



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI



Briefing for Incoming Minister Of Tourism

November 2020



MBIE Karakia

Tāwhia tō mana kia mau, kia māia

Ka huri taku aro ki te pae kahurangi,
kei reira te oranga mōku

Mā mahi tahi, ka ora, ka puāwai

Ā mātau mahi katoa, ka pono, ka tika

TIHEI MAURI ORA

TRANSLATION:

Retain and hold fast to your mana, be bold, be brave

*We turn our attention to the future, that's where the
opportunities lie*

By working together we will flourish and achieve greatness

Taking responsibility to commit to doing things right

TIHEI MAURI ORA

MĀIA
BOLD & BRAVE

**PAE
KAHURANGI**
BUILD OUR FUTURE

MAHI TAHI
BETTER TOGETHER

**PONO
ME TE TIKA**
OWN IT

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1. Portfolio overview

Purpose of this briefing

1. The tourism portfolio is critical to delivering your government's commitments to keep moving towards a productive, sustainable and inclusive economy that will help New Zealand recover from the effects of COVID-19. This briefing provides you with information about the Tourism portfolio to support you in your role as the Minister of Tourism, and explains how MBIE can help you to achieve your manifesto commitments that are specific to tourism. We understand that these commitments are to:
 - promote tourism as we progressively open our borders, continue to support domestic opportunities, and maintain New Zealand's presence in the hearts and minds of key international markets, and
 - restart and reimagine a more sustainable tourism industry by working with the industry to support our tourism sector and invest in its transition to a sustainable, low carbon, high skill and high wage industry, focussed on attracting high-value tourists.
2. The briefing begins with an overview of the historical significance of tourism to New Zealand and the effects of COVID-19, then discusses approaches to support the tourism sector while it experiences the immediate effects of COVID-19 restrictions, then examines the need for a systemic transition to address long-standing sustainable issues within the tourism system. After this, the briefing outlines the upcoming decisions, events and work programme in the tourism portfolio, then explains the portfolio responsibilities, role of the Ministry of Business, Innovation and Employment (MBIE) and Tourism New Zealand (TNZ), and connections with other portfolios. The briefing includes three annexes, which cover the tourism portfolio funds and appropriations (Annex 1), the economics of tourism (Annex 2), and the New Zealand-Aotearoa Government Tourism Strategy (Annex 3).
3. We consider that the central objective of the tourism portfolio is to ensure that all New Zealanders benefit from tourism by encouraging the system to operate in a sustainable way across the four capitals (financial/physical, human, social/cultural, and natural).
4. The Tourism Futures Taskforce is an independent public-private partnership set up by the last government to advise on changes to the tourism system to address the long-standing productivity, inclusivity, and sustainability issues present in some parts of the sector, using the four capitals as a framework. It will provide an initial report on the future of tourism in New Zealand in December 2020, with final recommendations to Government expected in April 2021.

Tourism past and present: Significance, value, and the COVID-19 response

The global nature of COVID-19 has had a significant negative effect on the tourism sector

5. Tourism is a cross-cutting sector defined by the consumer, rather than the good or service that is consumed. It encompasses aspects of the activities, entertainment, accommodation, hospitality, transport, and retail sectors, among others. The true size, importance and influence of the tourism sector on New Zealand-Aotearoa's wellbeing is often poorly understood, but is being made apparent through the adverse impacts of COVID-19 border and Alert Level restrictions.
6. The closure of international borders to protect public health from COVID-19 has prevented inflows of international visitors into our tourism system, who generally account for 40 per cent of tourism spend in New Zealand-Aotearoa. The effects of this are unevenly spread between regions and sub-sectors, with some being more dependent on international visitors than others. Otago, Southland and Auckland have been particularly negatively affected. The impacts of COVID-19 on the tourism sector are likely to last longer, and be more significant, than COVID-19 impacts on other sectors. This is due to the length of time that international border restrictions are likely to need to remain in place to achieve public health objectives, and the long lead time to rebuild international travel. The effects are particularly strongly felt in the tourism sector because tourism had experienced rapid growth up until 2019, and businesses and communities were expecting that growth to continue.
7. Considerable efforts are being made at both national and regional levels to grow New Zealanders' appetite to travel domestically. The resulting increase in domestic tourism spend may partially fill the gap left by international visitors. However, the benefits of domestic tourism will be unevenly distributed across regions and firms due to the different travel patterns of domestic visitors.
8. The resurgence of COVID-19 in Auckland in August 2020 and the subsequent imposition of Alert Levels 3 and 2 had a large impact on tourism in particular regions that are dependent on tourism from Auckland, such as Northland. Any further resurgences of COVID-19 will constrain domestic tourism. Economic conditions could also be a deterrent to domestic tourism, especially as domestic travellers tend to be price sensitive.
9. The following paragraphs outline the ways in which tourism benefits New Zealanders' wellbeing now and in the future, and how those contributions have been adversely affected by COVID-19. Later, the briefing explores some of the costs that tourism imposes on New Zealanders' wellbeing, and possible levers to make the tourism system more sustainable.

Financial/Physical Capital

10. Prior to COVID-19, international tourism was one of our largest sectors. In the year to March 2019, domestic and international tourism directly contributed six per cent of New Zealand-Aotearoa's total value-added gross domestic product (GDP). Its export

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value totalled \$17.2 billion in the year to March 2019, or 20 per cent of export earnings.

11. The financial benefits of tourism have the potential to be inclusive across the economy. Tourism can be an income source for regions that may be missing out on other economic development opportunities due to lower population, limited skill bases and job opportunities, or connectivity and infrastructure challenges (although accessibility and infrastructure are often critical to a successful tourism destination). Tourism enables Māori to gain direct financial value from leveraging their cultural and land-based assets.
12. The response to COVID-19 has had a severe impact on the financial contribution of tourism. International tourism has been effectively eliminated. Similarly, when in place Alert Level 3 and 4 restrictions effectively removed domestic tourism.
13. During July 2020 when New Zealand-Aotearoa was at Alert Level 1, domestic tourism spend was 24 per cent higher than in July 2019 as a reflection of pent-up demand from the lockdown period, New Zealanders being unable to travel overseas, and domestic tourism marketing campaigns (including Tourism New Zealand's *Do Something New, New Zealand* campaign). However, this increase was not sufficient to compensate for the absence of international spend and is unlikely to be sustained. The overall decrease in tourism spend is resulting in both business closures and innovation as businesses adjust to the new conditions.

Human Capital

14. Tourism is a labour-intensive industry and has been a significant employer. Over the year ended March 2019, tourism in New Zealand-Aotearoa directly employed 230,000 people, making up over eight per cent of the workforce. A further six per cent of the workforce was employed in industries that provide goods and services to tourism businesses. The tourism sector employs workers of many different skill levels across diverse regions. It provides an opportunity for skill development and a pathway for New Zealanders to enter the workforce. New Zealand-Aotearoa's tourism offering also attracts workers from offshore, such as working holiday-makers, who can contribute to the regional and seasonal labour force (i.e. grow our human capital) in sectors such as horticulture, agriculture and hospitality.
15. COVID-19 has made evident the significance of the tourism sector to providing employment for New Zealanders. Despite the support available through the wage subsidy scheme, the reduced income from the lack of international visitors and domestic lockdowns has meant that many tourism businesses have had to reduce the hours and wages offered to staff. In June 2020 the hours worked in tourism industries had fallen around 30 per cent compared to June 2019, a significantly greater decrease than that experienced in non-tourism industries. Northland and Canterbury experienced the most significant decrease. Some demographics, such as women and Māori, have been more affected.

Social/Cultural Capital

16. Domestic tourism connects New Zealanders with our geography and history, and strengthens social and cultural connections across the country. This promotes social cohesion and increases understanding and integration across communities. Tourism strengthens our cultural identity and provides an avenue for celebrating and sharing our unique Māori culture. International tourism grows our international social capital, by building people-to-people connections across the globe. These connections can be used to support our other export sectors. A positive international reputation can assist in attracting skilled migrants, investments and leveraging foreign policy.
17. While there is no quantitative evidence available on the extent to which COVID-19 restrictions have constrained the social and cultural benefits that tourism delivers, it is likely that there will be an impact on our international social connectivity despite efforts to keep the 'New Zealand brand' alive during the time that our borders remain closed.

Natural Capital

18. Tourism in New Zealand depends upon the natural capital. The sector can support New Zealand-Aotearoa's natural capital by providing a revenue stream for the Department of Conservation (DOC), which can be reinvested into our natural environments. Additionally, some innovative business models offer tourism initiatives that build New Zealand-Aotearoa's natural capital, such as tree-planting or other conservation activities.
19. There is no quantitative evidence on the extent to which COVID-19 travel restrictions have affected the natural capital, but it is possible that the net effect has been positive due to the absence of foot traffic and carbon emissions from travel. Government has stepped in to support wildlife reserves during COVID-19 as their revenues declined due to lack of visitors.

Crown funding is helping tourism businesses and workers to adjust to the COVID-19 shock

20. The tourism sector has been a significant beneficiary of broad-based government support for businesses affected by COVID-19. There has been very high uptake of the wage subsidy scheme with a Tourism Industry Aotearoa survey finding that 96 per cent of tourism businesses have accessed the wage subsidy, and 75 per cent also took the wage subsidy extension. A Ministry of Social Development survey of businesses using the wage subsidy found that 30 per cent would usually receive some income from tourism. The tourism workforce has also been eligible for the COVID-19 Income Relief Payment. Further support has been available to tourism businesses through the Business Finance Guarantee and Small Business Cash-flow Loan Schemes.
21. In addition to this broad-based support, the tourism sector has received targeted Crown funding through the \$400 million Tourism Recovery Package. Elements of this package include the Strategic Tourism Asset Protection Programme which is providing grants and loans to tourism businesses that own and operate strategic assets and Regional Tourism Organisations; loans to inbound tour operators; and support to Māori tourism businesses. The Regional Business Partners network and Qualmark are

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also being funded to provide advice to tourism businesses that need to adjust to the changed conditions. In addition, funding is being directed to support new and existing regional events that will drive domestic tourism and to lift digital capability in the tourism sector. The package also enabled DOC to waive its usual concession fees that are charged to tourism businesses operating on public conservation lands.

