

In Confidence

Office of the Minister for Economic Development

Chair, Cabinet

Response options for economic impact of the COVID-19 outbreak

Proposal

1. The Cabinet Economic Development Committee agreed to a further discussion at Cabinet on 24th February on potential options for supporting small and medium enterprises impacted by COVID-19 (DEV-20-MIN-0016 refers).
2. It is timely for us to discuss whether this is the right time to intervene.
3. There are trade-offs that we would need to consider and clear risks involved.
4. There are sectors that are being impacted and we do have the option to cushion this impact. However, there are significant fiscal risks if significant measures are implemented and this sets a precedent for active Government support that may not be sustainable if it has to be extended across the economy.

Context

5. The COVID-19 outbreak is impacting the New Zealand economy through a variety of channels. These channels include:
 - 5.1. restrictions on the movement of people across borders, harming the tourism and education sectors in New Zealand;
 - 5.2. a slowdown in China, reducing Chinese demand and causing supply chain delays for New Zealand goods;
 - 5.3. a confidence driven reduction in global demand more generally, as travel is cancelled and spending decisions delayed.
6. A broad-based response to contain the economic impact of the outbreak is underway (see further details in the table attached). Given the uncertainty of the economic impact, responses to date have been based on interventions that align with the Government's broader economic direction, are balanced and proportionate, and fiscally sustainable.
7. Our current expectation is that the macroeconomic impact of COVID-19 on New Zealand will be measurable, but temporary. Right now, fiscal and monetary policy is supportive of growth, and this should continue.
8. Further microeconomic intervention is worth considering, but it should be targeted and temporary at this stage (or easily reversible). Early action may set a precedent for active Government support that is not sustainable if it has to be extended across the economy. A further challenge we are facing at this time is clearly identifying those industries and firms that are being directly impacted by COVID-19.
9. As this situation is in its early stages still, it may be appropriate for us to have a cautious response. We acknowledge that the situation is developing quickly and we have incomplete information. It is prudent to plan for the downside risks to help

prepare more detailed policy responses that could be implemented if the situation deteriorates. This is especially true when those require long lead time for design and implementation.

Principles

10. In deciding whether, when or how the Government should intervene to respond to the impacts of COVID-19, any response should be:
 - 10.1. **Balanced and proportionate:** Proposals should be appropriately targeted to the problem and take a balanced and economy-wide view of the issues, including broader economic conditions (e.g. impact of droughts).
 - 10.2. **Aligned with broader Government direction:** Proposals should align with, and not undermine, existing government strategy, such as the Economic Plan.
 - 10.3. **Sustainable:** Proposals should take a coordinated approach to avoid introducing precedent for interventions that cannot be extended across the economy. Consideration should be given to the outcome if downside risks materialise and increased demand for support sees the expense of a policy initiative rise markedly.

Whole of economy impact and scenarios

11. 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.
12. Particular sectors and regions are more vulnerable to disruptions and loss of business than others. Sectors currently feeling the most impact include tourism, international education, and the primary sector. Broader labour market supply impacts from the border closure appear negligible at this stage.
13. MSD report an increase in requests for employment and other income support. MSD has also received requests for support from people in self-isolation.

Primary sector

14. Many sectors in the primary industries continue to be impacted in their trade with China. The forestry and the live rock lobster sectors are the most severely impacted.
15. Furthermore, the meat industry is now facing increased disruption to its supply chains due to the lack of available cool chain storage in New Zealand and China, and has scaled back exports to China, resulting in more pressure on-farm and to meat processing.
16. Some forest exporters are reporting to MPI that key Chinese ports in the Yangtze delta are reaching storage capacity and are unable to unload logs. Around 60% of log port capacity is in the Yangtze delta. This is because China is prioritising movement of tier one products (e.g. essential food and medical supplies), and because internal restrictions to manage the spread of coronavirus mean wood processing and construction industries are remaining shut-down in the main wood-processing areas.¹

¹ It is estimated that there is in excess of 6 million cubic metres of logs on ports in China. This is compared to the 2-3 million cubic metres that would normally be stored at Chinese ports.

It will likely take many weeks for current log volumes at ports to clear, and there may be flow-on impacts in terms of shipping route disruption.

