Discussion Paper

Redesign of Australia’s Approved Destination Status scheme

Purpose

The purpose of this Discussion Paper is to seek input on a redesign of the Australian Government’s Approved Destination Scheme (ADS) arrangement with the Chinese Government. The current scheme has been in place since 1999 and there are now several factors driving a redesign of the scheme. These factors are outlined in this Paper. The Australian Government welcomes submissions from interested parties to help inform an appropriate redesign of the scheme. Your submission should be guided by the redesign principles noted below and questions have been included to help respond with relevant information. Submissions can address any or all of the questions. It is not necessary to provide a response to every question. Respondents should also feel free to provide any input they think relevant, and should not be restricted to responding only to the questions.

Background

ADS is a bilateral tourism arrangement between the Chinese Government and another country that allows Chinese tourists to undertake leisure travel in groups to that country. The Australian ADS scheme allows Chinese tourists to travel to Australia in guided groups. Tourist visas under the ADS scheme are only available to people travelling in tours organised by travel agents approved by the Australian and Chinese government authorities. The scheme allows the Australian Government, through Tourism Australia (TA), to promote Australia as a leisure travel destination in China. Australia and New Zealand were the first western countries to be granted ADS status in 1999, and Australia has since hosted over one million Chinese tourists under the scheme.

Objectives of the ADS scheme

The objectives of the scheme are to provide integrity, competition and a fair trading environment to the Chinese inbound group leisure market and to provide Chinese inbound tourists with knowledge and choice so they can exercise effective consumer power in the market. This in turn helps facilitate a quality tourism experience for Chinese tourists.

Administration of the ADS scheme

Austrade manages the ADS scheme in consultation with TA and the Department of Immigration and Border Protection (DIBP) under a Memorandum of Understanding (MoU) with China. Austrade is responsible for the day to day management, approval and compliance monitoring of Inbound Tour Operators (ITOs). DIBP’s focus is on immigration aspects of the scheme, particularly the selection and performance monitoring of Outbound Tour Operators (OTOs). TA facilitates delivery of quality tourism through its Aussie Specialists Program (ASP) and training delivered to key distribution partners in China. It also markets to Chinese travellers through its Australia.cn website. The ADS Advisory Panel (ADSAP) provides an interface between the Australian Government and the tourism industry on ADS matters.

In the 2012-13 financial year, over 11,000 ADS tours were hosted in Australia by approved ADS ITOs. There are currently 62 ITOs approved to operate in the ADS scheme. ITOs are subject to a selection and monitoring process which helps the Australian government meet ADS objectives of ensuring service quality and integrity in business management for ADS tours.

ADS ITOs must comply with the ADS Code of Business Standards and Ethics (the Code). The Code outlines to ADS ITOs the quality standards expected by the Australian government. Austrade uses a Compliance
Monitoring Agency (CMA) to monitor compliance by ITOs with the ADS Code. Monitoring activities include:

- Compliance readiness checks on new ADS ITOs before they begin ADS business to ensure they understand their obligations under the Code;
- Financial examinations of tour arrangements;
- Compliance maintenance checks;
- Random checks of ADS tours to ensure the ADS Code is being complied with; and
- A Mystery Shopper program to give full visibility of the activities undertaken on ADS tours.

Under the Code, a sanctions structure is applied where ITOs have been found to have breached the requirements of the Code. In case of a serious breach, the Minister may suspend or revoke an ITO’s ADS approval.

Drivers for scheme redesign

Maintaining competitive advantage

China is Australia’s fastest growing and highest spending inbound tourism market, worth $4.7 billion in the year ending September 2013. Australia’s position as the first western destination, along with New Zealand, to be granted ADS gave it a strong start in showcasing its tourism product to the Chinese market. 148 countries now have ADS and Australia’s competitive advantage is diminishing.

While travellers from mature first tier cities are now travelling more independently outside of the scheme, the scheme facilitates group travel to Australia for less mature markets in China. ADS remains critical as a means of providing a more accessible entry for wholesale tourism for these emerging markets which will form future traffic growth. Quality challenges in the ADS market need to be addressed to ensure Australia remains a competitive destination and to ensure Australia is well placed to capitalise on the growth of China.

While Chinese consumers generally rate Australia as a highly desirable destination, there are instances where visitor expectations have not been met, particularly with group travel and shopping experiences. A recent Chinese Visitor Satisfaction survey released by Tourism Research Australia in January 2014 found that while areas like attractions (77% satisfied), wine experiences (72% satisfied), and friendliness of locals (96% satisfied) rated highly among Chinese tour groups, only 50% of those surveyed were satisfied with their shopping experience. The international visitor satisfaction survey has also shown that ADS tourists rate their shopping experience lower than free and independent Chinese travellers.

Australia must leverage the general high levels of satisfaction and develop its shopping experience to the satisfaction of Chinese group tourists to assist in maintaining a competitive advantage. Supporting the development of the China market through the ADS scheme is essential to maximise the economic potential of this market for the Australian economy. Therefore a key task is to raise perceptions of value for money among Chinese group tourists to allow for tourists to make better informed decisions when choosing tourism products in Australia.