22. These measures are being implemented to achieve a set of objectives: generating domestic demand, helping businesses pivot to the domestic market, ensuring the retention of some strategic assets, and addressing longstanding issues that have been brought to the fore by COVID-19 such as low digital uptake (which may be a factor affecting the productivity of small businesses in the tourism sector) and limited destination management planning in regions.
23. Additionally, the government-funded hotel-based MIQ model has had an secondary effect of supporting hotels within the tourism industry. This is not only shoring up demand (from returnees) in our main centres for the hotels that have contracts with government to provide MIQ facilities, but also increasing demand (domestic tourism and business travel) for remaining hotels in these centres that are not providing these facilities.
24. Combined, these broad-based and sector-specific initiatives have mitigated some of the negative effects of COVID-19 on tourism businesses and workers by lessening the abruptness of the financial shock. However, if expanded, there is a risk that these kinds of initiatives could lessen or distort the incentives for the sector to transition to more productive and sustainable activities. As a result, we do not recommend the ongoing application of these kinds of measures in the medium- and long-term.

Various measures have been implemented overseas to support tourism through COVID-19

25. There are many similarities between the policy measures taken by the New Zealand Government and other jurisdictions internationally to support domestic tourism recovery. Other jurisdictions have generally gone for broad-based support packages that include wage subsidies, loan schemes and tax relief for businesses and employees across all sectors, including tourism. As some jurisdictions have brought their domestic COVID-19 situation under control, a number of targeted measures have been introduced to further support tourism sector recovery.

Fiscal Policy

26. A range of tax relief and fee waivers for tourism-related expenditure have been introduced by some jurisdictions, such as Malaysia. Malaysia provided tax deductions for companies organising events and trips, tax payment deferrals for businesses in the tourism industry, service tax exemptions for hotels and other accommodation operators, and tax rebates on personal income for domestic travel expenses and entrance fees to tourist attractions. Subsidies and other cost-reducing measures were also introduced for utilities and energy expenses borne by tourism operators and resorts.

Stimulating Domestic Tourism

27. A number of jurisdictions, including China, the United Kingdom, Japan, Malaysia, Thailand, and some Australian states, introduced travel vouchers and discounts as a means of stimulating domestic tourism. For example, Japan's *Go to Travel* campaign offers discounts of 35% for travel expenses (such as travel and accommodation) up to 20,000 YEN (approx. NZD 285), and an additional 15 per cent in vouchers to be spent at souvenir shops, restaurants and tourism attractions. South Australia also introduced the *Great State Voucher*, which provides one-off discounts of up to AUD 100 on the cost of accommodation in order to stimulate travel to and in the region.

Health and Hygiene Certification

28. Some jurisdictions have also developed accreditation and certification programmes to standardise health and safety protocols and strengthen traveller confidence. For example, Singapore launched the *SG Clean Quality Mark* in February 2020, which requires operators to meet sector-specific requirements for health and hygiene and undergo a third-party assessment to obtain the certification.

Tourism while international border restrictions remain in place: Building sector resilience

Macro-economic measures should support spending and redeployment

29. The tourism sector will continue to be reduced until border settings permit entry to greater numbers of international visitors, because domestic tourism alone will not be able to compensate for the loss of international visitors. The return of international visitors in greater numbers will likely will not occur for at least a year, and possibly two or more years. Immigration settings for the border must allow for safe entry to New Zealand by either meeting Managed Isolation and Quarantine (MIQ) requirements and capacity, or through safe travel zone arrangements with areas where there is a low risk of COVID-19 transmission. In the longer term, there may be changes to New Zealand-Aotearoa's ability to manage the public health risks of COVID-19, including different quarantine tools; testing, tracing and diagnostic developments; and widespread affordable treatments or vaccination. The timeframes for these scenarios are highly uncertain. Developments on the safe and staged re-opening of the border will have a huge impact on your portfolio, and tourists are likely to be one of the last categories of travellers permitted entry due to the scale and inherent risks. As many of the critical decisions sit outside your portfolio (with the immigration, health, and MIQ portfolios), it will be essential to coordinate with your Ministerial colleagues.
30. Even with an increase in domestic spending, a contraction in overall tourism-related consumption is inevitable in the absence of international visitors. In previous economic shocks, the effects of redundancies and business closures in New Zealand have been excessively borne by Māori and Pasifika communities, women, and lower-income families. There is a role for government to ease the transition, particularly for these at-risk communities. This could mean skills or employment support so that part of the tourism workforce can be redeployed to other sectors. Similarly, there is a role for government to ensure that financial and physical capital (buildings and other

infrastructure, as well as financial investment) previously used by the tourism sector is not underutilised (left unused) during border closures. There may be opportunities to support the redeployment of this capital to other uses that create more value in the meantime.

31. In the context of New Zealand's elimination strategy, extensive health and safety protocols and standards for tourism businesses may not be necessary considering the absence of COVID-19 in the community. However, if the risk of COVID-19 transmission within the community (particularly within the tourism sector) increases, there may be an opportunity to explore tourism specific health and safety measures.

Sector-wide measures to support the tourism sector should retain strategic infrastructure

32. We need to maintain the core strategic infrastructure that will be required to accommodate the return of international visitors. In particular, New Zealand-Aotearoa will need airlines, airports and landing rights in crucial international locations. We need to maintain connectivity with particular hubs around the world where international visitors collect before travelling to New Zealand. Without these, we will face substantial obstacles to facilitating the return of international tourism once borders reopen.
33. In addition, some marketing may be beneficial to keep the New Zealand-Aotearoa brand alive in key high-value international markets. International visitors start planning their travel to New Zealand months or years in advance, and so maintaining a strong brand presence in key international visitor markets will facilitate the quick return of high-value visitors once borders reopen.
34. In a period of economic downturn, it is of crucial importance that the public is encouraged and supported to continue spending. Spending and business confidence result in a positive feedback loop that maintains economic stability. One way to achieve increased consumer spending through the tourism portfolio during COVID-19 border restrictions is to stimulate domestic travel, which then stimulates consumption in a wide range of tourism-related sectors such as accommodation and hospitality. As trends in domestic tourism demand emerge and the impact of the Regional Events Fund (REF) is better understood, you may like to consider alternative options for fiscal support and demand-side stimulation.
35. Domestic travel has different patterns from international travel, being more concentrated at weekends and during school holidays. Generally, the tourism industry feels relatively confident about predicted levels of domestic travel between the Christmas public holiday period and Waitangi Day. However, there is concern about February and March 2021, as this is when businesses usually experience increased proportions of spend from international visitors, and domestic travel reduces. Incentives to stimulate domestic travel during weekdays and term-time could be effective to support businesses during these periods of reduced demand, which will increase productivity and address short-term congestion in the tourism system.
36. Care should be taken to ensure that any taxpayer funding stimulates spending that would otherwise have not occurred; rather than subsidising spending that would have occurred regardless.

37. Some mechanisms for achieving this include:

- Promoting regional events. Regional events stimulate domestic travel and higher levels of spending, particularly in regions, seasons, and with demographics that might otherwise not have travelled and spent.
- Phasing school holidays. This would spread domestic tourism expenditure over a longer period, and by reducing school holiday-related congestion could encourage more people overall to travel throughout the year. The proposal was rejected by the Minister of Education earlier in 2020 due to the effects on the education system.
- Subsidising transportation to encourage visitation. This could be income-targeted to ensure that it only stimulates new travel rather than subsidising existing travel.
- Subsidising attractions, amenities or accommodation providers. This could be achieved through as a publicly-funded discount or voucher system.

Targetted measures to support individual tourism businesses should be used minimally

38. Central government has been under pressure to provide ongoing funding to support the tourism industry, beyond the measures already introduced through the Tourism Recovery Package. However, the cost to society of supporting individual businesses at previous levels for the foreseeable period of border closures would be substantial and an inefficient use of financial, physical and human capital. Government must work with industry on how to enable a just transition for capital and workers.
39. If further direct support is provided to tourism businesses, we recommend the use of loans rather than grants to share the risk between the taxpayer and the businesses involved. In general, we recommend that any future business support be broad-based (whereby businesses across various sectors are eligible), rather than tourism-specific, in order to avoid the challenge of including, excluding or favouring specific parts of the economy and individual businesses.

Tourism once international borders reopen: Ensuring system sustainability

The sector and government’s role in the tourism system have been changing

40. Between 2013 and 2019 international and domestic tourism grew rapidly. This reflected a global trend of increased international travel, driven by technological change that lowered the costs of travel and increased incomes emerging economies (especially in Asia). Some destinations in New Zealand-Aotearoa became under pressure from tourism, exacerbated by the highly seasonal nature of the sector and underlying pressures such as ageing infrastructure and a shortage of housing. At some places in some times, the strain on capacity led to a reduction in the quality of the visitor and host community’s experience, and degradation of the environment and infrastructure.