17. Forest owners and exporters are already responding to the uncertainty in China by reducing or stopping harvesting activities, and this is likely to continue for at least the next month. Although it is difficult to provide accurate numbers, Te Uru Rākau advise that this could impact on up to 3,000 workers, in particular those involved in forestry harvesting and transport.
18. Forest Industry Contractors Association (FICA) report that more than 320 employees are out of work, with many others on reduced days. Small contractors, employed by forest owners, carry out most harvesting and log transport work in the forestry industry. Contractors typically carry high-debt related to capital invested in machinery and, without work, will struggle to remain solvent.
19. Te Uru Rākau and the forestry industry are continuing to develop a response plan to mitigate the impacts of COVID-19.

Scenario planning

20. The Treasury, MBIE, the Reserve Bank, MPI and the Ministry of Health are developing scenarios to help understand the potential economic impacts on New Zealand. These scenarios will provide the basis for official 'ongoing advice to Ministers about the Government's overall economic policy response. They will inform the options available to Ministers to respond to a range of possible scenarios.
21. The scenario analysis will be used to inform our diagnosis of the situation and ongoing advice on the balance between targeted sectoral responses and broader fiscal and monetary policy action as the situation develops. Over time, officials will add more detail on sectoral and regional impacts.
22. Officials are monitoring the situation and will update Ministers via an "economic sitrep" twice-weekly and with additional advice as required.

If we consider it is the right time to intervene, there are three immediate options

- *Boosting the Regional Business Partner programme*
- *A mentoring programme*
- *Redeploying Displaced Workers*

Boosting Regional Business Partners

23. The Regional Business Partner programme is a central government intervention deployed regionally through 16 regional partners, usually either the local Economic Development Agency or Chamber of Commerce. These regional partners are contracted to provide business growth advisors in their region to help businesses understand their capability gaps and assist with identifying appropriate sources for addressing these gaps. In some instances, the business growth advisor can help by co-funding capability development with the business for an identified need. The capability development can include access to specialist business advisory services, such as financial, payroll, or employment services.
24. The programme gets expert advice quickly into a business. A local business growth advisor will work on the ground with local businesses to help them identify the challenges before them. The advisor will support the business to develop a plan of

attack, including who they need to talk to or get further advice from. The beauty of the programme is that the advisor can help co-fund some of this additional capability. As it is a needs-based assessment, the programme adapts with the needs of businesses, identifying and connecting to the services that are most appropriate to their needs.

25. We can augment this programme, either by funding more growth advisors and/or by increasing the amount available to fund capability development, potentially through reducing the co-funding contribution required from businesses. This leaves us plenty of room should more industry or region specific responses be required.
26. The benefit of using these local Regional Business Partners is that they offer an established service, are regarded as impartial and have solid networks across their local communities. The infrastructure is in place and it is relatively straightforward to augment.
27. Should the economic impact of COVID-19 prove especially severe or prolonged, government is unlikely to regret increased spending on business capability. The programme is likely to appeal most to more profitable firms, it can be scaled up further if necessary, and its deployment does not preclude a larger macro fiscal response should this become necessary. Should the impact of COVID-19 become more economically disruptive, we would look to work with local partners to maximise any augmentation of business advisory support. This would require some co-design and co-delivery with the local Economic Development Agencies, Chambers of Commerce, industry associations, as well as government agencies.
28. An indicative costing would be \$3,750,000 to surge the Regional Business Partner network for three months. This would fund up to 16 extra business growth advisors for three months and a consequent increase in the amount of co-funding for capability development.
29. There is a risk that finding additional business advisors with the necessary skills will take time. Surge occurs in areas that do not need additional support or support is mis-aligned with business needs. Mitigate by requiring Regional Business Partners to request to surge, enabling government to assess regional needs.

Mentoring

30. A mentor can provide a sounding point and a different perspective, helping to take the immediate pressure off SME management and identify pathways to proceed. The Business Mentors New Zealand network is aligned to Government's Regional Business Partner programme. A first step is to cover the registration fee for accessing the Business Mentors service. This approach was taken as part of the response to the Global Financial Crisis.
31. Government could consider covering the registration fee (\$295) for any business wanting to access the Business Mentor service.

Redeploying Displaced Workers

32. The impact is currently being heavily felt in particular industries. We aim to avoid disruption to workers and their families, and ensure that firms are well-placed to resume normal operations once the business environment improves.
33. An alternative intervention is to support displaced workers to redeploy to work in alternative industries and/or regions. This is potentially an attractive way of ensuring

that displaced workers continue to contribute economically, earn (at the very least) a minimum wage, and avoid the skills atrophy that can arise from unemployment. One example, might be deploying forestry workers from Gisborne to clean up or create tracks in Fiordland.

