



## BRIEFING

### Immediate and medium term response options for the economic impacts of the COVID-19 outbreak

<b>Date:</b>	14 February 2020	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	<a href="#">BR 2367 19-20</a>

Action sought		
	Action sought	Deadline
Hon Phil Twyford <b>Minister for Economic Development</b>	<b>Note</b> the mitigation measures already underway  <b>Note</b> we intend to provide regular updates to Ministers on the economic impact and potential options  <b>Refer</b> to Ministers included below.	17 February 2020
Rt Hon Jacinda Ardern <b>Prime Minister</b>  Rt Hon Winston Peters <b>Deputy Prime Minister</b> <b>Minister of Foreign Affairs</b>  Hon Kelvin Davis <b>Minister of Tourism</b>  Hon Grant Robertson <b>Minister of Finance</b>  Hon Chris Hipkins <b>Minister of Education</b>  Hon David Parker <b>Minister of Trade &amp; Export Growth</b>  Hon Iain Lees-Galloway <b>Minister of Immigration</b>  Hon Stuart Nash <b>Minister of Revenue</b> <b>Minister of Fisheries</b>  Hon Carmel Sepuloni <b>Minister of Social Development</b>	<b>For information</b>	17 February 2020

Hon Damien O'Connor <b>Minister of Agriculture</b>		
Hon Shane Jones <b>Minister of Forestry</b>		

Contact for telephone discussion (if required)			
Name	Position	Telephone	1 <sup>st</sup> contact
Dean Ford	General Manager, Economic Development and Transitions	9(2)(a)	✓
Iain Southall	Policy Director	9(2)(a)	

The following departments/agencies have been consulted
Treasury, Ministry of Education, Ministry for Primary Industries, DPMC, Ministry of Foreign Affairs and Trade, Inland Revenue, Ministry of Social Development

**Minister's office to complete:**

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

**Comments**



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#### Purpose

To provide an update on mitigation actions underway identifies options that could be readily scaled up, and identifies additional options that could be developed.

#### Recommended action

MBIE recommends that you:

- a **Note** the summary of sectoral impacts and response measures as at 14 February 2020

*Noted*

- b **Note** the Macroeconomic advice from Treasury

*Noted*

- c **Note** should the economic impact of the COVID-19 worsen (either by deepening impacts on particular sectors, or broadening across the economy), there are a range of interventions available to the government

*Noted*

Dean Ford  
General Manager, Economic Development  
and Transition  
Labour, Science and Enterprise, MBIE

Hon Phil Twyford  
Minister for Economic Development

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# Immediate and medium term response options for the economic impacts of the COVID-19 outbreak

## Purpose

1. To provide an update on mitigation actions underway identifies options that could be readily scaled up, and identifies additional options that could be developed.
2. Annex One which has a summary of sectoral impacts and response measures as at 14 February 2020
3. Macroeconomic advice from Treasury is attached as Annex Two.

## Background

4. 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.
5. The COVID-19 outbreak is impacting the New Zealand economy through a number of channels. Chiefly these are: restrictions on the movement of people across borders harming the tourism and educational sectors in New Zealand; the current slowdown in China reducing Chinese demand and causing supply chain delays for New Zealand (and other countries) goods; and confidence impacts which are reducing global demands more generally as travel is cancelled and spending decisions delayed.
6. While some sectors of the economy have been impacted the economy-wide impact is limited at this point. The following table shows the value of exports in 2019, and proportion sold to China.

Key merchandise exports to China (2019) <sup>1</sup>		
	Value of exports to China (\$ million)	Percentage of category going to China
Dairy	5,335	33.0
Meat	3,370	41.9
Logs and Timber	2,928	58.3
Horticulture	809	5.0
Infant formula	785	34.3
Seafood	690	37.5
Pulp and paper	301	39.9
Wool	254	46.6

<sup>1</sup> Global Trade Atlas.