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41. When international visitor flows were more modest, the costs of visitation and tourism demand were overshadowed by the benefits of tourism. Government could focus on stimulating demand for tourism while adopting a relatively hands-off approach to the supply side of the tourism system, which was generally considered to have sufficient spare capacity to accommodate visitor needs. However, the increasing New Zealand population and visitor numbers have pushed us to the limit of fixed capacity in infrastructure and aspects of the natural environment in some places. The tourism sector has been reliant on increasing visitor volumes in order to drive the overall value of the sector, but this comes at the cost of infrastructure and the environment.
42. In response to this, and to long-term issues such as climate change, the government and the sector have shown an increased appetite to transition the system to be more sustainable. The *New Zealand-Aotearoa Government Tourism Strategy*, published in May 2019 and attached at Annex 3, sets out a deliberate and active stewardship role for government to enrich New Zealand-Aotearoa through sustainable tourism growth. This has placed increased focus on the sustainability of tourism, and the government role in encouraging collaboration and participation with local government, iwi, tourism businesses, employees and local residents to address sustainability issues. In the same month, Tourism Industry Aotearoa published *Tourism 2025 & Beyond: A Sustainable Growth Framework | Kaupapa Whakapakari Tāpoi* which provides a framework for a transition towards a sustainable tourism industry.
43. Government has also focussed on improving coordination across government agencies and between the national strategy and regional delivery, improving the funding levers to ensure that visitors are contributing to the costs imposed, and reviewing the functions that government undertakes (such as marketing and data). Industry is willing to support a transition in the sector, but with low volumes of current visitors leading to reduced incomes for tourism businesses this willingness may diminish.

The current settings of the tourism system had adverse effects on the four capitals

44. While COVID-19 has caused severe disruption to the tourism system, it has also created a unique opportunity to reset, rebuild and take a fresh look at intractable challenges which have beset the system in recent years.
45. The current strategy within the tourism portfolio is to ensure that tourism is at minimum sustainable, which would mean that it covers all the costs it imposes across the four capitals: financial/physical, social, human and natural. There is some interest within the tourism industry for the sector to be regenerative, which would mean growing the four capitals (contributing more than it takes). Taking an inter-generational view of the tourism sector, and factoring in natural, human, and social capitals (alongside financial/physical) would reduce the system's vulnerability to later shocks and pressures, but at a financial cost in the present.
46. However, many aspects of the tourism sector have not been sustainable. The current settings of the tourism system allow the benefits to generally be privatised, and some of the costs to be socialised, particularly through local government and DOC. This has been exacerbated by the growth in visitor numbers in recent years. The four capitals have been bearing the costs of the tourism sector as a result of the current settings of

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the system. These direct and indirect subsidies effectively mean that we have had more tourism than is socially optimal.

47. The following paragraphs provide examples of where this has occurred in the tourism system. The socialised costs have been organised using the four capitals from Treasury's Living Standards Framework. This framework enables government to take account of the wide range of factors that influence wellbeing and New Zealand's ability to create value in the future. The Tourism Futures Taskforce is also using the four capitals framework as a tool in its analysis.

Financial/physical capital and Natural capital

48. Instead of being met by visitors and the businesses that benefit from tourism, much of the cost of maintaining and upgrading the infrastructure and amenities that visitors use (for example walking tracks, public toilets, carparks, as well as some attractions funded by local governments such as museums) and of investing in our natural capital (including public conservation lands) in response to increased tourism is being charged to local government and therefore ratepayers, or to DOC and therefore taxpayers. If these costs are not offset by ratepayers and taxpayers (i.e. local governments and DOC maintaining and upgrading the infrastructure that visitors use), the result is congestion and degradation of infrastructure and the environment.
49. In addition, Crown funding is used to meet a range of other costs of the tourism sector, such as the provision of data, destination marketing and tax-payer funded infrastructure. For example, Great Ride cycle trails have been funded by the Crown because, while they deliver economic benefits for communities and businesses, it can be hard for their governing organisations to monetise those benefits and reinvest revenue into maintenance.
50. Tourism produces greenhouse gas emissions through both international and domestic travel. While the costs to the climate of the emissions produced through domestic travel are priced into the system (through the Emissions Trading Scheme, whereby fuel importers are obligated to purchase emissions trading units), the costs of international travel emissions are often not. There are some international efforts to address this through the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and the International Convention for Prevention of Marine Pollution for Ships (MARPOL).

Human capital

51. The tourism industry has also been supported by access to low-cost labour from migrant workers, particularly in sectors such as hospitality and retail. While keeping prices low for consumers (including visitors), low-cost migrant labour has had the negative effect of keeping some wages and workplace conditions low and reducing the quantity and quality of employment available for New Zealanders. A challenge in addressing this issue is that the tourism sector's labour needs are highly seasonal, deterring many New Zealanders from working in the sector. The focus for temporary work visa settings is on ensuring that New Zealanders are prioritised for employment opportunities and that employers are genuinely seeking to make wages and conditions

attractive to jobseekers. While the borders remain largely closed, the tourism sector will need to primarily meet its workforce needs from the domestic labour market.

Social/Cultural capital

52. These adverse effects to the financial/physical, natural and human capitals have begun to have direct negative impacts on communities, which is damaging New Zealanders' support (the 'social license') for tourism. While 'Mood of the Nation' surveys reveal that most New Zealanders still consider that international tourism is good for New Zealand-Aotearoa, the proportion that think that international visitor numbers have been too high has been increasing. Some iwi and hapū have also expressed concern about the impacts of visitors on culturally significant places.
53. A recent report from Angus & Associates found that New Zealanders see a vital role for tourism on the road to post-COVID economic recovery, with jobs top of mind. However, post-recovery, New Zealanders are not expecting 'business-as-usual.' They expect more investment in community infrastructure used by visitors, a greater focus on domestic tourism development, and increased emphasis on sustainable tourism development. The latter is especially important to younger New Zealanders, who would like to see additional focus on reducing visitor impact on their local environment, and helping visitors to reduce their carbon footprint and adopt more sustainable travel practices.

Recovering these costs to the four capitals is critical to maintaining a sustainable sector

54. A key challenge in ensuring that visitors and the tourism sector meet the costs that they impose is that many visitor attractions, particularly our lands, waters and natural heritage sites, are considered public goods to which there is currently free and unrestricted access (with the exception of the concession fees that businesses pay to operate on public conservation lands and waters). Likewise, visitors generally bear no direct costs for the infrastructure services and amenities they use in host communities. This encourages over-consumption and constrains the ability to reinvest in the assets, resulting in undersupply, congestion, and increased dissatisfaction of New Zealanders with tourism.
55. The tourism industry acknowledges the issues and is supportive of collaborative attempts between central government, local government, and industry to address underinvestment and related issues of congestion and social license. However, many industry players favour funding by central and local governments (taxpayers and ratepayers), rather than directly from visitors or tourism businesses. MBIE's view is that addressing the issue through general taxation or rates is financially and socially unsustainable, and does not resolve the issue of over-consumption.
56. Much of the infrastructure that is used by visitors is also used by local New Zealanders, and so (under a user-pays principle) the costs of upgrading and maintaining this infrastructure should not necessarily fall wholly upon visitors. Rather, the recovering of costs should more closely reflect who the users are and the costs that they impose. Ensuring that central and local government are able to sufficiently monetise tourism by recovering those costs from visitors, and to invest in maintaining, renewing and expanding the infrastructure and environmental assets that visitors use will be critical

to maintaining a sustainable sector and social license for tourism. MBIE regards this as a precondition for any moves to a 'regenerative' sector.

57. Annex 2 uses a negative externalities model to explain this analysis through an economic lens. Essentially, because the negative externalities of tourism have not been priced into the system, there is more tourism than is socially optimal.

The current tourism sector adjustment provides an opportunity for ambitious systemic change to address these long-standing sustainability issues before they reappear

58. We expect that once borders reopen, tourism and related issues of sustainability will gradually return to previous levels if there is no deliberate government intervention. A key reason for this is that the major players in tourism (for example, airlines, airports, cruise ships, seaports, and much of the accommodation and transport sectors) have high fixed costs and relatively low variable costs. Therefore, their profitability and yield is strongly correlated with growth in visitor volumes.
59. In the current environment, it would be possible to set aside the need to address the pressures created by past visitor growth, given the uncertainty about when and how border restrictions will be lifted and international visitors will return. This approach would mean waiting until the problems re-emerge to address them.
60. However, we recommend starting to make those changes now, while there is widespread acceptance that the sector will emerge from the pandemic in a changed form. This will enable us to introduce those changes slowly, and signal well in advance to encourage longer-term planning by the sector and send the signals that tourism operators need to invest or divest accordingly. The tourism sector is in a period of adjustment and retraction, which lends itself to public and private investment in the sector's long-term future, as well as reconsideration of the sector's regulatory, funding and policy settings. A strategic rethink now could maximise the long-term benefits of tourism for all New Zealanders. It would also support the phased approach to a sustainable industry outlined in the New Zealand-Aotearoa Government Tourism Strategy.

We recommend beginning analysis now, so that changes can be signalled well in advance of the return of high volumes of international visitors

61. We are not recommending that changes to make the system more sustainable are implemented immediately. Instead, we recommend beginning analysis now. This will enable us to determine what changes are needed, and signal those changes, well in advance of them being implemented (which can occur if and when we anticipate that visitor numbers will return to 2019 volumes). By signalling well in advance, businesses and the tourism workforce can make long-term decisions with those changes in mind. Systemic changes that happen too quickly can result in long-lasting societal harm, particularly when those changes are concentrated geographically or demographically concentrated.

The tourism portfolio includes three tools that will be critical to achieving systemic change

62. Greater use of pricing through user charges, taxes and levies could be used to better capture the full cost of visitors' activities as close to the point of use as possible, and

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generate revenue to offset these negative impacts as well as to manage demand. This could be in the form of:

- Greater use of user charges for international visitors at DOC locations and services, including commercial (value-based) pricing of businesses' access to public conservation lands
- New hypothecated local taxes, levies, and charges at destinations that are under particular pressure from visitor growth (including recovering the cost of responsible camping services from the beneficiaries of the services)
- Exploring the use of the International Visitor Conservation and Tourism Levy (IVL), which is charged to international visitors on arrival, as a congestion pricing tool to 'flatten the curve' and prevent overcrowding in peak season. This should be a last resort; pricing measures closer to the point of use will be more effective.

