

In Confidence

Office of the Minister of Tourism

Chair, Cabinet

Response to Impacts of COVID-19 on Tourism Sector

Proposal

1. This paper seeks agreement to a tourism sector package to mitigate the impacts of COVID-19 (also known as novel coronavirus). The package includes international and domestic marketing, and investment in destination planning to improve resilience.

Executive Summary

2. The extent of the impact of COVID-19 on the New Zealand economy is uncertain. All relevant government agencies are working together to monitor and advise on the situation.
3. Tourism is one sector of the economy that is already feeling those impacts. s6(a)

This sort of reduction in revenue is likely to affect firm profitability, and for specialist firms it may affect their viability.

4. s6(a)
5. Tourism is a very diverse sector, and therefore the impacts on individual firms will vary significantly. Diversified firms should be able to manage, however there is a small group of Chinese tourism specialist firms who will be severely affected, and some firms are also coping with other adverse events, such as flooding in southern New Zealand.
6. Given the reach and spread of the tourism sector across almost all regions and communities in New Zealand, tourism can be a transmission mechanism for those negative impacts, or with the right support can help offset the effects on firms, jobs, and communities. s6(a)

s6(a)

7. s6(a)

8. These are 'no-regrets' investments that will lift all boats and therefore minimise any firm-specific advantages or market distortions. They are also scalable.

Background

The extent of the impact of COVID-19 on the New Zealand economy is uncertain

9. The extent of the possible economic disruption to the New Zealand economy from the outbreak is highly uncertain. The scale of the impact will depend on the timing and spread of the outbreak, as well as the measures taken both in New Zealand (including, but not exclusively decisions around border restrictions) and globally to contain the spread.
10. Government agencies are responding in order to contain the impact on affected sectors of the outbreak.

The effects are already being felt in the Tourism Sector

11. Tourism is a significant part of the economy, but it is also spread across many sub-sectors. s6(a)
12. Seasonality is also a factor. February is peak season, both because of summer, and Chinese New Year. For many firms this will be the period in which they make a profit that enables their business to operate through the year. Queenstown firms are less exposed in this regard, with a strong winter season; other locations are almost solely reliant on summer visitors.
13. In addition to the impact on the Chinese tourism market, preliminary data shows that we are also seeing some softness in other markets, predominately Japan and the US. This change will have multiple components.
- 13.1. There was already some softening of visitor growth in the 2019/20 season.

132. New Zealand is a dual destination with Australia, therefore the bush-fires in Australia are likely affecting visitor numbers here.
 133. Uncertainty and/or caution resulting from the COVID-19 outbreak.
 134. It is also possible that other recent prominent events, such as Whakaari, are having an effect.
14. The following table shows expenditure by country of origin and month for the year ended November 2019. This gives an indication of the potential scale of the impact on the sector, in various scenarios.

Tourism revenue by market and month for year-ended November 2019

	China	USA	Australia	UK	Total expenditure	Chinese % of total
2018M12	\$143m	\$169m	\$301m	\$120m	\$1,387m	10%
2019M1	\$147m	\$182m	\$316m	\$160m	\$1,466m	10%
2019M2	\$264m	\$190m	\$241m	\$170m	\$1,470m	18%
2019M3	\$149m	\$188m	\$264m	\$128m	\$1,322m	11%
2019M4	\$132m	\$114m	\$250m	\$78m	\$991m	13%
2019M5	\$113m	\$75m	\$169m	\$44m	\$710m	16%
2019M6	\$90m	\$69m	\$165m	\$28m	\$619m	15%
2019M7	\$120m	\$81m	\$244m	\$36m	\$817m	15%
2019M8	\$141m	\$79m	\$242m	\$38m	\$843m	17%
2019M9	\$109m	\$80m	\$231m	\$35m	\$751m	15%
2019M10	\$140m	\$111m	\$246m	\$56m	\$956m	15%
2019M11	\$138m	\$166m	\$270m	\$96m	\$1,216m	11%
YE Nov	\$1,686m	\$1,503m	\$2,940m	\$990m	\$12,549m	13%
% of total	13%	12%	23%	8%	100%	

Mitigation actions already underway

15. MBIE's tourism branch is co-ordinating the tourism sector response. At this stage, activities are focussed on information sharing to support firms and communities to manage through:
 - 15.1. Visitor Sector Emergency Advisory Group sharing information, key messages and facilitating communications between the Ministry of Health, Immigration NZ, industry, RTOs, and visitors.
 - 15.2. MBIE is developing a dashboard for near-real-time data on arrivals and visa/NZeTA application rates by country (the latter will give a sense of medium term visitor trends).
 - 15.3. Working with industry to develop a suite of scenarios to inform economic impact, and allow businesses to plan for likely/potential conditions.
 - 15.4. TNZ is re-deploying uncommitted funds to boost marketing in alternate markets (\$3 million) and partnering with commercial operators, with an initial focus on Australia and digital media.

