does not explicitly stipulate that ITOs must be gazetted by DIAC in-line with OTOs. It is recommended that the practice of gazetting ITOs by DIAC be discontinued. Definitive legal advice should be sought to confirm

this. In line with the MoU, ITOs would still need to be approved by RET;

- The administration of the scheme could be improved by de-coupling the OTO and ITO components, ie. responsibility for OTOs rest with DIAC and responsibility for ITOs rest with RET;
- Continuing to educate Chinese tourists in relation to their consumer rights, for example, continuing to enhance the tourist consumer protection initiatives currently undertaken by RET; and
- Wherever possible further reducing the administrative burden of ITOs, eg. reducing deviator reporting requirements noting that ITOs carry the administrative burden and in some cases it is not this group that has control over the alleged inappropriate or unethical practices that occur in the industry.

Finally, a group that influences the sector are Tax Free and/or Duty Free Shops (TF/DFS). The provisions of the scheme do not currently cover these retailers. TF/DFS employ many of the tour guides for ADS tours which gives them significant influence over the groups and the potential to impact on the quality of the tourism experience. While this situation is not ideal, including TF/DFS in the scheme would not be practical with the costs far outweighing the benefits.

Effectiveness

When considering the effectiveness of the strengthened scheme as a collective of measures, the data indicates that there have been positive results, including:

- Absconder rates have fallen and are currently at an all time low of 0.16%³. The Australian ADS absconder rates are well below the global average and the decrease in the last couple of years has been more pronounced than the global decrease. Data over the next couple of years should be reviewed to ensure this emerging pattern is due to the scheme.
- Compliance with the strengthened ADS Code is high, especially over the past year. Again, additional data would need to be obtained to identify this as a trend.
- There are clear indications that Chinese visitors are more satisfied with their experience in Australia and their tour, with overall satisfaction increasing by 24 percentage points (to 77%) in 2008 as compared to 2003.
- Discussions with stakeholders highlighted that the scheme has had a positive influence on improving the integrity of the group tour

³ It is noted that there has been an overall decrease in visitor numbers in recent years - this is likely due to the Global Financial Crisis and H1N1 (swine flu) which have impacted tourist numbers generally.

industry and that the scheme needs to continue. Many indicated they would like the scheme to include tour guides and TF/DFSs.

- The compliance monitoring component of the scheme serves an important role in the overall effectiveness of the scheme. Given that the findings are now minor compliance breaches, it is time to review the approach to compliance monitoring to ensure it is being undertaken in the most efficient and effective manner.
- There has been an increase in the number of applicants to participate in the scheme and since the 2005 strengthening, there has been continued growth in this market which in turn has had a positive impact on the national economy.

Efficiency

The investment by the Australian Government to administer the scheme is relatively low when compared to other Government programs. When including an estimation of salary costs, as well as direct costs, the scheme expenses are less than \$1 million per annum as compared to the \$2.2 billion Chinese tourism market.

There have been a number of improvements made to the scheme to increase efficiency (of RET and ITOs) including streamlining the application process. Another efficiency improvement recommendation is to review and clarify the roles and responsibilities of the Government Coordination Group (GCG) and ADS Advisory Panel (ADSAP).

Overall the scheme is well managed by RET. The structures, procedures and documentation are generally of a high quality and staff are engaged and responsive.

In summary, as the travel maturity of Chinese tourists increases and they become more aware of their consumer rights and responsibilities, the need for the scheme will decrease. There are likely to be increases in other areas of the Chinese travel market, such as incentive travel, business travel and independent travel which is likely to decrease the size of the China ADS market. However, the experience of other countries such as Japan and Korea indicate this is unlikely to occur for a number of years.

Based on the evidence gathered as part of this evaluation, there is a need for the scheme to continue in order to fulfil the Australian Government's responsibilities to protect Chinese group leisure tourism from exploitation. Without ADS, Australia would suffer a decline in Chinese tourists because it would not be able to market itself as a tourist destination in the Chinese market.

The ADS scheme protects Australia's significant investment in tourism marketing and helps maintain Australia's competitiveness as an

international destination. The flow-on effect is that the scheme supports Australia's tourism growth from this important market and its economic benefits. The scheme has had a positive impact on the integrity of the Chinese group leisure tourism market. KPMG have found that the scheme continues to provide benefits and have identified recommendations aimed at promoting greater effectiveness and efficiency in relation to the future structure and responsibilities for administering the scheme.