63. The pricing lever would likely make the most meaningful, sustainable and systemic difference to the future of sustainable tourism in New Zealand. It will also be critical to enabling any 'regeneration' of the four capitals through tourism. Many of the levers to impose prices sit outside the tourism portfolio (such as within the conservation, immigration, or local government portfolios) so a coordinated approach is critical.
64. A second tool that will have impact in driving desired change involves influencing and collaborating with other portfolios to use their regulatory levers to effect change in the tourism system (in addition to the pricing changes outlined above). While the tourism portfolio has no regulation or legislation (with the exception of the establishment legislation for Tourism New Zealand), there are many regulatory levers that affect the tourism system that sit outside the portfolio, such as within conservation, transport and immigration. Some examples of using these systems to achieve tourism objectives include visa criteria under the immigration system or airport licensing under the transport system. There are challenges of implementing regulation in a sector that is defined by who the consumers are, rather than the product being produced. One way that regulation could effect change is to use visa settings to manage demand, particularly during peak seasons. This could be in addition to or instead of using the IVL to manage demand.
65. While the Tourism Futures Taskforce will explore whether there is an appetite for more formal regulatory or coordination powers within the tourism portfolio, it will continue to be critical that a coordinated approach is taken to the tourism system across government. The central government Tourism Chief Executives Group provides a mechanism for cross-agency coordination and strategic oversight of government agencies' tourism-related initiatives. The Minister of Tourism has convening power to lead tourism-related initiatives with the Ministers who are responsible for these closely related portfolios.
66. A third critical tool within the tourism portfolio toolkit is coordination across government, and between government and local government. One example is the portfolio's coordination of the public-private Tourism Futures Taskforce, which is

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discussing these issues as well as long-term trends such as climate change, globalisation, automation, big data, and the Māori economy. Another example of this tool is the Destination Management approach, whereby the government supports and encourages diverse tourism stakeholders of a particular area to collaborate to solve local tourism issues and agree on a long-term vision for the development of their region as a visitor destination. The portfolio can also coordinate across the system to advance workforce initiatives, initiatives with Māori, and initiatives to address particular irritants to the social license, such as responsible camping.

67. A number of funds have been developed in the tourism portfolio, which are 'spot fixes' in the absence of systemic reform of the system. These include the Tourism Infrastructure Fund, New Zealand Cycle Trails, and funds developed through the COVID response.

2. Your first 90 days in the Tourism portfolio

Decisions in your first 90 days

68. The table below lists the major decisions and actions you will be asked to consider in your first 90 days as the Minister of Tourism.

Topic	Description	Driver	Timing
90 day plan	We would welcome an early meeting with you to discuss your priorities for the first 90 days.	Ministerial priorities	At your earliest convenience
Tourism Recovery Ministers group	The Tourism Recovery Ministers group has consisted of the Ministers of/for Tourism, Finance, Māori Development, Conservation, and the Under Secretary of Regional Economic Development. It has met weekly on Thursdays. We seek your guidance on whether the Tourism Recovery Ministers group will be reconvened; its membership; and its areas of priority focus.	Ministerial priorities	At your earliest convenience
Scope of appropriation for Tourism New Zealand	Tourism New Zealand's appropriation <i>Tourism: Marketing of New Zealand as a Visitor Destination</i> is limited to "the promotion of New Zealand as a visitor destination in key overseas markets." Due to COVID-19, Tourism New Zealand has pivoted to marketing towards domestic visitors, and has received funding for these campaigns. Cabinet will need to change the scope statement to reflect this pivot. We will provide you a draft Cabinet paper shortly.	Public finance	First 30 days
Tourism Recovery Fund	\$25 million remains in the Tourism Recovery Fund to be drawn down. Tourism Recovery Ministers agreed that this could be used to waive concession fees that are charged to businesses operating on public conservation lands. DOC will provide technical advice on drawing down this funding to you and the Ministers of/for Finance, Trade and Export Growth, Economic Development, Small Business, and Regional Economic Development.	Tagged contingency funding with expiry date	First 30 days

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International Visitor Levy Investment Plan	The International Visitor Conservation and Tourism Levy (IVL) is a charge imposed on international visitors who are not Australia or New Zealand citizens or permanent residents. It was introduced in 2019 to create a revenue stream from international visitors to fund strategic investment to address the costs of tourism on infrastructure and conservation. This levy funds the IVL programme which commenced in July 2019 with a series of investments across tourism and conservation projects. We will provide a proposed IVL Investment Plan to you, the Minister of Finance and the Minister of Conservation, which will guide the strategic investments of the IVL over the coming 3 years.	Funding programme	First 60 days
Letter of Expectations to Tourism New Zealand	We recommend that you send a Letter of Expectations to Tourism New Zealand. This provides an opportunity to participate in Tourism New Zealand's process of setting strategic intentions and into influence its performance for the short- to medium-term. The letter will enable the Tourism New Zealand board to align its work programme to your priorities and expectations.	Entity accountability	First 60 days
Queenstown Cycle Trail	We will ask you to make a decision in response to the Queenstown Trails' request for s9(2)(f)(iv) to reroute their cycle trail network.	Funding programme	First 90 days
Tourism Futures Taskforce	The Tourism Futures Taskforce will provide a first draft of its report in December for your feedback, and then will provide a final report in April. The report will provide recommendations on further policy and regulatory reform in to address the current and future issues that will shape the tourism sector. You may wish to take the December report to Cabinet, as it will likely be published online for broad consultation.	Strategy	First 90 days

Key stakeholders to meet in your first 90 days and upcoming events

69. The table below lists the major stakeholders that we recommend you engage with in your first 90 days.

Organisation	Description	Contact	Role
Air New Zealand	A key New Zealand airline providing domestic/international passenger and cargo services.	Dame Therese Walsh	Chairman

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		Greg Foran	Chief Executive
Auckland International Airport Ltd.	Auckland Airport is the largest and busiest airport in New Zealand, providing extensive domestic and international connections.	Dr Patrick Strange	Chair
		Adrian Littlewood	Chief Executive
Christchurch International Airport Ltd.	Christchurch Airport is New Zealand's second largest airport, with 12 partner airlines coming from 25 destinations. It acts as an international gateway for Christchurch and the South Island.	Catherine Drayton	Chair
		Malcolm Johns	Chief Executive
Local Government New Zealand	LGNZ represent the national interests of councils in New Zealand and lead best practice in the local government sector.	Susan Freeman-Greene	Chief Executive
		Stuart Crosby	President
Milford Opportunities Project Governance Group	The Project aims to address the pressures experienced on the Milford corridor and at Milford Sound <i>Piopiotaahi</i> due to increasing visitor numbers.	Dr Keith Turner	Chair of the Governance Group
Ngā Haerenga - New Zealand Cycle Trail Inc	NZCT Inc. is responsible for the long-term governance and management of Ngā Haerenga - the New Zealand Cycle Trail. Ngā Haerenga funding is administered by MBIE, and the project aims to grow New Zealand through sustainable and outstanding cycling experiences.	Jenn Bestwick	Chair
New Zealand Tourism Futures Taskforce	The Taskforce was set up through the Tourism Recovery Fund, and will deliver a draft report with recommendations on the future of tourism in New Zealand in December 2020, with a final report published in April 2021.	Steve Chadwick	Co-chair
		Grant Webster	Co-chair
New Zealand Māori Tourism	NZMT works with the Māori tourism sector to support leaders and partnerships that generate value in the Māori and wider tourism sector – ensuring quality Māori tourism experiences.	Dale Stephens	Chairman
		Pania Tyson-Nathan	Chief Executive
Regional Tourism Organisations New Zealand	RTNZ represents all RTOs throughout New Zealand, who are responsible for destination management/marketing and promotion in their regions.	David Perks	Chair
		Charlie Ives	Executive Officer

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Tourism Industry Aotearoa	TIA is an independent association that represents all sectors of New Zealand's tourism industry. Their Tourism Sustainability Commitment aims to see every businesses committed to sustainability by 2025.	Chris Roberts	Chief Executive
Wellington International Airport	New Zealand's third largest airport with 6 million passengers direct to 26 destinations around the world each year.	Tim Brown	Chair
		Steven Sanderson	Chief Executive Officer
Auckland Tourism, Events, & Economic Development (ATEED)	ATEED is Auckland's economic development agency, controlled by Auckland Council. It aims to make Auckland a desirable place to live, work, visit, invest and do business.	Nick Hill	Chief Executive
		Steve Armitage	General Manager - Destination
Board of Airline Representatives New Zealand	BARNZ is an incorporated association representing over 22 member airlines in New Zealand and internationally. BARNZ works closely with the Government, regulators, businesses and local communities on behalf of its members.	Justin Tighe-Umbers	Executive Director
Conventions and Incentives New Zealand	CINZ aims to increase New Zealand convention and meeting activity from international and domestic sources, as well as advocate for the convention and incentive tourism sectors.	Tony Gardner	Chair
		Lisa Hopkins	Chief Executive Officer
Hospitality New Zealand	HNZ are a trade association representing around 3,000 hospitality and commercial accommodation businesses.	Julie White	Chief Executive
		Jeremy Smith	National President

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Queenstown Lakes District Council	There are a number of tourism projects underway impacting Queenstown and the surrounding district, as tourism represents a large part of their regional economy. QLDC are currently proposing a visitor levy for the district.	Jim Boulton	Mayor
The New Zealand Hotel Owners Association	NZHOA is a membership organisation representing hotel owners throughout New Zealand, advocating across a range of tourism issues.	Lani Hagaman	Chair
		Amy Robens	Executive Director
Tourism Export Council New Zealand	TECNZ is a membership organisation representing the interests and advocate for the New Zealand inbound tourism industry and tourism industry operators (ITO).	Lynda Keene	Chief Executive Officer
		Anna Black	Chair
New Zealand Holiday Parks Association	HAPNZ is an industry association that represents the commercial holiday park sector in New Zealand. HAPNZ has 305 member parks and over 90 trade members.	Fergus Brown	Chief Executive
Restaurant Association New Zealand	RANZ is a membership organisation representing the restaurant and hospitality industry, and aims to link good food and good business.	Marisa Bidois	Chief Executive
Wellington International Airport	New Zealand's third largest airport with 6 million passengers direct to 26 destinations around the world each year.	Tim Brown	Chair
		Steven Sanderson	Chief Executive Officer

70. Events that you may be asked to speak at or attend are listed below. When you receive invitations to events in your capacity as Minister of Tourism, we can provide advice to support you.

