



TE TAI ŌHANGA
THE TREASURY

Reference: 20200174

14 July 2020

s9(2)(a)

Dear

s9(2)(a)

Thank you for your Official Information Act request, received on 18 May 2020. You requested:

All proposals, including draft versions, together with accompanying agency advice that were prepared in relation to the tourism support package.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description (released in part)
1.	7 May 2020	Tourism tagged contingency: Treasury advice to Minister of Finance's office on Tourism Support Package recommendations for Budget Cabinet paper
2.	7 May 2020	Tourism sector recovery package – tagged contingency: Treasury email to Minister of Finance's office on Tourism Support Package contingency recommendations for Budget Cabinet paper
3.	8 May 2020	Aide memoire on Tourism New Zealand's proposed Cabinet paper on a tourism support package
4.	10 May 2020	DEV briefing for Tourism Recovery paper: Treasury briefing to Minister of Finance's office on MBIE's Tourism Recovery Cabinet paper
5.	3 May 2020	Draft report: Tourism sector COVID-19 support, Version 7
6.	5 May 2020	Draft report: Tourism sector COVID-19 support, Version 8
7.	5 May 2020	Report: Tourism sector COVID-19 support, Version 9

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

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PO Box 3724
Wellington 6140
New Zealand
tel. +64-4-472-2733

<https://treasury.govt.nz>

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions, and
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage. We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Items 1-2 are emails with advice on the tourism recovery strategy and Budget process from the Treasury to the Minister of Finance's office. Item 3 is a report to the Minister of Finance's office outlining the Treasury view on a draft Tourism New Zealand Cabinet paper which did not end up progressing to Cabinet. Item 4 is a briefing to the Minister of Finance's office outlining the Treasury view on the replacement draft MBIE Cabinet paper which progressed and formed the basis of the Tourism Recovery Package. Items 5-6 are late stage drafts of the final report which Treasury provided to inform the \$400m Tourism Support Package, and item 7 is the final Treasury report.

Information publicly available

The following information is also covered by your request but will not be released under section 18(d) of the Official Information Act because it is already publicly available online (please note the updated website below for Item 9, which is a more direct link than the one provided to you via email on Friday 10th July):

Item	Date	Document Description	Website Address
8.	11 May 2020	Cabinet Minute CAB-20-MIN-0219.04: COVID-19: Response and Recovery Fund Foundation Package: Vote Business Science and Innovation	https://treasury.govt.nz/publications/information-release/tourism-portfolio-budget-2020-information-release
9.	12 May 2020	MBIE Cabinet paper, Tourism Recovery	https://covid19.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/supporting-the-economy/#documents-proactively-released-on-26-june

Information to be withheld

There are additional documents covered by your request that I have decided to withhold in full under the following section of the Official Information Act, as applicable:

- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions

Item	Date	Document Description	Proposed Action
10.	30 April 2020	Draft report: Tourism sector COVID-19 support, Version 1	Withhold in full
11.	1 April 2020	Draft report: Tourism sector COVID-19 support, Version 2	Withhold in full
12.	1 April 2020	Draft report: Tourism sector COVID-19 support, Version 3	Withhold in full
13.	2 May 2020	Draft report: Tourism sector COVID-19 support, Version 4	Withhold in full
14.	2 May 2020	Draft report: Tourism sector COVID-19 support, Version 5	Withhold in full
15.	3 May 2020	Draft report: Tourism sector COVID-19 support, Version 6	Withhold in full

These documents are all early stage drafts of the final report which Treasury provided to inform the \$400m Tourism Support Package which we have released (item 7). The only difference between these versions and those that we are releasing, is that they have tracked changes with initial brainstorming comments from officials and external agencies. The late stage drafts of the report (items 5-6) and the final report (item 7) include all substantive draft proposals and advice between them. As per Ombudsman guidance on draft documents, we are withholding these early stage drafts in order to maintain the free and frank expression of opinions in the context of the drafting process. Release of this material would undermine the efficiency and effectiveness of the drafting process.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Jean Le Roux
Manager, Transitions, Regions, and Economic Development

20200174

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Adam Antao [TSY]

From: Alastair Cameron [TSY]
Sent: Thursday, 7 May 2020 7:35 AM
To: ^Parliament: Daniel Cruden; ^Parliament: Craig Renney
Cc: Jean Le Roux [TSY]
Subject: URGENT - Tourism tagged contingency

[IN-CONFIDENCE]

Hi Daniel / Craig,

As discussed with both of you in recent days, we need to provide the text and amount for the Tourism tagged contingency in the Budget Cabinet paper and would appreciate any guidance about the MOF's wishes for amount of the contingency. The paper is due in the office later today and we need to provide our text by midday, so would appreciate any feedback **by 11am this morning**.