New Tourism Law in China

In October 2013, a new tourism law was passed in China that bans payment of commissions and the sale of unreasonably low priced tours to Chinese tourists travelling domestically and internationally. Commissions are allowed under the current Australian ADS scheme.

To date, the majority of ADS tours have been structured around visits to commission linked shops which supply ADS tour guides. These shops paid commissions to the tour guides and ADS ITOs, restricting the economic benefit of this important market to a small portion of the tourism industry.
Early indications are that the changes show the Chinese and Australian tourism industries starting to adjust to the new law. Anecdotal feedback indicates the removal of commission shopping activities has increased the price of Australian ADS package tours from RMB 11,000-14,000 to around RMB 20,000-25,000 with little visible increase in quality. Market intelligence suggests that tour guides are now starting to receive higher payments (up to $200 per day) in lieu of the commission payments, which have now reduced to one-sixth of the rate previously received.

In the long-term the law paired with reform in Australia, and facilitated by a refined ADS Code, will lift the quality of the experience for Chinese travellers and ensure the economic benefit of tourism from China is shared more broadly throughout the Australian economy.

**Removal of the Travel Compensation Fund**

On 7 December 2012, a majority of state and territory Ministers for Consumer Affairs approved a Travel Industry Transition Plan for reform of travel agents’ regulation. Under the plan, financial supervision provided by the Travel Compensation Fund (TCF) was removed in July 2013. Travel agents’ legislation will be repealed by mid-2014. After its repeal, travel agents will be able to trade without needing to be members of the TCF or hold a licence. Under the current ADS Code, ITOs must hold a travel agent’s licence and be members of the TCF. The ADS Code will therefore need to be rewritten to reflect these regulatory changes and consideration will need to be given to alternative mechanisms in the Code such as accreditation for ITOs or other checks to assess financial viability of ITOs.

**Principles for the ADS scheme redesign**

Australia and China are dedicated to fostering the growth of sustainable and quality tourism. To continue to support bilateral tourism cooperation and to accommodate the changes outlined above, the ADS scheme will be redesigned. The redesign will ensure that the scheme remains relevant in managing the current and changing environment of the China market, while ensuring that sustained growth in Chinese visitors is achieved, along with an increase in quality for Chinese tourists.

The following principles will guide the redesign of the scheme and consultation with stakeholders.

1. **Positive service outcomes for ADS tourists**: Implement criteria which ensure delivery of promised service outcomes to guarantee a quality tourism experience for ADS tourists.
2. **Improve scheme administration**: Streamline administration of the scheme for the Australian Government and ITOs.
3. **Improve code clarity**: Clarify and clearly state the requirements for ITOs and what the consequences are for non-compliance.
4. **Maximise economic benefits**: Ensure the economic benefits from the China tourism market are optimised across the Australian tourism industry.
5. **Align the ADS scheme to the China Tourism Law**: Create accord between the ADS scheme and the applicable provisions of the China Tourism Law.

**Proposed model**

The Australian Government proposes that the ADS Code is redrafted to:

- Ban all commission based activities in ADS itineraries;
- Improve the quality and availability of Chinese speaking tour guides to increase tour quality;
- Increase the readability of the Code using plain English and streamline the Code to focus on elements that deliver quality; and
- Remove the requirement to hold a travel agents licence and membership with the Travel Compensation Fund and replace them with alternative accreditation or financial check requirements.
Austrade is seeking feedback on the proposed model outlined in this discussion paper to inform the ADS scheme redesign.

**Ban commission based activities, including commission shopping**

Visits to supervised shopping venues and/or commission linked shopping outlets are allowed under the current ADS Code so as long as a competitive retail area is visited first for at least the same duration as the visit to the commission based shopping outlet. Redesigning the ADS scheme to align with China’s tourism law which bans commission shopping provides an opportunity to broaden the range of experiences available to ADS tourists.

The Australian Government proposes to ban commission shopping under the redesigned ADS scheme, with shopping to only take place at approved competitive retail areas. The removal of commission shopping will help ensure that economic benefit of tourism from China is shared more broadly throughout the Australian economy with new experiences replacing the current emphasis on commission based shopping. This will result in a higher yield per visitor.

Banning commission activities in general will assist in stopping commission practices in other tourism activities such as dining at restaurants, and in the form of extras being sold for commissions during the tour.

**Q1: What new requirements do you think can be included in the code to assure delivery of the services promised to Chinese ADS tourists?**

**Q2. What are your views on how quality shopping activities can be incorporated into ADS itineraries that are compliant with the new Chinese tourism law?**

**Improve the quality and availability of tour guides**

In Australia there is a limited number of quality Chinese speaking Tour Guides for ADS ITOs to draw from. With a price sensitive and highly competitive marketplace, some ADS ITOs rely on tour guides provided by commission linked shopping outlets in return for commission payments. Often the Tour Guide is not trained and does not have good product knowledge of Australia, reducing the quality of the tourism experience. Furthermore, due to the commission structure, the tour guide’s interest is often aimed at increasing shopping sales rather than delivering an overall quality experience.