- The Tourism Industry Aotearoa Summit 2020 (17 November 2020). The annual Tourism Summit is the largest national annual tourism event, and brings together businesses and government. Former Ministers of Tourism have spoken at this event in the past.

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- Conventions and Incentives New Zealand (CINZ) Annual Conference. This conference is used to network, hear from keynote speakers, and discuss the future of the conventions and incentives industry.
- Tourism Export Council (TEC) Annual Tourism Conference (4-5 August 2021). This event brings together about 250 delegates for a series of speeches and networking opportunities.
- TRENZ. This is New Zealand-Aotearoa's biggest annual business-to-business travel and trade event. In recent years it has spanned four days and provided a forum for participants in the tourism system to network and secure contracts. It was postponed due to COVID-19, and government funding has been allocated to support a reimagined event in 2021.

The tourism work programme

71. COVID-19 has resulted in an extensive work programme to support and transition the tourism sector. We would like to discuss the forward work programme with you at your earliest convenience. The current tourism workstreams and their status are outlined below.

Strategic Tourism Asset Protection Programme (STAPP) and the Transitions Programme

72. The former government established a \$400 million tourism recovery package to support the tourism industry to recovery from the impact of the COVID-19 pandemic. The package went beyond the broad-based financial support that was available (such as the wage subsidy scheme) to help businesses identify their future, support Māori tourism, protect strategic tourism assets and secure long-term sustainability for the sector. The fund has been fully allocated. More information on the how the fund has been allocated is available in *Annex 1: Tourism portfolio funds and appropriations*.
73. Work is ongoing across MBIE to deliver the loans and grants under the STAPP programme, respond to issues and concerns arising from the allocation of the funding, and monitor the effectiveness of the various programmes.

Tourism Futures Taskforce

74. The New Zealand Tourism Futures Taskforce is an independent public private partnership set up by the last government to lead the thinking on the future of tourism in New Zealand. The main purpose of the Taskforce is to advise on what changes New Zealand can make to the tourism system so that tourism enriches both New Zealand and the wellbeing of New Zealanders. The Taskforce will also make recommendations to address the long-standing productivity, inclusivity and sustainability issues present in some parts of the tourism sector. The taskforce will provide an initial report on the future of tourism in New Zealand in December 2020, with final recommendations and steps for implementation in April 2021.
75. MBIE provides Secretariat services to the taskforce, including providing analysis and expertise to support the taskforce as it develops its report and recommendations.

Destination management

76. Destination Management is a collaborative approach to manage all aspects of a destination that contribute to the experiences of visitors and communities experiences, including the perspectives, needs and expectations of visitors, Māori, iwi, hapū, tourism industry, wider businesses, local residents, local government and central government. Adopting a destination management approach enables communities to respond to changing conditions and determine the type of tourism they would like to have. MBIE released the Destination Management Guidelines in January 2020 which set out the key components to effective destination management and planning, based on research, international best practice, case studies and industry consultation.
77. As part of the STAPP, \$20.2 million in funding was provided to 31 Regional Tourism Organisations (RTOs) and Economic Development Agencies (EDAs) throughout New Zealand-Aotearoa to enable destination management and planning at place. MBIE plays an active role in destination management, providing advice and guidance to RTOs and EDAs as they work with their communities to plan and manage tourism locally.

International Visitor Conservation and Tourism Levy (IVL) investment

78. From 1 July 2019, most international visitors entering New Zealand have been charged a levy of \$35 that will be invested in sustainable tourism and conservation projects. The IVL is an important tool to make sure that sustainable tourism growth enriches New Zealanders' lives. It invests in projects that will substantively change the tourism system, helping to create productive, sustainable and inclusive tourism growth that protects and supports our environment.
79. The investment priorities for the IVL are guided by the New Zealand-Aotearoa Government Tourism Strategy (attached at Annex 3), Te Mana o te Taiao/ the Aotearoa New Zealand Biodiversity Strategy, and other key frameworks that reflect government objectives for conservation and tourism. . MBIE collects the IVL through the immigration system, and works alongside DOC to provide advice on the strategic investment of the IVL.
80. IVL revenue was significantly lower during 2020 than forecast. In 2020/21 the priority for the programme is to ensure successful continuation of existing project commitments along with modest investments in new projects that meet the long-term objectives of the fund. Until revenue from international arrivals rebounds and stabilises, further IVL investments will be restrained.

Data system

81. The current data system for the tourism portfolio is dispersed. Many different organisations (public and private) collect and collate data relating to tourism, only some of which is made publicly available. Tourism data as a whole is funded with ad hoc arrangements which means that some duplication in commissioning exists.

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82. MBIE is responsible for the Monthly Regional Tourism Estimates, the International Visitor Survey, and the Accommodation Data Programme (ADP). The International Visitor Survey is the only Tier 1 statistic that is essential to be continued by Government. The Tourism Satellite Account is produced by Stats NZ.
83. MBIE is currently developing, with the industry, the New Zealand-Aotearoa Sustainable Tourism Dashboard to replace the existing New Zealand Tourism Dashboard. The new real-time, publicly available dashboard uses the five tourism strategy areas (as outlined in Annex 3) to present the range of information about social and environmental impacts of tourism, in addition to the economic impacts.
84. MBIE is also scoping a co-governance arrangement between the sector and Government for tourism data. This arrangement would be used to identify data needs and influence commissioning of products to meet those needs.

Responsible camping

85. In 2018 the former Minister of Tourism established the Responsible Camping Working Group to identify ways to better manage the freedom camping system. The Working Group recommended long-term policy and regulatory changes, and short-term practical actions to help councils manage camping in their regions.
86. MBIE is currently progressing work to review the regulatory system for the Self-Contained Vehicle Standard. This will involve seeking independent advice on the effects of the status quo (a voluntary standard), as well as undertaking a cost-benefit analysis of introducing a mandatory system, and how this could be supported. Later, there is some interest in reviewing the Freedom Camping Act 2011 (administered by the Department of Internal Affairs and DOC) and the Camping-Ground Regulations 1985. MBIE will support the relevant agencies to undertake this work should it be a priority for Government.

Maintaining the Great Rides

87. Ngā Haerenga / The New Zealand Cycle Trail includes the Great Rides, Heartland Rides, and some of the cycle trails in the Urban Cycling Network. Each year more than a million people use the 22 Great Rides of Ngā Haerenga. As well as offering a world-class visitor experience, the trail creates ongoing job opportunities and economic, recreational and health benefits for New Zealanders.
88. MBIE manages the 'Maintaining the Quality of the Great Rides Fund.' More information is available in *Annex 1: Tourism portfolio funds and appropriations*.

3. Portfolio responsibilities

89. This section provides an overview of government's role in relation to the tourism sector, including those functions that are delivered by MBIE and Tourism New Zealand.

Government's role in relation to the tourism sector

90. The tourism sector is diverse, and ranges from a few large multinational organisations through to many small and seasonal operators. There is no regulation specific to tourism businesses (health and safety regulation relating to activities includes operators outside the tourism sector, and falls within the Workplace Relations and Safety portfolio).
91. The government has two roles in the tourism system. Firstly, it is an actor through its management of public conservation lands and providing funding to promote New Zealand as a tourism destination and the construction of facilities and infrastructure to support visitor experiences. Secondly, it is a steward of the tourism system, which it does through setting a strategy and coordinating with the other diverse actors in the system. The Tourism Chief Executives' Group helps to coordinate across the range of portfolios that affect the tourism sector.
92. Many government agencies play a role in tourism-related issues, reflecting the size of the tourism sector and the many different areas that it cuts across.
93. Annex 1 contains information on the funds and appropriations that fall within the tourism portfolio.

The Minister of Tourism's role in the tourism system

94. The Minister of Tourism is responsible for:
- The *New Zealand Tourism Board Act 1991*, which governs Tourism New Zealand
 - Sections 399A and 399B of *the Immigration Act 2009*, which is the legislation underpinning the International Visitor Conservation and Tourism Levy
 - Appointing the chair of New Zealand Cycle Trails.
95. The key responsibility of the Minister of Tourism is to govern the tourism sector, including through:
- Guiding the sector through the changes and impact of COVID-19
 - Supporting the sector post-COVID-19
 - Steering the tourism sector to be sustainable, inclusive and productive

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- Collaborating and connecting with various portfolios to influence outcomes for the sector
- Funding initiatives, through Vote Business, Science and Innovation.

MBIE's role in the tourism system

96. MBIE is responsible for:

- providing policy advice, analysis, research and data to support Ministers and businesses to make decisions that promote a high-value tourism sector that supports government objectives
- providing advice to you on appointments and governance for the Tourism New Zealand Board
- administering Crown funding to promote and invest in the tourism sector, including the Tourism Infrastructure Fund
- monitoring the Crown entities that support the tourism sector, including Tourism New Zealand
- managing the operation of Ngā Haerenga - the New Zealand Cycle Trail, including the management of the Cycle Trail Fund and the Maintaining the Quality of the Great Rides Fund.