I've set out below the current text we're proposing and would welcome any feedback about whether this meets the Minister's wishes. A couple of key things to note:

- We haven't included an amount for the tagged contingency and would appreciate any guidance from you about what the Minister wants. If you'd prefer us to recommend an amount, we can do so.
- We've included some high-level principles about the purpose of the fund consistent with the advice we provided to the MOF on Tuesday night, and are recommending that MBIE lead a report back on the detailed criteria and governance principles for the fund to deliver on this purpose. We gather Minister Davis is taking a paper to Cabinet on Monday about the Tourism sector recovery plan, but it doesn't refer to the tagged contingency and so another report-back will be needed. We have sought to align the two, but the paper hasn't been sent for agency consultation so that's proving difficult, and from what we understand of the current content, it doesn't provide an adequate basis for the tagged contingency.

DRAFT text for Budget Cabinet paper

Tourism Support Package

Agreed that the initiatives in the following table be contingency items and that corresponding funding for them be charged against the [Budget 2020 operating allowance?]

Tagged contingency

	2019-2020	2020-2021	2021-2022	2023-2023
Tourism -- Tagged Operating Contingency				
Tourism -- Tagged Capital Contingency				

Supporting the tourism sector

Noted that the *Tourism Support Package* tagged contingency has been set aside for the purpose of cushioning the impact of COVID-19 on the tourism sector, and to position the sector for recovery, including through measures which:

- are swift and simple to administer;
- aim to minimise economic scarring effects;
- include short-term liquidity and solvency support for firms where it is evident that existing solutions are deficient;
- support the just transition of the sector to become more productive, sustainable and inclusive in the long term, including through Active Labour Market Policies;

Noted that this is a joint initiative between the Minister of Finance and the Minister for Tourism;

Directed the Ministry for Business, Innovation and Employment, in consultation with Tourism New Zealand, New Zealand Trade and Enterprise, the Department of Conservation, Te Puni Kokiri, the Ministry of Transport, the Ministry for Environment, the Department of Conservation, the Ministry for Social Development, the Ministry for Foreign Affairs and Trade, and the Treasury to report to the Cabinet by 1 June 2020 on the criteria and governance principles for the funding, which should support the purpose of the tagged contingency noted in paragraph (x) above;

Authorised the Ministers of Finance and the Ministers of Tourism, Trade and Export, Economic Development and any other relevant appropriation Minister to jointly draw down from the Tourism tagged contingency (establishing new appropriations as necessary), subject to the decision taken as a result of paragraph (x) above;

Agreed that the expiry date for Tourism Support Package be 14 May 2021.

Give me a call if you'd like to discuss or have any questions.

Ngā mihi,
Alastair

Alastair Cameron (he/him) | **Manager** | **Te Tai Ōhanga – The Treasury**

COVID Policy

s9(2)(a)

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TE TAI OHANGA
THE TREASURY

From: Alastair Cameron [TSY]
Sent: Thursday, 7 May 2020 6:02 PM
To: ^Parliament: Daniel Cruden
Cc: Silkie Whitworth [TSY]; Alice Ansley [TSY]; Jean Le Roux [TSY]
Subject: Tourism Sector Recovery Package - tagged contingency

[IN-CONFIDENCE]

Hi Daniel,

In line with the Minister's feedback on our advice regarding a Tourism Sector Recovery Package (TR2020/1288 refers), we have been working closely with MBIE on developing a tagged contingency approach to feed into the CRRF process and have developed text for the significant recommendations. MBIE is supportive of our proposed draft scope and governance criteria for the contingency (see paras 4 and 5 below). It would be useful to get feedback on the size and nature of the tagged contingency for the significant recommendations (draft text below).

Meanwhile, Minister Davis has circulated a draft Cabinet Paper on the Tourism Sector Recovery Package for Ministerial consultation drafted by Tourism NZ, which is intended to be lodged directly to Cabinet on Monday, 11 May. Treasury and MBIE agree that this paper doesn't provide the right basis for the drawdown criteria of the tagged contingency, and in fact have more fundamental concerns that, as proposed, it won't achieve the Government's objectives for the sector. We instead recommend (via the significant recs in the CRRF Budget paper) that there is a later report-back on the approach to the Tourism Sector Recovery Package and tagged contingency drawdown criteria, which will allow time for us and MBIE to work through the issues with Tourism NZ.

As agreed, we'll formally brief on Minister Davis's paper via the usual Pre-Cab briefing paper process – giving you a heads up on our views in advance to share with the MOF if helpful (as below).