<b>Key service exports to China (2019)</b>		
	Value of exports to China (\$ million)	% of category sold to China
Tourism	1,700	13
Education	1,253	28.5

7. In the short term, there are particular sectors and regions which are more vulnerable to disruptions and loss of business than others. Sectors currently feeling significant impacts because of the COVID-19 outbreak overseas include tourism, international education, and the primary sector. Broader labour market supply impacts appear negligible from the border closure at this stage. Cabinet is scheduled to discuss the Tourism impacts and proposed responses on Monday.
8. Government agencies are responding in order to contain the impact on affected sectors of the outbreak.
9. This paper provides an update on mitigation actions underway, recommends further actions that could be implemented quickly and notes actions that officials are developing for Ministers' consideration, should the situation deteriorate further.

## **COVID-19 outbreak and its high level impact**

### **Primary sector and other exporters**

10. Primary sector exports to China were worth \$13.8 billion in 2019. Most primary sectors continue to face disruptions to their trade with China. These include issues with supply chains, import clearance delays, slowed payments, cancelled orders, reduced staffing in-market, and cessation of airfreight services. These issues are largely due to internal travel restrictions that China has put in place to control the spread of the virus.
11. Several primary sector industries are particularly affected. Rock lobster fishers and some forestry logging crews have ceased or significantly scaled back their operations (see more below about forestry). China is the leading export market for live rock lobster, accounting for 99% of all exports. With regard to red meat, clearance delays at ports have led to an increased shortage in cold store space in both China and New Zealand. The lack of cold storage is resulting in product being shipped to lower value markets, and increasing pressure on-farm and to meat processing. It is estimated that it could take 2-4 weeks to clear the current backlog. The impacts of COVID-19 are compounded by summer being a time of high through-put for meat processing and the drought resulting in farmers destocking.
12. NZTE Customers have also reported the following concerns or impacts on their operations:
  - a. logistics and supply chain disruptions
  - b. cancelled business events, orders, sales, and expected future delays for sales (particularly for seafood, red meat and forestry products)
  - c. disruptions of Chinese inputs into New Zealand manufacturing, including airfreight into China and in Chinese ports
  - d. boosted demand for healthcare/immunity products.

## Forestry

13. New Zealand forest exports to China are worth \$3.5 billion and nearly 80% of New Zealand's logs are exported there. Some forest exporters are reporting to MPI that from next week key Chinese ports will reach storage capacity and be unable to unload logs. 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 COVID-19 mean wood processing and construction industries are remaining in shut-down. Should this eventuate 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.
14. While many New Zealand forestry companies are continuing to operate, this may change with uncertainty about ongoing disruptions in market. Larger corporate foresters will be better placed to explore alternative markets for their wood products, but smaller forest owners may choose to cease harvesting. The most immediate impacts are for harvesting contractors and transport operators, with some crews either stopping operations or working at reduced capacity. The Gisborne region has been particularly affected to date. Trust Tairāwhiti has identified 37 businesses potentially affected in the region, predominantly forestry and representing 481 workers.
15. A rapid slowdown in harvesting may also reduce volumes available for domestic processors. This occurs as harvesting usually produces wood for both domestic and international markets at the same time (different parts of a log are suitable for different uses). There are approximately 30,000 workers within the forest sector, 7,000 of which work in forest harvesting and related support areas. Numbers of jobs impacted by the COVID-19 disruption will depend on the length and severity of the disruption.