34. This intervention is only likely to be feasible where:
- 34.1. there is good matching between workers' skills and the proposed alternative jobs;
 - 34.2. the alternative jobs are local (avoiding disruption to families, avoiding transport costs);
 - 34.3. the alternative jobs are inherently worthwhile, and "shovel-ready"; and
 - 34.4. people volunteer to undertake the alternative jobs.
35. It is likely to be hard to find suitable employment opportunities that fit the criteria above.
36. There may, however, be some instances for short term employment opportunities that are outside the worker's locality (for example, a suggestion has been that displaced forestry workers could deploy to the South Island to manage wildling pines). In such instances Government could facilitate workers who volunteer for such a move. To be an effective, this intervention will also require brokering services (eg via the Ministry of Social Development) to support allocation of displaced workers into appropriate work, and may further require funding for any additional costs.

Wider economic response to COVID-19

37. The table attached to this paper outlines other activity by officials' to support the mitigation of the impact of COVID-19 on the economy.
38. Along with the recommendations in this paper, I consider that this is an appropriate response at this time, with the information we have to hand.
39. I have asked officials' as I am sure other Ministers have within their portfolios, to continue to consider appropriate options as further information comes to hand. Options need to be prepared in accordance with the principles highlighted at the start of this paper – being balanced and proportionate, aligned with our economic direction, and sustainable.
40. Officials are reporting to me through their twice-weekly 'economic sitrep'. I will report back to Cabinet with further options if the situation worsens.

Consultation

41. Treasury, Inland Revenue, Ministry for Primary Industries, Ministry of Social Development have been consulted on the paper.
42. MPI supports the need for consistency across government and considers that a framework with a broader range of principles needs to be developed to support Ministerial decisions about responding to impacts from economic events like COVID-19. However, this paper does not highlight how government might consider and respond in a tailored way to address welfare and economic impacts on particular sectors. The immediate measures proposed are very generic and are unlikely to meet the specific needs of small contractors and businesses in the forestry and rock

lobster sectors who are the most severely impacted from COVID-19 market disruption.

43. The Department of the Prime Minister and Cabinet has been informed.

Financial implications

44. None

Publicity

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

Proactive release

46. This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act 1982.

Proactively Released

Recommendations

The Minister for Economic Development recommends that Cabinet:

1. **Note** that DEV agreed there would be further discussion at Cabinet on 24 February 2020
2. **Note** that the outbreak is developing and that we do not know the potential impact of the economic disruption
3. **Note** that the COVID-19 outbreak is impacting the New Zealand economy through a number of channels. These channels include:
 - 3.1. restrictions on the movement of people across borders, particularly harming the tourism and education sectors in New Zealand
 - 3.2. a slowdown in China, reducing Chinese demand and causing supply chain delays for New Zealand particularly affecting some primary industries
 - 3.3. a confidence driven reduction in global demand more generally, as travel is cancelled and spending decisions delayed
4. **Note** that there is a broad range of activity already underway
5. **Note** that given this uncertainty, interventions to date have been balanced, proportionate and sustainable, and align with the Government's broader economic direction
6. **Discuss** what would be an appropriate and proportionate response at this time, given the trade-offs and risks outlined
7. **Note** that officials will continue to monitor the situation, and that I will report back to Cabinet with further options if the situation worsens.

Approved for lodgement

Hon Phil Twyford
Minister for Economic Development

Table 1: Activity to support the mitigation of the impact of COVID-19 on the economy

Agency	Underway
MBIE, NZTE, MPI, MFAT, Customs	Helping directly affected exporters
	Meeting with primary producers and industry bodies
Inland Revenue	Guidance to taxpayers affected by the outbreak about what options were available to them to manage their tax options, including any outstanding tax debts
	Taxpayers who 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
	The ability to waive late filing or payment penalties under existing hardship provisions
MSD	Emergency benefit, special needs grants, and temporary additional support may be available for those who lose job
	Standard suite of financial support remains available, including assistance such as job seeker support, and accommodation supplement for those who meet eligibility
MSD (supporting the Northland and East Coast communities (regions currently most affected))	Working in collaboration with individuals and businesses (particularly in the forestry and logging sector).
	Helping people affected find alternative employment, and income and other support where necessary
	Income and other support for people who are being laid off, and for those who are having their hours reduced or anyone from the general public impacted
	Supporting people through Puāwaitanga, a phone-based mental health and wellbeing service aimed at supporting employees who are in work
MPI	Enabled return of live rock lobster to the sea (subject to biosecurity and sustainability considerations), and consulting on regulatory amendment to allow carry forward of unused rock lobster catch entitlement to the next fishing year (which begins on 1 April), so that commercial fishers can defer their harvesting to more favourable market conditions.
	A resource plan for the forestry industry mitigating the impacts of COVID-19 can largely be implemented with industry willingness and from within existing resources
	Convening meetings with banks and financial institutions to understand the actions being taken and options for affected primary industries (eg repayment holidays).
	Working with industry partners to provide additional support and information to forestry contractors and workers (Forest Industry Contractors Association and Forest Owners Association)
MSD, IRD, MBIE, MPI	Building on Eastland Wood Council model of agency co-ordinated regional support (eg roadshows, 0800 number, local level options for linking workers to other related jobs)