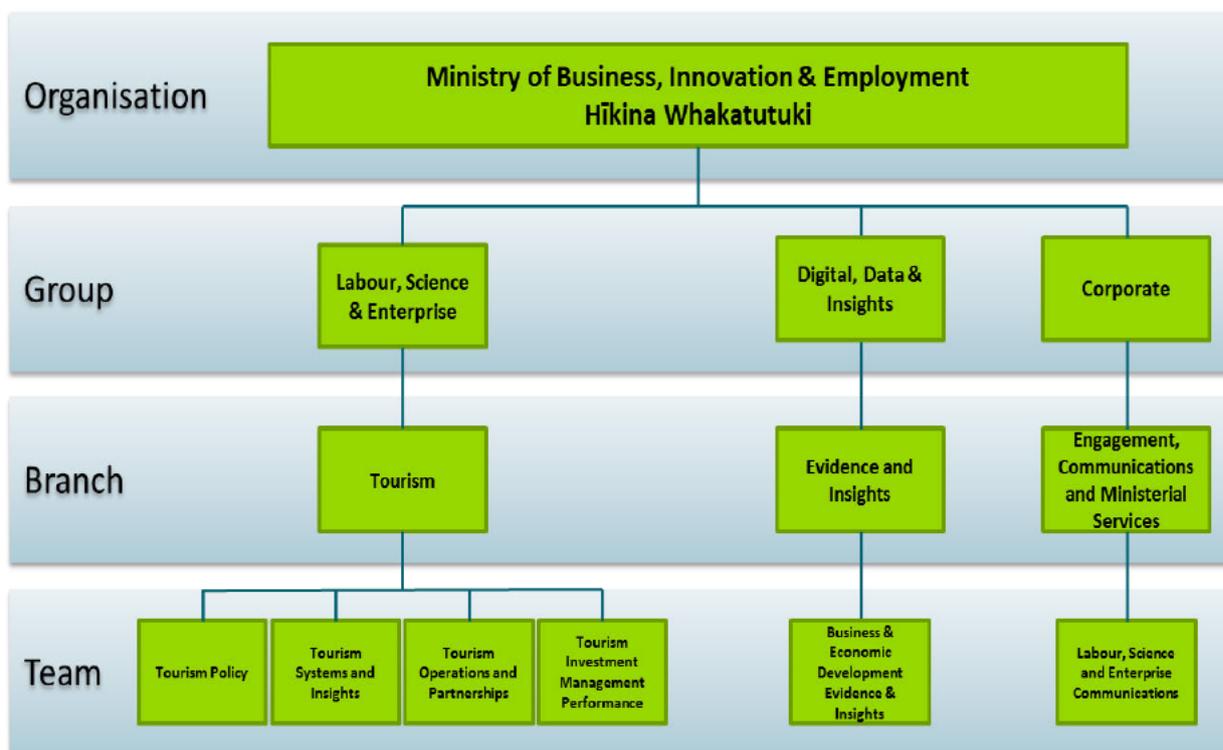
97. Responsibility for providing advice and support in relation to the Tourism portfolio sits mainly within **MBIE's Tourism Branch**, which is within the Labour, Science and Enterprise group. The Tourism branch provides advice and analysis to support government and industry decision-making in relation to the sector, oversees the implementation of government priorities; works with industry, and advises on and manages government's investment in tourism-related infrastructure. The Branch consists of five teams: Tourism Policy, Tourism Systems and Insights, Tourism Operations and Partnerships, Investment Management Performance and Major Events.

98. The Labour, Science and Enterprise Engagement and Communications Unit provides the communications support for the portfolio, and leads the cross-government tourism communications group.

99. The Business and Economic Development Evidence and Insights team leads the collation and analysis of data and evidence to support policy functions.

100. A simplified organisation chart, showing just the parts of MBIE that are most relevant to the tourism portfolio, is below. This structure will take effect from 16 November 2020.

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101. Your key contacts at MBIE are listed below.

Contact	Role	Contact details
 <p>Carolyn Tremain</p>	Chief Executive	E Carolyn.Tremain@mbie.govt.nz P 04 901 1357 M s9(2)(a)
 <p>Paul Stocks</p>	Deputy Chief Executive, Labour, Science and Enterprise group	E Paul.Stocks@mbie.govt.nz M s9(2)(a)
 <p>Iain Cossar</p>	General Manager, Tourism branch	E Iain.Cossar@mbie.govt.nz P 04 901 8663 M s9(2)(a)
<p>Eileen Basher</p>	General Manager, Evidence and Insights branch	E Eileen.Basher@mbie.govt.nz P 04 901 3931 M s9(2)(a)



MBIE's financial situation

102. Pre-COVID, 50 per cent of MBIE's departmental revenue was from third-party sources. The remainder is Crown revenue. Third-party revenue has dropped to 37 per cent this year, principally as a result of a significant fall in revenue from immigration fees. While revenue has decreased, our workload has remained at similar levels due to regulatory requirements and new activity (such as the border exemptions process). In the absence of new Crown funding, the current shortfall will need to be funded through changes in service levels or investment across MBIE.
103. COVID has had a structural impact on MBIE's funding. s9(2)(g)(i) [REDACTED]
[REDACTED]
[REDACTED] Departmental funding covers a number of portfolios, making a cross-portfolio approach to prioritisation essential. However, there are limits to our ability to re-prioritise as third party funding can only be used for the purpose that it was collected – for example revenue from the building levy can only be used to fund activities under the Building Act.
104. Uncertainty around our third-party revenue is forecast to remain for the next few years. Looking ahead, a more sustainable funding model, which facilitates greater cross-portfolio prioritisation, will be required to maintain existing services and ensure that MBIE can continue to contribute effectively to the COVID response and recovery.

Tourism New Zealand's role in the tourism system

105. Tourism New Zealand (TNZ) is a Crown Entity that markets New Zealand as a visitor destination for the long-term benefits to New Zealand. It was established by the New Zealand Tourism Board Act 1991 and for 20 years has promoted New Zealand as an international visitor destination under the brand campaign of 100% Pure New Zealand.
106. TNZ's four-year strategy was set out in the Statement of Intent FY18-21. Given the changes to the tourism sector that are occurring as a result of COVID-19, TNZ will update its Statement of Intent and organisational strategy in 2021. TNZ's specific statutory functions include:
- Developing, implementing and promoting strategies for tourism, and
 - Advising the Government and the New Zealand tourism industry on matters relating to the development, implementation and promotion of those strategies.

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107. As part of the COVID-response, TNZ has pivoted to promote tourism domestically while maintaining awareness of New Zealand as a visitor destination internationally. TNZ has also been supporting businesses within the tourism sector as part of the Tourism Transitions Programme by helping them to access advisory support on a range of topics and pivoting to meet domestic demand. TNZ is increasing investment in technology and data capabilities to accelerate New Zealand's transition to 'smarter tourism' using technology to enable strategic design of the consumer journey for better natural, social, human and economic outcomes.
108. Most of TNZ's financial resources are focussed on marketing and public relations activities, but it also works closely with travel trade and airlines, engages with the New Zealand tourism industry, provides information for visitors and provides assurance of the quality of New Zealand's tourism product and experience.
109. As New Zealand's National Tourism Organisation, TNZ is part of what is informally known as 'NZ Inc.,' the collection of agencies that represent New Zealand internationally, including the Ministry of Foreign Affairs and Trade, New Zealand Trade and Enterprise, Immigration New Zealand, the Ministry for Primary Industries and others. TNZ is the only government agency with the mandate and resources to promote 'destination New Zealand' internationally.
110. MBIE and TNZ work closely together to ensure that TNZ's marketing and other activities are aligned with TNZ's strategic direction, and that MBIE's advice and funding allocation is well-informed by market intelligence.
111. TNZ is governed by a board. The board is appointed by you are consultation with the Cabinet Appointment and Honours (APH) Committee and Cabinet. The current membership of the Board is provided below. The terms of five members of the Tourism New Zealand Board expire in 2021. We will provide you with advice for managing these appointments in early 2021.

Name	Date of original appointment	Expiry date of present term
Jamie Tuuta (Chair)	07/03/2013	30/04/2022
Roger Sharp (Deputy Chair)	1/12/2018	30/04/2022
Jan Hunt	01/07/2017	30/06/2021
Kauahi Ngapora	06/09/2018	30/06/2021
Michael (MOD) O'Donnell	01/12/2013	30/09/2021
John Thorburn	06/08/2012	30/09/2021
Colleen Neville	06/09/2018	30/06/2021