## International Education

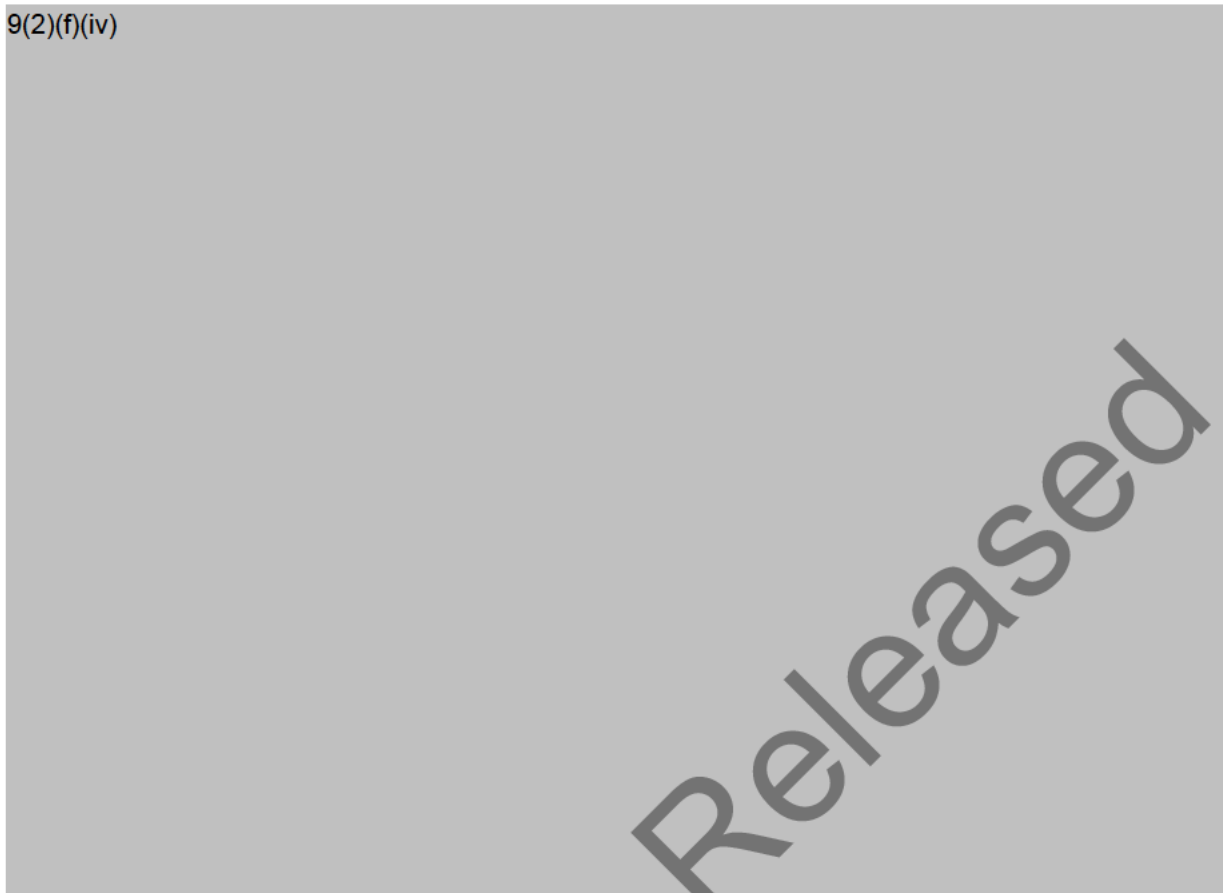
16. The main affected segment of education exports is the market for onshore delivery to Chinese nationals. In 2019, this was worth \$1.75bn in broader economic contribution (BEC) to New Zealand<sup>2</sup>, with \$500m of this being fee revenue.
17. From arrival data and reported enrolments we believe that roughly 59% of Chinese students are in-country, meaning that there is an immediate fee revenue effect of *at least* \$75m (although likely to increase with time), concentrated in the university sector.
18. The in-year revenue and economic shock is significant, but can be managed. The longer-term implications are more significant, due to a mix of pipeline effects (the future effect of reduced enrolments in multi-year qualifications, and in offshore recruitment), and market confidence effects (which could extend to the whole China market or beyond).
19. Scenarios depend significantly on the duration of the border closure, and how New Zealand is seen to manage this in the international context. Co-operation with China, student welfare, and flexibility in contractual and visa arrangements will all affect long-run market confidence.

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<sup>2</sup> This figure is calculated by Education New Zealand and includes non-fee student spending on general living costs, entertainment, tourism, etc. See [Economic Valuation of International Education in NZ 2018](#).