Treasury and MBIE have similar concerns about Minister Davis's the paper. Our concerns, and our proposed way forward, are detailed below.

1. Any government investment should prioritise getting money out the door to cushion the blow and smooth transitions for both impacted businesses and the tourism workforce as well as to position the sector for Wave 3, rather than funding BAU operational spend.
 - The TNZ paper positions governance and TNZ investment as the top priority, as well as more expenditure for marketing. That is not going to shift the dial.
 - Short-term funding that gets out the door quickly could usefully be used to provide liquidity and solvency support to firms where existing policies are proven to be deficient. ALMPs should also be considered to aid the tourism workforce, though it should be noted that these (and other broad measures) should be complementary to and coordinated with funding likely coming from alternative contingencies.
 - We do agree that some investment should support discussion, planning and collaboration with industry partners, iwi and the broader Māori tourism sector; but think this approach should begin now and have a mandate to bring forward proposals relating to short-term measures to support business, as well as stewarding the longer term (see para 5).
 - Furthermore, Tourism NZ has a baseline of \$110m which can be re-prioritised to undertake some of this work as well as a pivoting from international to domestic marketing.
2. The current proposal does not adequately consider the significant longer-term trade-offs required.
 - While we are comfortable with saying there's merit at looking at new governmental governance structures, there is a lack of evidence to suggests governance is the key issue halting progress.

- The objective should not be on recovering and rebuilding but on sector transition and understanding the key trade-offs needed to re-imagine the sector and respond to long-standing issues.
 - One of these is a move from volume to value which is not a key consideration in this paper but it vital to the transition.
3. The current proposal will significantly extend TNZ's mandate which risks duplication of MBIE's policy function.
- MBIE should lead this policy process and also continue their role in administering the IVL as the policy lead, next steps need significant regulatory and policy expertise, which are not appropriate functions for TNZ.
 - TNZ are better placed, from a machinery of government view, to play an advisory role to help lead / drive forward the sector recovery to help meet Ministers' objectives for a streamlined and speedy process, while allowing MBIE to lead the strategic policy work.
4. TSY therefore recommends the following (which has support from MBIE)
- A contingency with \$100m to drive a partnership approach for the short, medium and long (12 months) term (see para 5).
 - Interventions should:
 - o Be as broad based as possible rather than narrowly targeted; simple and swift to deliver
 - o Be proportionate and sensitive to the needs of specific localities, communities and populations
 - o Support the transition from 'volume to value' and innovation' in the sector
 - o Support improved environmental and low-carbon outcomes
 - o Complement, rather than duplicate, broader Government initiatives

The below proposed phasing and capex/opex split seeks to represent:

- o the likely funding which could happen this financial year on operational and capital measures – acknowledging potential urgent needs;
- o the split between potential redeployment measures and operational measures both as opex
- o the possibility of liquidity and solvency support measures, which may be capex
- o noting that both can be changed via Joint Ministers after Cabinet agreement:

	2019-2020	2020-2021	2021-2022	2023-2023	2023/outyears
Tourism support-Tagged Operating Contingency	5.00	45.00			
Tourism support-Tagged Capital Contingency	5.00	45.00			

5. We think the Partnership put in place to lead this work should be chaired by the Minister of Tourism. The CTU, TIA and Iwi Chairs Forum should be represented. MBIE would ideally provide the secretariat role and TNZ an advisory role, and Maori Tourism NZ and regional economic development entities should be consulted in the course of their work. The aim of ensuring this diversity is built in to the governance is to ensure a full range of specialist sector knowledge and expertise, as well as new and disruptive voices, to help make the bold trade-offs needed.
6. MBIE is broadly supportive of this way forward. Recognising that the finer details of governance (not least with regard to TNZ and MBIE in advisory vs secretariat roles) needs to be agreed across agencies and this has not been possible in the available time, we have drafted the recommendation for the CRRF Paper to say that MBIE should consult with TNZ, DoC, TPK, MoT, MfE, MSD, NZTE, MFAT and the Treasury on the criteria and governance, reporting back to Cabinet by June 1.
7. The implication of this is that Minister Davis's Cabinet paper should not be the vehicle to agree the governance and principles of the tagged contingency, but instead an urgent report back should be sought as per the recommendation in the CRRF paper establishing the Tourism Sector Recovery Package tagged contingency.

