



## BRIEFING

### Potential policy options for offsetting the economic impact of the Coronavirus outbreak

|                          |                 |                  |            |
|--------------------------|-----------------|------------------|------------|
| Date:                    | 7 February 2020 | Priority:        | Urgent     |
| Security classification: | In Confidence   | Tracking number: | 2243 19-20 |

#### Action sought

|   | Action sought   | Deadline         |
|---|---|------------------|
| Hon Phil Twyford<br><b>Minister for Economic Development</b>                                | <p><b>Note</b> that the scale and duration of the economic impact of the Coronavirus outbreak is highly uncertain</p> <p><b>Note</b> that government agencies are already responding in order to contain the economic impact</p> <p><b>Note</b> that there are several policy options, many of which can be scaled up should the situation intensify</p> <p><b>Note</b> we intend to keep monitoring the situation and to report back to you as information becomes available.</p> <p><b>Refer</b> to Ministers included below.</p> | 10 February 2020 |
| Rt Hon Jacinda Ardern<br><b>Prime Minister</b>  | <b>For information</b>  | 10 February 2020 |
| Rt Hon Winston Peters<br><b>Deputy Prime Minister</b><br><b>Minister of Foreign Affairs</b> |   |                  |
| Hon Kelvin Davis<br><b>Minister of Tourism</b>  |   |                  |
| Hon Grant Robertson<br><b>Minister of Finance</b>   |   |                  |
| Hon Chris Hipkins<br><b>Minister of Education</b>   |   |                  |
| Hon David Parker<br><b>Minister of Trade &amp; Export Growth</b>                            |   |                  |

**Hon Iain Lees-Galloway  
Minister of Immigration**

**Hon Stuart Nash  
Minister of Revenue  
Minister of Fisheries**

**Hon Carmel Sepuloni  
Minister of Social Development**

**Hon Damien O'Connor  
Minister of Agriculture**

**Hon Shane Jones  
Minister of Forestry**

**Contact for telephone discussion (if required)**

| Name      | Position  | Telephone | 1st contact |
|-----------|---|-----------|-------------|
| Dean Ford | General Manager,<br>Economic Development<br>and Transitions | 9(2)(a)   | ✓           |

**The following departments/agencies have been consulted**

Treasury, Ministry of Education, Ministry for Primary Industries, DPMC, New Zealand Trade and Enterprise, Ministry of Foreign Affairs and Trade, Inland Revenue, Ministry of Social Development, State Services Commission

**Minister's office to complete:**

- Approved
- Noted
- Seen
- See Minister's Notes

- Declined
- Needs change
- Overtaken by Events
- Withdrawn

**Comments**



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#### Purpose

To provide information on potential policy options for offsetting the economic impact of the Coronavirus outbreak.

#### Recommended action

MBIE recommends that you:

- a **Note** that the scale and duration of the economic impact of the Coronavirus outbreak is highly uncertain.

*Noted*

- b **Note** that government agencies are already responding in order to contain the economic impact.

*Noted*

- c **Note** that there are several policy options, many of which can be scaled up should the situation intensify.

*Noted*

- d **Note** we intend to keep monitoring the situation and to report back to you as information becomes available.

*Noted*

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

7.2.20

Hon Phil Twyford  
**Minister for Economic Development**

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## Purpose

To provide information on potential policy options for offsetting the economic impact of the Coronavirus outbreak. We note that agencies are also preparing advice on portfolio-specific matters (including Immigration, Primary Industries, Tourism) which will be delivered to relevant Ministers.

## Novel Coronavirus outbreak and its economic impact

1. Reports of an outbreak of Coronavirus in China were made public on 7 January 2020. China cancelled all outbound tour groups on 26 January 2020, which account for around half of all Chinese visits and visitor spending in New Zealand. On 30 January 2020 the WHO declared a global health emergency.
2. On 2 February, Ministers took the decision to close New Zealand's borders to travellers from China as a public health response. The measures are in place for 14 days, but will be reviewed every 48 hours.
3. 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 and globally to contain the spread. There are particular industries and regions which are more vulnerable to disruptions and loss of business than others.
4. China increased its dominance as New Zealand's leading export destination in 2019, accounting for 28% of New Zealand's goods export values, up from 24% in 2018. China is New Zealand's biggest market for key industries of dairy, forestry, meat and seafood. The most exposed sector is logs and timber with nearly 60% of exports going to China, while dairy is the largest absolute exposure by some distance. The rock lobster industry appears to be the most acutely affected sub-sector at this time, with 99% of its live lobster exports going to China.
5. Key merchandise exports to China (2019)<sup>1</sup>

|                 | Value of exports to China (\$ million) | % of category going to China |
|-----------------|--|------------------------------|
| Dairy           | 5335                                   | 33.0                         |
| Meat            | 3370                                   | 41.9                         |
| Logs and Timber | 2928                                   | 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.