The limited number of quality Tour Guides has also resulted in a heavy reliance on the Chinese Tour Leaders accompanying the ADS group from China. Each ADS tour group must be supervised by a local Tour Guide in Australia at all times unless other arrangements are agreed to by the ADS Executive Officer (ADSEO). Under the Code, these arrangements may be made if there is a shortage of suitable local Tour Guides during peak periods. Tour Leaders who accompany an ADS tour group can use the Visitor (subclass 600) Business Stream visa. This visa does not allow tour leaders to undertake local Tour Guide work. The ADSEO will not approve tour leaders acting as tour guides if they do not have the appropriate visa. ADS Tour Guides must be Australian citizens or hold a visa with appropriate work rights e.g. subclass 400 visa, Temporary Work (Skilled) (subclass 457) visa, student visa or permanent residence visa. Only when the tour leader has received an appropriate visa, and the ADSEO agrees to their working as a tour guide, may the tour leader act as a tour guide.

One Australian Government initiative to increase the supply of quality Chinese speaking tour guides is the Servicing Chinese Visitors project. This project is supported by a grant from the Australian Government and aims to boost and enhance the supply of quality Chinese speaking tour guides, particularly for ADS tours. In June 2013, AVANA Learning Pty Ltd was awarded the grant and the project is now entering the delivery phase with face to face workshops commencing in early 2014.

The Australian Government proposes that following an appropriate transition period, all Tour Guides will need to be accredited through an accreditation program that has met the required criteria.
Q3. What accreditation requirements should there be for tour guides to operate in the ADS scheme?

Q4. Do you have any suggestions as to how the supply and quality of Chinese speaking tour guides could be increased and/or improved?

Improve Code clarity

ADS ITOs sign a deed agreeing to abide by the ADS Code which sets out the minimum standards for quality tours for Chinese tourists. Some stakeholders have commented that the Code is too long and uses complex English. Others have commented that the Code itself is too complex. One particular example has been the requirement to provide an English and Chinese version of the Itinerary to tourists. This adds to the administrative burden but does not necessarily ensure a quality experience is delivered to the tourist.

The Australian Government proposes to rewrite the Code to address these issues and to produce a more user friendly document that ITOs can more easily use. This would reduce the burden on ITOs by taking out obligations that do not contribute to a quality experience for tourists, using plain English, removing repetition and reduce the overall length of the Code.

Q5. How could the Code be rewritten to ensure that ITOs are provided with clear information on their responsibilities for ensuring standards are met?

Q6. Can you provide examples of Code requirements/inclusions that could be removed or simplified?

Review the sanction structure

The ADS scheme includes a sanction structure which divides breaches of the Code into two categories, compliance and fundamental. The penalties for fundamental breaches and for three or more compliance breaches are either suspension or revocation of ADS approval, or a warning letter if the breaches were unintentional and/or reasonable in the circumstances or arose due to extenuating circumstances. Some stakeholders view the current process as administratively burdensome for ITOs and Austrade.

There are a number of ways that penalties for not complying with the ADS Code could be structured. The Australian Government proposes that a demerit point system apply similar to the drivers licence point based system where ITOs that had reached a certain number of points would trigger clear consequences in defined time periods.

Q7. Do you have any suggestions for an alternative breach structure for the Code?

Q8. Do you have any suggestions for an alternative sanction approach/structure?

Financial checks

Under the current Code, ITOs must be members of the TCF. After its repeal in mid-2014, travel agents will be able to trade without needing to be members of the TCF or hold a travel agents licence. The ADS Code will need to be amended to remove this requirement.

The ADS scheme currently relies upon the financial checking and oversight of the TCF as a mechanism to provide confidence on the financial stability and integrity of ITOs. With the removal of this financial oversight, other options for assessing financial stability of ITOs applying to become approved under the scheme will need to be considered. The Australian Government proposes this could be achieved by ITOs demonstrating financial stability either by undergoing assessment under an approved accreditation program whose assessments meet set requirements, or by undergoing an expanded financial check conducted by the compliance monitoring agency.

Q9. Can you suggest alternative independent and robust methods of promoting and checking the financial integrity and stability of ITOs?
Other Considerations

Cost recovery

As tour quality and yields increase through decreasing dependence on commission oriented travel, there is scope to recover some costs associated with the outsourced compliance monitoring on ITOs, from industry. This approach is feasible from year three of the new ADS scheme being introduced, once the industry has had the chance to structurally adjust to the new tourism law and increased yields can be quantified.

Q10. Recognising that participation in the ADS scheme provides ITOs with commercial benefits, what fee level and structure would represent a fair and balanced approach for participants and what would be an appropriate timeframe to introduce a fee structure?

Reporting

As a key component to achieving the Tourism 2020 potential, it is proposed that the ADSAP reports biannually to the Commonwealth and state and territory tourism ministers.

Note:

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