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9 April 2010

Ms Debbie YAU
Clerk to Panel on Economic Development
Legislative Council Secretariat
3/F, Citibank Tower
3 Garden Road
Hong Kong

Dear Ms YAU,

Scope of Protection of the Travel Industry Compensation Fund

Thank you for your letter of 30 March.

At the meeting of the Panel on Economic Development on 29 March, a Member requested the Government to consider extending the scope of protection of the Travel Industry Compensation Fund (the Fund) to cover the losses of travellers who purchase air tickets as single items in case of airline default.

The Fund was established in 1993 under section 32C of the Travel Agents Ordinance (the Ordinance) (Cap. 218) to provide compensation to travellers of up to 90% of the loss in fares of outbound travel services¹ in case of default by travel agents. With the introduction of the Package Tour Accident Contingency Fund Scheme in 1996, the Fund's scope of protection was extended to provide ex gratia payments to travellers on outbound group tours who die or are injured in accidents during the trip. The ex gratia

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1. Under section 32A(2), an outbound travel service is a service provided or obtained by a travel agent for the public and comprised of any two or all of the following:
- (a) travel by means of conveyance (on land, at sea or by air) from Hong Kong to a place outside Hong Kong;
 - (b) accommodation at a place outside Hong Kong; and
 - (c) arrangements for an activity which is to take place outside Hong Kong.

payments cover expenses such as those incurred by the outbound travellers concerned in medical treatment and their relatives in making compassionate visits to the place of accident.

Section 32H of the Ordinance also stipulates that travel agents shall pay a levy to the Fund in respect of every fare of outbound travel services received. The rate of levy used to be 0.15% of the fare of outbound travel services but has been reduced to 0% since 3 July 2009. The balance of the Fund stood at \$555 million as at 31 March 2010.

The objective of the Fund is to safeguard the interests of those who purchase the above-mentioned outbound travel services through regulating travel agents (not airlines). If the Fund's scope of protection is extended to cover airline default, consumers might become less vigilant and consider ticket prices only, without due regard for the operating status of the airlines. Nor can the Fund cover the default risks of airlines. The compensation associated with one single instance of airline default may well exhaust the entire amount of the Fund. Moreover, it is unfair to the travel agents if the levy contributions from them are used to cover the default risks of airlines.

Taking the above factors into account, we do not consider it appropriate to extend the Fund's scope of protection to cover the losses of travellers who purchase air tickets as single items in case of airline default.

Yours sincerely,



(Mrs Laura ARON)
for Commissioner for Tourism

c.c.

STH (Attn: Mr Esmond LEE)

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