6. While there remains no change in the regulatory settings for merchandise exports to China, most primary sectors are experiencing issues with supply chains, delayed payments, cancelled orders, and cessation of some airfreight services. MSD reports that they are aware of some employment impacts, particularly in the forestry sector where downsizing and layoffs are starting to happen.
7. Among services exporters, tourism businesses and export education providers are particularly affected, given the restrictions placed on borders.
8. Key service exports to China (2019)

|           | Value of exports to China (\$ million) | % of category sold to China |
|-----------|--|-----------------------------|
| Tourism   | 1700                                   | 13                          |
| Education | 1253                                   | 28.5                        |

9. Chinese tourists spend about \$1.7 billion per annum in New Zealand. February is peak season, with many travelling for Chinese New Year. Many firms use this period to build up a cash surplus to operate through the remainder of the year. While Chinese tourists make up about 13% of all international visitor expenditure across the calendar year, this ration rises to 18% in February.
10. Chinese students make up the largest proportion of international students in both the secondary and tertiary sector. The majority of students usually arrive in the first three months of the year. Most international school students have arrived, but the bulk of the tertiary students were expected to arrive in coming weeks.
11. There are currently 27,282 Chinese nationals who hold valid student visas. Of this, 11,280 are currently outside New Zealand (as of 1/2/2020). Among *total Chinese visa holders in each education sector*: 23% of total PTE students, 30% of schooling sector students, 41% of polytechnic students, and 53% of university students remain offshore.

## Policy responses

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12. Government agencies are already responding in order to contain the economic impact of the outbreak. Support options have so far focused on addressing immediate issues associated with border closures and trading restrictions. However should the situation escalate, or be likely to persist for a longer period of time, it may be necessary to change or scale up the policy response. MBIE, Treasury, RBNZ and other agencies are working to provide a more detailed assessment of the economic impact.
13. The Government has a number of options with respect to how it may wish to respond. We consider it is crucial that any policy response is made in light of the uncertain scale and duration of the potential economic impact. A response package that could be scaled and sustained, should a large number of firms eventually be impacted, would be recommended.
14. The spectrum of policy options include:
  - Operational support to businesses (many of which have already been activated)
  - Adjustment to tax and benefit settings
  - Emergency business support and sector specific support packages
  - Automatic stabilisers

- Fiscal stimulus

## **Actions already underway**

### *Crayfish industry*

15. The government has agreed to allow a limited release (subject to biosecurity concerns) of live rock lobster back into the wild to mitigate the impact of the cancellation of a large number of export orders by Chinese distributors. MPI is also investigating options to allow rock lobster fishers to defer some harvesting into the next fishing year (which begins in April).

### *Tourism*

16. The MBIE Tourism-chaired Visitor Sector Emergency Advisory Group (VSEAG) has been convened and is undertaking a number of actions to support the tourism sector at this time. These include:
  - a. MBIE, Tourism NZ (TNZ) and Tourism Industry Aotearoa (TIA) developing key messages for the media on the impact on tourism at the national level, to encourage a flow of accurate information and mitigate the burden on key tourism operators who may be approached for comment by multiple media outlets.
  - b. Connecting the Ministry of Health (MoH) with social media operated by the tourism sector, including by TNZ and ATEED. These include Chinese-language channels which can provide effective means of communicating information to Chinese visitors in New Zealand.
  - c. Helping Regional Tourism Organisations and operators in the regions to access key messages from MoH and to know who to contact and work with in the event of visitors to their regions becoming unwell.
17. In addition to this, Tourism NZ is also looking at shifting its marketing focus into other markets through both re-deploying existing resource and lifting its overall spend.
18. MBIE Tourism has provided the Minister of Tourism this week with an outline of possible cost implications of these responses (including bringing forward initiatives currently in the Budget 2020 process). It will be important to ensure that New Zealand is well positioned to welcome visitors from China immediately after the current restrictions are lifted.

### *Information Provision and wellbeing support*

19. New Zealand Trade and Enterprise (NZTE) has launched an informational landing page on its website to help exporters affected by the Coronavirus outbreak.<sup>2</sup> The page collates and aggregates information from NZTE, Ministry of Foreign Affairs and Trade, and the Ministry for Primary Industries to enable exporters to stay up-to-date on the latest developments. Information on the page will be updated daily.
20. Operational arms of agencies (such as MBIE, NZTE, MPI, MFAT, Customs) have mobilised resources to help directly affected exporters. For example, MPI have established regular meetings with major primary sector producers and industry bodies to hear their concerns and share information about impacts.
21. Agencies are also working with industry bodies and other organisations with the aim of ensuring individuals and small businesses are aware of the support already available, for example through Work and Income, Inland Revenue, existing Rural Support Trust services and Federated Farmers' Member Employment Lawyer free service.

