



Media Briefing Note China-UK: Approved Destination Status

January 2005

Introduction

This briefing paper provides information on what Approved Destination Status is, the potential of the Chinese outbound market and the status of Approved Destination Status negotiations between China and Britain. This brief is based on information supplied by ETOA at its seminar, China as an Origin Market, held in London in November 2004.

Approved Destination Status (ADS)

The Chinese Government still controls the overseas travel of the vast majority of its citizens. Overseas travel is generally only permitted on a one-trip visa granted either for family, study or business related reasons. This travel is usually undertaken by groups of about 15 people who get round the problem of not being able to travel for leisure by spending a couple of days undertaking the stated purpose of the trip, such as business or study, and the remaining 10-12 days sightseeing.

Travel for leisure purposes is only allowed to destinations that have entered into ADS agreements with China. For these destinations, a one-trip visa is issued and Chinese nationals have to travel as part of an organised tour arranged through approved tour operators both in China and in the destination country. Even with an ADS agreement in place, independent travel is not permitted. Apart from allowing Chinese nationals to travel for leisure to certain countries, gaining ADS status has the considerable advantage of allowing the destination country to open a tourism office in China and promote travel to their country. Outbound travel by Chinese nationals to approved tourist destinations is handled by designated travel agencies in China that have been authorised by the Chinese National Tourism Administration (CNTA). It is the responsibility of the contracting foreign country to recommend to CNTA an appropriate number of law-abiding, creditable and competent travel agencies as land operators for handling Chinese tour groups when they arrive in the destination country. CNTA and the national tourist board of the approved country are responsible for the management and supervision of their respective travel agencies and for protecting the legal rights of tourists.

It is worth noting that, although the vast majority of leisure travel is controlled through the ADS process, there are a growing number of Chinese nationals that possess full passports, allowing them to travel freely overseas. In 1999, only 1m people possessed these passports. This number rose to 4.5m in 2004 and is predicted to reach 7m by 2006. It can therefore be seen that ADS agreements are simply a halfway house to the introduction of fully open travel. However, gaining ADS is very important for prospective destination countries as it provides them with a head start in establishing themselves in the Chinese market before full passports are widely available.

Potential of the Chinese Market



Although there are 1.3bn people in China and the Chinese economy has experienced 25 years of 10% compound growth, the vast majority of the people still have very low incomes. However, some 2% of the population (25m) have the same spending power as Europeans and this percentage is growing rapidly. It is estimated that the Chinese middle class will number 43m in 2008, 50m in 2010 and 100m by 2020. As an indication of the growth of the middle class, there are now 315m mobile phone users and 80m people have internet access.

As the Chinese middle class has grown, the appetite for travel, in particular, long haul travel, has grown too. In 2002, the number of outbound Chinese reached a record 16 million and, according to estimates from the World Tourism Organisation, China will become one of the top three outbound tourism markets in the world in less than 20 years. The potential impact of a destination market gaining ADS is demonstrated by looking at the Australian experience. Before Australia gained ADS in 1999, there were 98,000 visits from China. After ADS was granted, this figure almost doubled to 190,000 by 2002. While the UK saw a 40% increase in the number of inbound visits from China over the same period (from 46,000 to 64,000), this was far short of the 94% increase seen in Australia.

The Chinese Outbound Market

While the potential of the Chinese outbound market is considerable, the granting of ADS does not guarantee instant riches for destination countries. The Chinese outbound leisure market is characterised by being low margin and last minute in nature. Competition is generally only on price with the result that most tours stay in poor hotels, travel on poor buses and dine in low quality restaurants. It is expected that most ADS trips to Britain/Europe will be to see “the most countries in the quickest time at the least cost”. This reflects the immature status of the Chinese outbound market. However, although many ADS travelers have a bad experience, most (correctly) blame their outbound operator and want to return to travel properly at a later stage.