Finally, some background on why we recommend \$100m for the contingency:

- Tourism needs support both immediately (in wave 1) and in the longer-term (in waves 2 and 3). This contingency is to provide certainty to a heavily impacted sector that extra funding will be accessible to support short-term liquidity and solvency, and longer term initiatives to set the sector on a productive, sustainable and inclusive setting.
- This will be in addition to the range of significant broad based measures the government has already put in place and which will benefit the tourism industry given its structure.
- Broad based measures are offering significant support to the tourism industry already (estimate between \$1.3-2.4bn (larger figure is if you include those indirectly employed in the tourism sector, and in both cases assume FTE), and this may be extended via the WSS – buying more time and up another \$1bn-\$1.6bn in support).
- 97%+ of tourism businesses will likely be eligible for the SME Cash Flow (loan scheme). However we do not yet know what take up will look like, and the amount loaned will depend on number of employees.
- s9(2)(f)(iv)
- ALMPs are set to be funded from a separate tagged contingency, though there may be justification for specific initiatives to be funded from the tourism contingency (e.g. a specific Queenstown initiative has been discussed).
- Other sector initiatives (e.g. aviation and media) are not useful comparators for tourism, where broad-based measures are more appropriate given the scale
- We suggest that \$100m is substantial, but not exceptional, as in addition to numerous other initiatives and might be complemented in subsequent funding rounds if needs be.

Text for Budget Cabinet paper

Tourism Support Package

Agree that the initiatives in the following table be contingency items and that corresponding funding for them be charged against the COVID-19 Response and Recovery Fund;

Tagged contingency

	2019-2020	2020-2021	2021-2022	2023-2023	2023/outyears
Tourism support-Tagged Operating Contingency	5.00	45.00			
Tourism support-Tagged Capital Contingency	5.00	45.00			

Supporting the tourism sector

Note that the *Tourism Support Package* tagged contingency has been set aside for the purpose of cushioning the impact of COVID-19 on the tourism sector, and to position the sector for recovery, including through measures which:

- are swift and simple to administer;
- aim to minimise economic scarring effects;
- include short-term liquidity and solvency support for firms where it is evident that existing solutions are deficient;
- support the just transition of the sector to become more productive, sustainable and inclusive in the long term, including through Active Labour Market Policies;

Note that this is a joint initiative between the Minister of Finance and the Minister for Tourism;

Direct the Ministry for Business, Innovation and Employment, in consultation with Tourism New Zealand, New Zealand Trade and Enterprise, Te Puni Kokiri, the Ministry of Transport, the Ministry for Environment, the Department of Conservation, the Ministry for Social Development, the Ministry for Foreign Affairs and Trade, and the Treasury to report to the Cabinet by 1 June 2020 on the criteria and governance principles for the funding, which should support the purpose of the tagged contingency noted in paragraph (x) above;

Authorise the Ministers of Finance and the Ministers of Tourism, Trade and Export, Economic Development and any other relevant appropriation Minister to jointly draw down from the Tourism tagged contingency (establishing new appropriations as necessary), subject to the decision taken as a result of paragraph (x) above;

Agree that the expiry date for Tourism Support Package be 14 May 2021.

Ngā mihi,
Alastair

Alastair Cameron (he/him) | **Manager** | **Te Tai Ōhanga – The Treasury**

COVID Policy

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Reference: T2020/1435

SH-1-6-1-3-3-4 (Budget)

Date: 8 May 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: Monday 11 May

Aide Memoire: TNZ paper on a Tourism Support Package**Purpose**

This is a briefing note in respect of a Tourism Support Package Cabinet paper to be lodged for DEV on 13 May by the Minister of Tourism.

s9(2)(g)(i)

Treasury Comment

Treasury and MBIE have fundamental concerns that the strategy for the tourism sector response proposed in this paper won't achieve the Government's objectives for the sector. Our key concerns are that:

- The current proposal does not prioritise getting money out the door to cushion the blow and smooth transitions for both impacted businesses. Short-term funding could usefully be used to provide liquidity and solvency support to firms where existing policies are proven to be deficient. These should be complementary to and coordinated with funding likely coming from alternative contingencies.
- The current proposal does not adequately consider the significant longer-term trade-offs required.

The current proposal will significantly extend TNZ's mandate which risks duplication of MBIE's policy function. MBIE should lead this policy process and TNZ are better placed, from a machinery of government view, to play an advisory role.

Fiscal implications

Tourism NZ is re-prioritising some of their \$110m baseline towards this work including pivoting towards domestic tourism marketing. The quantum and what exactly it's being used for is unclear.

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The paper also notes an aligned CRRF Budget bid that is likely to be considered at Cabinet on Monday. The current contingency proposal that Treasury has recommended through the CRRF is \$100m to drive a partnership approach for the short, medium and long (12 months) term. This will be in addition to the range of significant broad based measures the government has already put in place and which will benefit the tourism industry given its structure.