<sup>2</sup> [www.nzte.govt.nz/coronavirus](http://www.nzte.govt.nz/coronavirus)

22. In Gisborne, a primary industry group, focused on forestry, has been pulled together to identify those affected and provide advice on financials and how to get help and support for well-being. An 0800 number has been established for those concerned across primary industries and tourism. In most other regions Regional Advisory Groups are established to aid in well-being support alongside Rural Support Trust services.
23. Agencies are mindful of existing constraints on some of these services. For example, the Rural Support Trusts have limited capacity and are already stretched with adverse events responses (e.g. Southland floods, drought-like conditions in other regions). At this stage, government contracts to not extend to the provision of support on things like Coronavirus impacts on markets.

#### *Operational Assistance*

24. Student visas include a date that they must enter New Zealand. To help facilitate individuals in this situation, Immigration New Zealand has decided to extend the “first entry before” date on all student visa holders affected by the travel restrictions. MBIE is providing a separate briefing on updating advice for affected employers around pay and leave entitlements for those staff affected by the border changes and/or the isolation requirements. MBIE will also provide advice to the Minister of Immigration in the next week about options for extending the visas of temporary visa holders in the country who cannot leave, to prevent the risk of their becoming unlawful. Unintended extended stays – for example of tourists – may raise welfare issues in the medium term.
25. NZTE has established an Advisory Panel for exporters to supplement the expertise and support available through NZTE’s Greater China Team.
26. Inland Revenue can assist if businesses have any concerns relating to their tax obligations and will provide appropriate communication to taxpayers who may be affected.
27. Education agencies are working to ensure the welfare of affected students in New Zealand is maintained as well as seeking to understand the implications for students who have not been able to commence study as planned. Education agencies will determine the impacts on provider viability and on the wider market, along with strategies focusing on recovery and risk mitigation.

## **Further Policy options**

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#### *Current initiatives that could be extended or scaled up*

28. The responses outlined above are agencies’ initial response to the outbreak. These and other baseline activities could be extended or scaled up. For example, the Minister of Tourism is considering two immediate activities (including their associated cost) that could be deployed to soften the impacts on communities and the tourism industry itself from the impacts of Coronavirus on tourism expenditure. These are:
  - Destination marketing by Tourism New Zealand (international) and Regional Tourism Organisations (domestic);
  - Destination planning and resilience to soften the impact on the visitor economy and plan for greater resilience to shocks in the future.

#### *Routine adjustments to tax and benefit settings*

29. The standard suite of Ministry of Social Development (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. One off payments, such as Special Needs Grants are also available to help with food, rent and other essential and immediate needs. At this stage

MSD considers its standard suite of assistance is appropriate but is monitoring the situation. If needed, benefit stand down periods can be reduced.

30. From a tax perspective, excessive provisional tax payments can be refunded. Under current settings, businesses that have paid provisional tax and are experiencing a substantial deterioration in sales can re-estimate their tax liability and receive a refund of excess tax paid. Inland Review will provide appropriate communication to affected taxpayers.
31. Similarly, student loan interest charges are levied if a borrower is overseas for more than six months. New Zealand-based borrowers who intend to be overseas for less than six months but whose return is delayed by travel restrictions or illness can apply to Inland Revenue for their loan to no accrue interest.

*Emergency business support and sector specific support packages*

32. The Minister for Economic Development has in the past provided emergency business support where an event has had an isolated impact on a specific geographical area. For example, the 2016 North Canterbury earthquakes, 2017 flooding in Edgecumbe, or the disruption from Cyclone Gita in 2018. Since 2016, the government has allocated a total of almost \$21 million, with just over \$17 million going to subsidy support from the North Canterbury earthquakes.
33. That intervention provides targeted support directly to individual business for an event which has a largely known duration and impact. Eligible businesses access this support by submitting a bespoke application with applications assessed and administered by an independent panel.
34. Given the diffuse nature of the impacts currently being felt, and the uncertainty of the duration and longer term impact, officials would argue against the deployment of firm level support. It would be challenging to identify affected firms (particularly those indirectly affected) and the administrative cost and time taken to deliver support would be substantial should a large number of firms be eventually affected. There is also the risk of setting a precedent that will carry greater fiscal costs over time.
35. It is also apparent that some sectors, and some businesses within these, are more exposed to the Chinese market, and that the ability to manage the associated risk will differ greatly depending on the structure of the exporting arrangements.
36. Should Ministers wish to employ a targeted assistance to businesses, a more efficient mechanism could be a sector specific support package, cognisant of our international trade obligations. It should be noted that some sectors are more readily identifiable than others. The tourism industry, for example, includes businesses that sell to New Zealanders as well as tourists, which makes it harder to ascertain the degree of impact on an individual operator (as opposed to a rock lobster business selling all of its product to China).