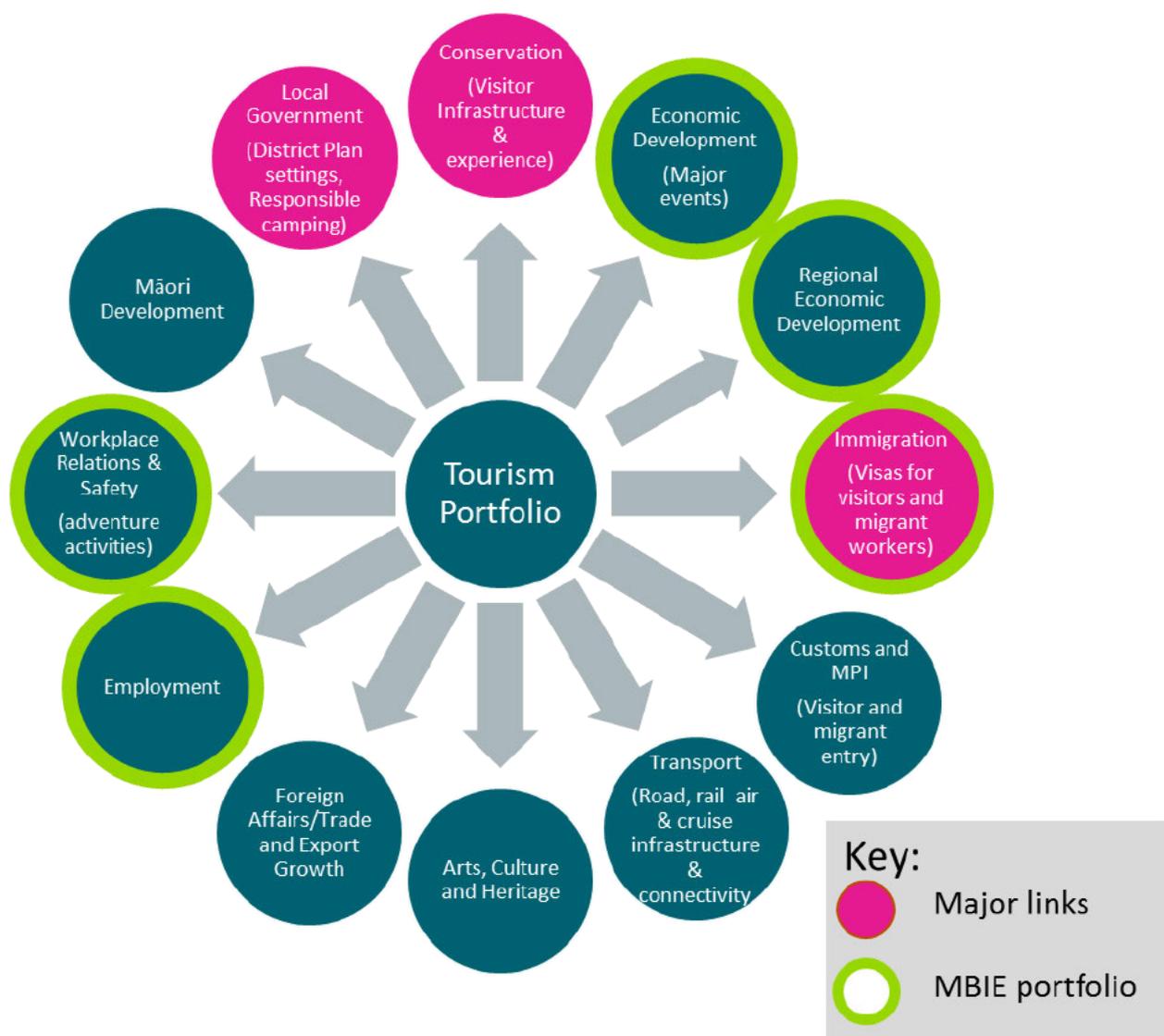
Major links with other portfolios

112. Many of the government's levers to affect the tourism system sit outside the tourism portfolio. Coordination across government agencies and portfolios is critical.

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113. Key portfolios that affect the tourism sector include the following:

Portfolio(s) Organisation(s)	Intersection with the Tourism Portfolio
Conservation <i>Department of Conservation</i>	Joint responsibility with the Tourism Portfolio for the New Zealand-Aotearoa Tourism Strategy, conservation visitor experience, and conservation visitor infrastructure.
Local Government <i>Department of Internal Affairs</i>	Intersection on strategic tourism issues facing the local government sector and relevant regulatory frameworks, including responsible camping, cost recovery, and destination management.
Immigration Customs <i>MBIE, including Immigration New Zealand New Zealand Customs Service</i>	The Immigration and Customs portfolios facilitate the entry to New Zealand of international visitors. The immigration portfolio also ensures that the tourism sector has access to migrant workers to fill skill and labour shortages in the tourism sector.
Transport <i>Ministry of Transport New Zealand Transport Authority</i>	The tourism portfolio is responsible for ensuring the roads, rail infrastructure, air and ship travel facilitate the international and domestic travel of visitors.
Economic Development Regional Economic Development Māori development <i>MBIE, including the Provincial Development Unit Te Puni Kōkiri</i>	These three portfolios coordinate the overarching strategy for New Zealand's economic development, of which tourism has played a strong role. They also leverage investments in other sectors, such as screen and major events, to benefit the tourism industry, and promote the spread of economic development benefits to the regions and Māori.
Workplace Relations and Safety Employment Education Tertiary Education <i>MBIE, including the Labour Inspectorate Ministry of Education Tertiary Education Commission</i>	These four portfolios jointly support the tourism workforce by ensuring that New Zealanders are developing the skills that the tourism workforce will need in the future; and improving the quality of tourism jobs.
Foreign Affairs Trade <i>Ministry of Foreign Affairs and Trade</i>	The Foreign Affairs and Trade portfolios manage New Zealand's international engagement, including trade agreements. Trade agreements can include tourism-related provisions, generally a joint responsibility with the immigration portfolio, including Working Holiday Schemes and visa-waiver arrangements.



Tourism portfolio obligations under Te Tiriti o Waitangi / The Treaty of Waitangi

114. MBIE has obligations to and a relationship with Māori through Te Tiriti o Waitangi, under the principles of partnership, protection of Māori interests, and redress for past wrongdoing. Partnering and maintaining strong relationships with Māori provides opportunities to improve prosperity for Māori through the tourism economy. Māori are significant participants in the tourism economy as tourism business owners, workers, investors, and kaitiaki (guardians) of land used by visitors. Partnership with Māori underpins the New Zealand-Aotearoa Government Tourism Strategy (at annex 3).
115. Most partnership with Māori within the tourism portfolio occurs at the local level through the Destination Management approach (as discussed under section 2). There are opportunities within the tourism portfolio to support the protection of Māori intellectual and cultural property that is used within the tourism system, and to partner with Māori on issues affecting land that is used in the tourism system, such as

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public conservation lands. The tourism portfolio can also support other initiatives that meet treaty obligations; for example, the tourism portfolio supported the development of the Māori business identifier for the New Zealand Business Number (NZBN). MBIE works with New Zealand Māori Tourism, an organisation that collaborates with the Māori tourism sector to build strong commercial and cultural leadership.

4. Annexes

Annex 1: Tourism portfolio funds and appropriations

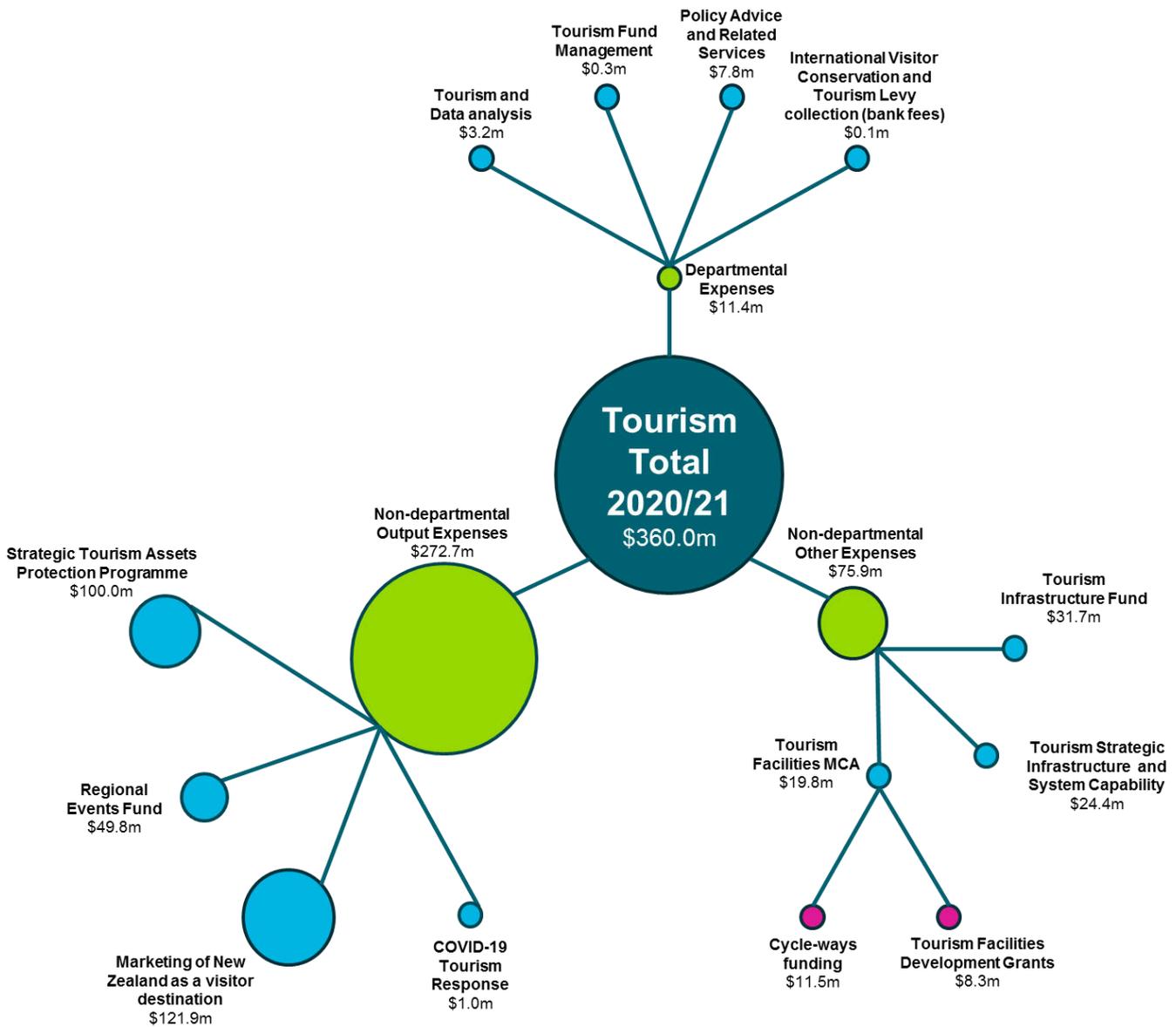
Annex 2: The economics of tourism

Annex 3: The New Zealand-Aotearoa Government Tourism Strategy

Annex 1: Tourism portfolio funds and appropriations

Appropriations

1. The overall budget allocation for the Tourism portfolio in 2020/21 is \$360 million under Vote Business, Science and Innovation. This is primarily non-departmental funding (funding provided via MBIE to other agencies and organisations), with an additional \$11.4 million for departmental funding (funding provided to MBIE to provide services directly)



Tourism Infrastructure Fund

2. The Tourism Infrastructure Fund (TIF) was established in Budget 2017. It provides up to \$100 million over four years (from 2017/18 to 2020/21) to support the development of visitor-related public infrastructure such as carparks, toilets, safety upgrades to public spaces (such as footpaths), infrastructure that supports natural attractions and responsible camping, and the tourism related portion of sewerage and

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water works. The TIF targets local communities that are disproportionately affected by visitor growth, and are unable to respond in a timely way without assistance.