This is not to say that Chinese visitors do not spend. International Passenger Survey figures show that the average Chinese traveller to the UK spends £1,250 per visit. While costs are cut on accommodation and travel, Chinese visitors are very keen on shopping and taking gifts home for family and friends. Therefore until the market matures to a more quality-based approach, this is one area where there could be significant benefits for UK tourism businesses

ADS Agreements with the UK's Competitor Destinations

Given the enormous potential of China for outbound tourism, many countries have been eager to gain ADS from CNTA. To date, ADS has been granted to 62 countries including Australia, Ireland, Japan, Malaysia, New Zealand, Republic of Korea, Singapore, South Africa and Thailand. Most importantly, from a competitive position, on 12 February 2004, the European Community signed an ADS agreement on behalf of the Schengen states (13 EU states have signed the Schengen Agreement to dismantle internal border controls – notable exceptions include on states include Ireland, Denmark, Britain and the new EU accession states). This agreement includes a “landmark” provision allowing for the return of possible Chinese asylum seekers – something that the Chinese had avoided in previous ADS agreements.



The European Commission initially anticipated that the agreement would enter into force before summer 2004. However, the realisation that most tours will be through several countries has significant implications for visa requirements and for ensuring that all European countries develop comparable lists of approved tourism providers so that listed providers can offer pan-European products. Arrangements to co-ordinate approved operators across 15 countries have therefore proved difficult and the Agreement will not now come into effect until 2005.

Of particular significance, the American Government recently announced that it had signed an ADS agreement with China so that as early as next May 2005, Chinese tourist groups will be allowed to visit the USA.

The Status of UK-China Bilateral Negotiations

The UK Government has been negotiating an ADS Agreement with the Chinese for approximately 18 months. It had looked at if an Agreement might be signed during the visit of Chinese Premier Wen Jiabao to the UK in May 2004 on a trip aimed at promoting a comprehensive Sino-British relationship. However, these negotiations broke-down due to Home Office concerns that Chinese visitors would destroy their passports on arrival into the UK and either disappear or seek asylum, thus jeopardising the Government's immigration targets. To address this concern, at the last minute, the UK Government inserted a clause into the draft agreement that would allow the UK to unilaterally suspend the agreement with only seven days notice. The inclusion of this clause resulted in the Chinese breaking off negotiations as they did not feel they would have sufficient time to notify all approved operators and for those operators to take the necessary steps to protect the interests of affected ADS tourists.

While there is an element of legitimate concern regarding 'overstayers', this risk is overstated as other countries that are already receiving ADS visitors have an overstay rate of just 0.13%. The reason for this low rate is that most approved Chinese operators require a \$5,000 deposit from their clients to ensure that they return and, if their clients do not return, CNTA can remove the operator from its approved operator list. However, the Deputy Prime Minister, during his recent visit to China, managed to get Vice Premier Huang Ju to agree to have the ADS Agreement ready to sign by the UK Foreign Secretary during his proposed visit to China in January. New negotiations are now taking place on the suspension clause and it is believed that the Chinese have a new suggestion to finalise the Agreement – however this will depend upon whether the UK Government accepts the Chinese proposal. The importance to UK inbound tourism of a successful conclusion to the ADS negotiations is highlighted by WTO figures which show that outbound tourism from China has increased from 4m trips in 1995 to 20m in 2003 and it is predicted to further increase to 100m trips by 2020. If Britain were to attract just 1% of the Chinese outbound market, this would generate approximately £1.0bn for the British economy and create around 25,000 new jobs. However, between 1995 and 2002, Britain has under-performed in the Chinese market with its share of outbound tourism dropping from 1.6% to 0.6%.



Tourism Industry Concerns

Whilst ETOA is fully supportive of a speedy settlement of ADS negotiations between the UK and China and rapid implementation of the scheme, there remain significant issues still to be overcome, as follows:

1. The Cost of Visas

One of the main concerns is the differential in cost between visas for entry into the different European countries. UK visa fees are more expensive than all other European countries with the cost of a UK standard visa for 6 months multi-entry being £36. By comparison, the cost of a single entry Schengen visa valid up to 30 days ranges from £17 for Austria and Germany to £24 for Finland, France and Italy. As these visas can be used throughout Europe, they have a low per country cost whereas £36 is required to add the UK to a Chinese visitor's itinerary. While the terms of the proposed Agreement allow for a new dual entry visa so that Chinese visitors can start and end a tour of Europe in the UK, this visa needs to be priced competitively with other European destinations in order to win more business for the UK.

2. The Cost Differential with Continental Tours

As most trips will be to a number of European countries and the Chinese ADS market is extremely price sensitive, there will be an incentive for tour operators to exclude the UK from itineraries on the basis that if the UK is included it will require clients to gain two visas with the cost and effort that that requires. By contrast, a tour that excludes the UK will be significantly cheaper and require less effort to organize.