*Exchange rate, monetary policy and automatic stabilisers*

37. Should the impact become noticeable at the macroeconomic level, New Zealand's various automatic stabilisers would begin to kick in. Most immediately, the New Zealand dollar would likely depreciate and interest rates fall offering stimulus to the New Zealand economy. The NZD has to date only edged slightly lower since the outbreak was announced. Given New Zealand's high external liabilities and low household savings, any deterioration in global risk sentiment would likely see the New Zealand dollar fall, even if the New Zealand economy was no more adversely affected by Coronavirus than our major trading partners. Monetary policy could also respond, should the New Zealand economy deteriorate.

38. Beyond financial markets, automatic stabilisers – unemployment support and the tax system – would also offer some cushion. An increase in those unemployed would increase job seeker payments, and place downward pressure on the Crown operating balance.

#### *Fiscal stimulus*

39. Should economic deterioration become especially severe, there is of course the option of employing a broad fiscal stimulus. It can be challenging to ensure such stimulus is delivered quickly enough. However, the boost to consumer and business confidence from committed future fiscal spending could be effective in helping offset any economic disruption from Coronavirus. Indeed, the recently announced \$12 billion infrastructure package will be having a positive influence on business sentiment, particularly in the construction sector.
40. Given debt considerations within the context of the current Budget process, Treasury will provide advice should there be a need to look more closely into additional fiscal stimulus.

## **International Developments**

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41. MFAT is seeking reporting from its posts on any actions other countries may be considering to respond to the economic effects of novel coronavirus. The Coronavirus has already destabilised global markets and value chains, especially in the Asia-Pacific region. For example, Korean automotive giant Hyundai says it cannot produce vehicles because Chinese subsidiaries have stopped producing component parts. However, there is a consensus amongst policy makers and analysts that it is still too early to assess the long-term global economic impacts of the Coronavirus.
42. It has been widely reported in public media that China has injected stimulus of around \$200 billion into its economy and Chinese provincial governments have announced emergency unemployment and tax relief measures in response to the outbreak.
43. Our post in Canberra has reported that the Australian Treasury is currently modelling the economic impacts of the virus but no decision has been made on economic support measures. Many key sectors of the Australian economy are dependent on the Chinese market, especially tourism, international education, energy and minerals. We would expect other governments to consider announcing economic policy responses if it becomes apparent that extended pressure on economies is in prospect (e.g. beyond the current quarter/half year), or if the virus reaches a pandemic scale in other key economies.

## **Next Steps**

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44. Government agencies across the system are monitoring the economic impact of the Coronavirus outbreak on New Zealand, and will update you and other Ministers as information becomes available. We will also provide advice on how best policy should respond as the situation evolves.

## **Annex One: Key messages**

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- We are taking this outbreak very seriously. The temporary entry restrictions into New Zealand on all foreign nationals travelling from, or transiting through, mainland China remain in place.
- We recognize there are Chinese visitors in New Zealand. Those wishing to extend their stay should contact Immigration NZ.
- I hope for those who do stay longer, we can give them the best possible New Zealand experience.
- We know that there will be an economic impact to New Zealand from this outbreak but the magnitude of this is unknown at this time. The outbreak is still in its early stages.
- The Government has already agreed to allow a limited release (subject to biosecurity concerns) of live rock lobster back into the wild to mitigate the impact of the cancellation of a large number of export orders by Chinese distributors.
- Various government agencies have mobilised resources to help these affected businesses, and are in regular contact with major primary sector exporters and industry bodies.
- For example- Immigration NZ appreciate that a number of students hold visas with travel conditions indicating a date that they must enter New Zealand and have been concerned that due to the travel restrictions they may miss that date. To help facilitate individuals in this situation, INZ has decided to extend the “first entry before” date on all student visa holders affected by the travel restrictions
- To make sure New Zealand exporters have the latest information, NZTE has set up a webpage at [www.nzte.govt.nz/coronavirus](http://www.nzte.govt.nz/coronavirus). This is being updated daily.
- MPI is also providing timely information to primary sector organisations and affected communities.
- While the long-term picture is unclear, agencies are carefully monitoring how the Coronavirus outbreak is affecting New Zealand the economy. The government is continuing to assess the need for further action, should the situation change.