16. In addition, firms and individuals have access to the tax and welfare systems.
 - 16.1. Excessive provisional tax payments can be refunded. Under current settings, businesses that have paid provisional tax and are experiencing substantial deterioration in sales can re-estimate their tax liability and receive a refund of excess tax paid.
 - 16.2. Inland Revenue also has the ability to waive late filing or payment penalties under existing hardship provisions.
 - 16.3. Emergency benefit and other forms of temporary assistance may be available for affected individuals, as well as the usual suite of financial support.

A package of initiatives to mitigate immediate impacts, and ensure swift recovery

17. Given the reach and spread of the tourism sector across almost all regions and communities in New Zealand, tourism can be a transmission mechanism for those negative impacts, or the right support can help offset the effects on firms, jobs, and communities. s6(a)

18. Confidential advice to Government

19. National economy

20. These are 'no-regrets' investments that will lift all boats and therefore minimise any firm-specific advantages or market distortions. They are also scalable.

Consultation

21. Treasury has been consulted.

Financial Implications

22. National economy

Publicity

23. There is a high degree of public interest in the Government's response to the impacts of COVID-19 – both from the general public and affected firms and sectors. The Minister of Tourism will continue to manage communications with the tourism sector, and co-ordinate with the Prime Minister's Office.

Proactive Release

24. This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act.

Recommendations

The Minister of Tourism recommends that the Committee:

1. note the suite of work already underway to support the tourism sector in managing the impacts of COVID-19
2. agree to the following COVID-19 tourism response package:
 - 2.1. Funding for domestic marketing by Regional Tourism Organisations in affected regions
 - 2.2. Extend TNZ marketing activities in other markets to diversify the visitor portfolio and stimulate the economy
 - 2.3 Confidential advice to Government
 - 2.4 National economy
3. agree to establish the following new appropriation:

Vote	Business, Science and Innovation
Minister	Minister of Tourism
Title	COVID-19 tourism response
Type	Non-departmental output expense
Scope	This appropriation is limited to domestic visitor marketing, and destination planning and management, and supporting actions in response to the tourism sector impacts of COVID-19

4. National economy

5. agree that the proposed change to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
6. agree that that the expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2019
7. note that MBIE officials will continue to monitor the situation.

Authorised for lodgement

Hon Kelvin Davis

Minister of Tourism



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Response to Impacts of COVID-19 on Tourism Sector

Portfolio Tourism

On 17 February 2020, Cabinet:

- 1 **noted** the suite of work already underway to support the tourism sector in managing the impacts of COVID-19, as discussed in the paper under CAB-20-SUB-0037;
- 2 **agreed** to the following initial COVID-19 tourism response package:
 - 2.1 funding for domestic marketing by Regional Tourism Organisations in affected regions;
 - 2.2 extending Tourism New Zealand marketing activities in international markets to diversify the visitor portfolio and stimulate the economy;
- 3 **noted** that further work will also be undertaken on the following initiatives:

s6(a)

 - 3.2 support for destination planning and resilience, both recovery and future-proofing with communities and industry;
- 4 **agreed** to provide initial funding of \$11.0 million for the proposals referred to in paragraph 2;
- 5 **agreed** to establish a tagged contingency of \$11.0 million to give effect to the proposals in paragraph 2;
- 6 **authorised** the Minister of Tourism and the Minister of Finance to approve the drawdown of the funding referred to above and the details of any appropriation changes;

- 7 **noted** that Tourism New Zealand is also re-deploying funding of \$3.0 million to boost marketing in alternative markets;
- 8 **noted** that officials will continue to monitor the impact of the COVID-19 outbreak on the tourism sector.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister of Finance
Minister of Tourism

Proactively Released