3. The TIF is a contestable fund with up to two funding rounds per year. MBIE publishes a priorities statement setting out the objectives for each round. A panel made up of independent advisors, sector representatives, and government officials provides recommendations to you in your role as the Minister of Tourism for funding decisions over \$1 million.
4. Current panel members are: Judy Kirk (Chair), Norm Thompson (Deputy Chair, formerly at Air New Zealand), Kauahi Ngapora (Whale Watch Kaikoura), Chris Roberts (Tourism Industry Aotearoa), Sarah Hannan (Southland Regional Development Strategy), Jenni Giblin (Giblin Group), Penny Webster (Matakana Coast Tourism), Iain Cossar (MBIE) and Bruce Parkes (DOC).
5. \$13.8 million remains in the TIF for 2020/21. Round Five of the TIF was due to open in August 2020. It has been postponed until further notice due to COVID-19.

Tourism facilities development grants

6. The Tourism Facilities Development Grants (TFDG) fund is a \$0.267 million per annum discretionary fund for assisting with the development of non-commercial tourism facilities and services. The Minister of Tourism considers grants from the fund on the recommendations of MBIE.
7. Since the summer of 2018/19 a portion of the TIF funding has been transferred to the TFDG fund to support local councils to better manage responsible camping in their regions. For 2020/21 peak summer season, \$8 million has been transferred from the TIF to the TFDG fund for responsible camping initiatives. Decision-making for responsible camping initiatives has been delegated to the Chief Executive of MBIE.

Cycle-ways funding

8. Ngā Haerenga, the New Zealand Cycle Trail Fund (NZCT Fund) is contestable fund designed to develop, maintain, enhance and extend the 22 Great Rides that make up Ngā Haerenga, the New Zealand Cycle Trail (NZCT). It is an annual appropriation of \$8 million. The fund is an amalgamation created in 2020 of the two distinct funds for cycle trails: the Development and Extension Fund (which was a contestable fund over the previous five years of \$31 million) and the Maintaining the Quality of the Great Rides fund (which was a contestable fund over the previous six years of \$11.8 million). MBIE manages this fund, and the Minister of Tourism announces grants when they are made.

Tourism Recovery Fund

9. The \$400 million tourism recovery package is being used to support the tourism industry to recover from the impact of the COVID-19 pandemic. The package has been fully allocated as shown below (the allocation will be revised to meet the \$400 million once reconciliations are made on the wage subsidy, concession fees and other government funding).

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Project	Funds committed to specific projects	Total funds committed
Strategic Tourism Assets Protection Programme (STAPP)		\$290,397,514
<i>Businesses</i>	\$229,199,818	
<i>Māori Tourism supported businesses</i>	\$20,997,696	
<i>Regional Tourism Organisations</i>	\$20,200,000	
<i>Inbound Tour Operators</i>	\$20,000,000	
Regional Events Fund		\$50,000,000
Tourism Transitions Programme		\$17,000,000
Digital Capability		\$10,000,000
NZ Māori Tourism		\$10,000,000
Department of Conservation waiver		\$25,000,000
Tourism Futures Taskforce		\$755,000
Total fund committed		\$403,152,514*

10. The Strategic Tourism Asset Protection Programme (STAPP) is a \$290 million fund created as part of the Tourism Recovery Package. It is intended to protect the assets in the tourism landscape that form the core of our tourism offerings to ensure their survival through the disruption caused by COVID-19. The Tourism Recovery Ministers Group fully allocated the funding in a combination of grants and loans to 130 businesses and 31 Regional Tourism Organisations. Ministers also allocated \$20 million to support 26 Inbound Tour Operators to maintain a presence within key offshore markets. MBIE is currently finalising contracting details with the businesses. \$100 million sits within the Tourism Portfolio for grants allocation; the remaining STAPP funding, which is to be used in loans, has been transferred to the Regional Economic Development portfolio due to its existing loan provision infrastructure.

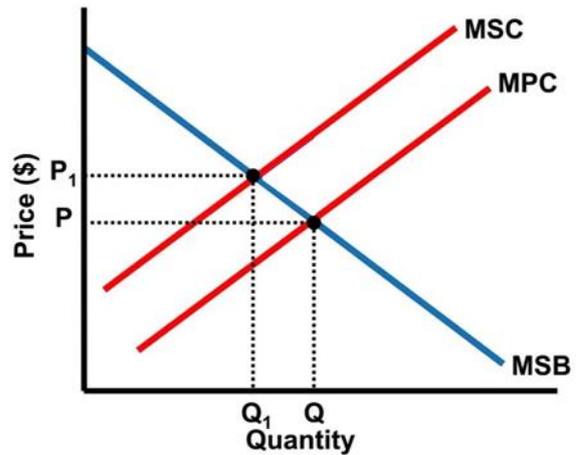
11. The \$50 million Regional Events Fund is a fund created as part of the Tourism Recovery Package. The fund is designed to stimulate domestic travel and consumption through the funding of events. This demand stimulation is intended to replace some of the spending that international visitors would have incurred had borders not been closed due to COVID-19. The Fund has been split across International Marketing Alliances (IMAs), based on their share of international visitor spending prior to COVID-19 border closures. IMAs are groupings of Regional Tourism Organisations. Each IMA

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will form an Event Investment Panel to develop their Regional Investment Plan, and Panels will prepare Investment Plans which will be confirmed by Regional Tourism New Zealand (RTNZ) and MBIE.

Annex 2: The economics of tourism

12. In this negative externalities model, the benefits of tourism to New Zealand (including the benefit to individual visitors) are represented at different prices and quantities by the demand curve MSB (marginal social benefit). This line shows that when the price is high (top left), the quantity of tourism consumed (in other words, the number of people who want to participate in tourism) is low. When the price is low (bottom right), the quantity of tourism consumed is high.



13. The costs of that tourism to the individual visitor (private costs) are modelled by the supply curve MPC (marginal propensity to consume). In our model the total quantity of tourism in New Zealand would be the quantity Q at price P.
14. However, the total costs to New Zealand of tourism are modelled by the curve MSC (marginal social cost). This includes the costs faced by the individual visitors (MPC) *and also the additional costs imposed on society, including things like the loss of natural quiet, congestion, and environmental and infrastructure degradation*, which are referred to as externalities or negative impacts not covered by the price of the good or service being provided.
15. The socially optimal level of tourism occurs where the full social costs (MSC) equal the full social benefits (MSB). This occurs when the number of visitors is at Q1 (quantity 1). Importantly, when un-priced externalities exist then the total amount of tourism in New Zealand is higher than the socially optimal level. Total tourism (Q) is greater than the socially optimal level (Q1).
16. The ideal policy solution is to impose charges or levels that move the price that the tourist faces from price P to price P1 and for that revenue to be invested in addressing the negative impacts that tourism was having (for example in new infrastructure or in addressing environmental damage).
17. The tourism industry, or at least the peak body and largest operators, agree that:
- There is insufficient investment in tourism infrastructure
 - There are negative impacts on the conservation estate with consequential environmental damage
 - There are behavioural concerns linked with congestion and compounded by the ongoing issues, and
 - There were all contributing to an eroding social licence for tourism in 2019.

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18. The point of disagreement between MBIE and industry is over who should pay to meet these costs. The industry has argued that the GST contribution from tourism should meet these costs.
19. The MBIE view is that the visitor should meet those costs and face a supply curve MSC. This would mean that the visitor would pay a higher price and reach equilibrium at a lower level of tourism (Q2). It addresses the underlying economic issue by changing the relative price of tourism and therefore the incentives, behaviours, and number of visitors for any given level of infrastructure or environmental investment.
20. If taxpayers or ratepayers (funded from GST or other Crown income) meet those costs it will further subsidise tourism and exacerbate the problem (and number of visitors) over time. We do not believe that this would achieve a sustainable systemic solution.
21. We fully acknowledge that there are practical application difficulties that prevent this theory being applied uniformly throughout New Zealand. However we firmly believe it is achievable in those areas that will be under the most pressure (again) when international tourism flows return to 2019 levels:
 - Some local government jurisdictions (pricing access to local services and in some cases local taxes to fund infrastructure – e.g. Queenstown targeted accommodation rates)
 - Pricing access to parts of the DOC estate to manage numbers and to reinvest in environmental outcomes
 - Levies on some tourism activities to offset and mitigate negative impacts (e.g. freedom camping).

Annex 3: The New Zealand-Aotearoa Government Tourism Strategy

Attached as separate document

s18(d) - available online at <https://www.mbie.govt.nz/immigration-and-tourism/tourism/new-zealand-aotearoa-government-tourism-strategy/>