Agency	Underway
MBIE	Visitor Sector Emergency Advisory Group sharing information, key messages and facilitating communications between the Ministry of Health (MoH), INZ, industry, RTOs, and visitors.
	A dashboard for near-realtime data on arrivals and visa/NZeTA application rates by country
	Working with industry to develop a suite of scenarios to inform economic impact.
MBIE, TNZ	Re-deploying uncommitted funds to boost marketing in alternate markets (\$3 million) and partnering with commercial operators.
MoE, TEC	Universities and other providers have strong accommodation and welfare safeguards in place for in-country students.
	Universities are reorienting programmes to online delivery for the first semester where possible, so that students can then continue in New Zealand
	Increased flexibility in visa validity, reducing the number of affected students required to apply for a further visa or pay a fee, and refunding withdrawn visa applications currently in the system.

Table 2: Potential future measures to consider if the situation worsens- A number of which would require additional funding and/or legislative

Agency	Underway
MBIE	Surge the Regional Business Partner network for three months
MBIE	Deploy the business.govt.nz Boost platform to provide a deeper reach into the SME community
	Cover the registration fee for any business wanting to access the Business Mentor service
	Ensure that these information sources are communicated to all businesses through multiple channels as appropriate
All of Government	All-of-Government reengagement plan and relationship-building visits with the People's Republic of China.
MSD	Increase frontline staff (case managers) to help manage the increased number of applications to help more people into employment.
MSD	Enhancement to benefit settings (eg, reducing stand-downs, support for part-time employment)
MSD	Employment support
MSD	Community programs
MPI	Provide access to personal wellbeing and financial counselling for example counselling services provided via the Forest Industry Safety Council)
MPI, MBIE	Programmes within biosecurity and or conservation that could be used to redeploy suitable forestry workers.
MSD, DoH	Convening meetings with banks and financial institutions to understand the actions being taken and options for further affected industries (eg

Agency	Underway
	repayment holidays).
MSD, DoH	Wider support measures for Psycho-social support
MBIE and others	Working with industries to make them more resilient to a sustained drop in demand and or to help them diversify products and markets
MSD	Package of measures to mitigate the regional/national unemployment impact from large negative demand shock
Inland Revenue/Treasury	Tax relief package if the economic situation deepens

Proactively Released



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 Options for Economic Impact of the COVID-19 Outbreak

Portfolio Economic Development

On 24 February 2020, Cabinet:

- 1 **noted** that the COVID-19 outbreak is developing and that the potential impact of the economic disruption is unknown;
- 2 **noted** that the COVID-19 outbreak is impacting the New Zealand economy through a number of channels, including:
 - 2.1 restrictions on the movement of people across borders, particularly harming the tourism and education sectors in New Zealand;
 - 2.2 a slowdown in China, reducing Chinese demand and causing supply chain delays for New Zealand, particularly affecting some primary industries;
 - 2.3 a confidence-driven reduction in global demand more generally, as travel is cancelled and spending decisions delayed;
- 3 **noted** that there is a broad range of activity already underway to mitigate the economic impact of the COVID-19 outbreak, as set out in Table 1 of the paper under CAB-20-SUB-0054;
- 4 **noted** that given this uncertainty, interventions to date have been balanced, proportionate and sustainable, and align with the government's broader economic direction;
- 5 **noted** the range of measures that could be considered to provide additional support, as set out in Table 2 of the paper under CAB-20-SUB-0054;
- 6 **invited** the Minister for Economic Development, in consultation with relevant portfolio Ministers, to report back to Cabinet on 2 March 2020 with further advice and details on the options of:
 - 6.1 boosting the Regional Business Partner programme;
 - 6.2 redeploying displaced workers.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister for Economic Development