20. 9(2)(f)(iv)



## Mitigation actions already underway

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### Primary sector

21. MPI is leading a suite of responses across the primary sectors, and is in daily contact with most sectors to provide the latest information and discuss support.
- a. Limited release of live rock lobster back into the wild (subject to biosecurity and sustainability)
  - b. Guard Safety telephone support service for fishers under pressure from change
  - c. Exporter Regulatory Advisory Service (ERAS) advice including options for exporters to divert product to other markets, and information/enquiry service.
  - d. Regular meetings with industry leaders and closely monitoring meat sector processing and cold storage capacity, as constraints could affect animal welfare and farmer wellbeing.
  - e. Encouraging small business to engage early with business advisors and support already available, including through Inland Revenue and Rural Support Trusts.
  - f. Regional Wood Councils are meeting and working with their members to minimise the effects of the disruption.

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<sup>3</sup> These scenarios have been created to illustrate possible impacts. They are not predictions of actual market response.

<sup>4</sup> These scenarios and the associated revenue and BEC figures include universities, ITPs and funded PTEs, but exclude value generated from unfunded PTE and school enrolments.

- g. In Gisborne: a primary industry group focusing on forestry and including industry, MSD, MPI and other agencies is providing advice on financials and support for well-being. This includes initiating a series of roadshows for forestry workers and contractors. MPI is in touch with the Tairāwhiti Community Trust, and continues to monitor the situation closely
- h. Other actions include convening a meeting with the banking sector to better understand impacts and options for small and medium forestry enterprises

## **Education Sector**

22. Agencies and providers are both working to mitigate impacts, particularly on students. New mitigations will be considered as the situation in China develops. Actions to date include:
- a. Universities and other providers have strong accommodation and welfare safeguards in place for in-country students.
  - b. Fee protection arrangements are in place providing for refunds for many affected students.
  - c. Universities are reorienting programmes to blended delivery for the first semester where possible, so that students can then continue in New Zealand
  - d. The government has increased flexibility in visa validity, reducing the number of affected students required to apply for a further visa or pay a fee, and agreed to refund withdrawn visa applications currently in the system.

## **Ministry of Social Development**

23. MSD is supporting the Northland and East Coast communities (regions currently most affected). Activities include:
- a. working in collaboration with individuals and businesses (particularly in the forestry and logging sector).
  - b. helping people affected find alternative employment, and
  - c. income and other support for people who are being laid off, and also for those who are having their hours reduced and anyone from the general public impacted.
24. People are registering with MSD's employment services, and will be continued to be worked with as there is uncertainty around the length of the impact.

## **General welfare and business support currently available**

25. The tax and welfare systems business-as-usual support mechanisms are in play:

### *Inland Revenue*

- a. Working at a local level with affected taxpayers in affected sectors.
- b. 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.
- c. Inland Revenue has the ability to waive late filing or payment penalties under existing hardship provisions.



## *Ministry of Social Development*

- a. Emergency benefit may be available for those who lose jobs, as well as special needs grants and temporary additional support
- b. The existing income support system has an inherent measure of flexibility built into it to allow MSD to respond to different circumstances. MSD's standard suite of financial support remains available, including assistance such as job seeker support, and accommodation supplement.

## *Business engagement*

26. With support from MPI, Customs NZ and MFAT, NZTE has set up an advisory service available to any exporters experiencing issues and an information page with the latest information from all agencies

## **Options that could be readily scaled up**

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### *Primary Sector*

27. In the primary sector, there are a number of measures that could be readily scaled up:
  - a. Options to allow rock lobster fishers to defer some harvesting into the next fishing year (which begins in April).
  - b. psychosocial support like the Guard Safety service.
  - c. Further regional support to help local authorities and business owners assess impacts and respond.
  - d. Greater coordination role in supporting forestry companies to access independent financial advice
  - e. Expand existing Rural Support Trust contracts or other service providers to include support for individuals and sectors affected by COVID-19.
  - f. Redeployment of affected workers temporarily.
28. Ministry of Primary Industries hosted a meeting on 14 February with key forestry leaders to discuss latest developments with ports in China with a view to developing a ten-point plan for joint industry and government action. More generally, MPI are looking to provide further advice on the next steps for potential primary sector initiatives, including indicative costs and timing.

### *Education Sector*

29. Actions being considered in the education sector include:
  - a. Put in place clear plans to respond quickly once the border can be re-opened, such that the system is ready to receive students and work with them to overcome accommodation, transport and financial barriers, and ensure continued flexibility with visas
  - b. Develop a package of proposals for providers and agencies (ENZ, New Zealand Tourism and NZTE) to assist with immediate messaging and re-assurance to China (and other affected countries) and a consistent, market-focused medium term recovery plan.

## *Further support options*

### *Labour market*

30. Labour market initiatives that could be readily implemented, subject to policy decisions, centre around easing visa conditions:
- a. Should labour market constraints become apparent, provide a pathway for further visas for existing staff (for another 6 months), if the employer faces recruitment difficulties because of the travel restrictions.
  - b. Allowing partners of workers that are in New Zealand to vary the conditions of their visa to enable them to work, if the main earner (and work visa holder) is offshore and unable to get onshore

### *Ministry of Social Development*

31. The Ministry of Social Development's (MSD) financial assistance is available to individuals and families. This includes ongoing assistance such as Jobseeker Support for those who no longer have an income. Other ongoing assistance includes payments such as Accommodation Supplement and Working for Families tax credits that are available alongside main benefits. Further, hardship assistance such as Special Needs Grants and Temporary Additional Support are available to help with essential and immediate needs such as food and rent.
32. The Ministry of Social Development can deploy some income support that does not involve a stand-down, and eligible people can still access hardship assistance such as Special Needs Grants during a benefit stand-down period if needed.

## **Additional options that could be developed**

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33. Should the economic impact of the COVID-19 worsen (either by deepening impacts on particular sectors, or broadening across the economy), there are a range of interventions available to the government. At this stage, given the scale of the current impact, we are not recommending immediate implementation.

### *Business engagement*

34. MBIE will investigate whether the current sector-by-sector engagement is the best model, or if a more joined up approach is required. This would entail working with chambers of commerce, councils, and economic development agencies in affected regions to ensure information on support is readily available and support monitoring activity.

### *Labour market*

35. There are options across the immigration and domestic labour market systems:
- a. Allow those on visitor visas to vary the conditions of their visas and work (similar to a labour shortage declaration under current settings);
  - b. Crown funding fees for people on various visas to reduce the overall financial burden on employers, and assist in recruitment efforts;
  - c. Allowing the labour market test to have been met and be valid for a longer period of time (currently only 3 months);
  - d. Assist firms to redeploy workers ;

- e. Encourage firms to be more flexible on working hours and conditions.

#### *Inland Revenue*

- 36. The tax system has provisions that can be triggered by Ministers for additional business tax relief. These include emergency events and adverse events. This type of support is usually triggered in local events, where high risk of wide-spread business failure is likely to affect community well-being.

#### *Ministry of Social Development*

- 37. If given Ministerial direction and sufficient resources, the Ministry of Social Development can provide additional support to firms / employees. Again, this is usually deployed in local events that affect community well-being.
  - a. Temporary targeted Business support grants
  - b. Temporary targeted support for employees
  - c. Temporary Wage subsidies – a set payment to employers so they can continue to pay workers and consequently prevent people from entering the benefit system
- 38. In addition, existing employment services could be expanded if required.

#### **Next Steps**

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- 39. Officials are intending to update Annex One every week and provide this to Ministers.
- 40. Treasury will be providing a regular economic situation report to Ministers.
- 41. Should the economic impact of the COVID-19 worsen (either by deepening impacts on particular sectors, or broadening across the economy), officials will provide advice on their recommend interventions.