Recommendation**Do not support**

Instead, as per the recommendations in the CRRF paper, we recommended you propose a later report-back on the partnership approach to the Tourism Sector Recovery Package and tagged contingency drawdown criteria, which will allow time for Treasury and MBIE to work through the issues and risks with Tourism NZ.

The TNZ paper presented at DEV should not be seen as the report-back paper to satisfy the conditions of the CRRF paper; it should not be the vehicle to agree the direction of investment, or governance and principles of a tourism sector response. Instead, there should be a report back built in to decide these things in consultation with MBIE, Treasury and wider agencies.

Silkie Whitworth, Senior Analyst, COVID Policy, ^{s9(2)(k)}
Alastair Cameron, Manager, COVID Policy, ^{s9(2)(a)}

Adam Antao [TSY]

From: Lauren Holloway [TSY]
Sent: Sunday, 10 May 2020 12:04 PM
To: Alastair Cameron [TSY]; ^Parliament: Daniel Cruden
Cc: Jean Le Roux [TSY]; Silkie Whitworth [TSY]; Sam Grayling [TSY]; Alice Ansley [TSY]; @Precab
Subject: DEV briefing for Tourism Recovery paper

[IN-CONFIDENCE]

Kia ora koutou,

As mentioned by Jean, please see below a briefing for the latest version Tourism Recovery Cabinet paper (now MBIE-led) for consideration at DEV on 13 May. This updates the briefing sent from Friday evening.

Tourism Recovery		
Hon Kelvin Davis, Minister for Tourism Treasury contact: Silkie Whitworth s9(2)(a) Sign out contact: Jean Le Roux s9(2)(a)		
Description: This paper outlines a high-level direction for the recovery of the Tourism sector in the context of COVID-19 and proposes the creation of a public-private taskforce and a Tourism Recovery Ministers Group, which includes the Minister of Finance.		
Comments	Fiscal Implications	Treasury Recommendation
<p>The Treasury supports the general direction of this paper and agrees that a strategic approach for Tourism is needed due to the impacts of COVID-19.</p> <p>The paper sets out a high-level direction for the recovery of the Tourism sector.</p> <p>It proposes three programmes to underpin the Tourism Sector Recovery Fund tagged contingency being agreed through the COVID Response and Recovery Fund: a Tourism Transitions Programme, a Strategic Tourism Assets Protection Programme (see recommendations 6 and 7 respectively), and the creation of a Taskforce (recommendation 13). The Treasury broadly supports these initiatives, but notes that the work programmes still need to be scoped and that this critical detail will be provided through the report back on 1 June 2020. We intend to brief you further on the Treasury's position on these and appropriate governance ahead of this date.</p> <p>The report back will also provide further detail on project management and governance to support effective spending</p>	<p>There are no direct fiscal impacts resulting for this paper.</p> <p>The paper supports a high-level direction for the Tourism contingency (\$400 million, of which \$50 million is intended to be spent in FY19/20) to be considered by Cabinet on 11 May 2020.</p> <p>The report back on 1 June 2020 will provide decisions on spending.</p>	<p>Support.</p> <p>Confirm the Treasury's understanding of the paper with your Cabinet colleagues:</p> <ol style="list-style-type: none"> 1. The paper indicates the high-level direction for the Government's approach to supporting the recovery of the Tourism sector. 2. The contingency to be considered by Cabinet on 11 May 2020 supports this direction. 3. The detail on the approach, including the Tourism Transitions Programme, Strategic Tourism Assets Protection Programme, and the governance and mandate of the Taskforce will be provided through a report back to Cabinet on 1 June 2020. <p>Request that recommendations 10 and 11 be amended such that the report back is to Cabinet.</p>

decisions. The Treasury considers that all the key sectors related to Tourism should have a role in the governance framework, and that representation of agencies and Ministers should be relevant to what is at stake. We note that the agencies listed at recommendation 11 only partly align with those in the contingency recommendations, and that the Ministry of Transport and NZTE are not included.

The paper proposes that agencies report back to the Tourism Recovery Ministers Group on 1 June 2020 (see recommendations 10 and 11). Given the significant impact COVID-19 has had on the industry, **the Treasury considers that the report back be to Cabinet instead.** This would align with the contingency recommendations.

We note that this advice has been developed under extremely tight time constraints.

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MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI



TE TAI ŌHANGA
THE TREASURY

Joint Report: Joint Report: Treasury/MBIE: Tourism Sector: COVID-19 Support

Date:	Tuesday 5 May 2020	Report No:	T2020/1288
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report with Minister of Tourism and officials by 7 May 2020	7 May 2020
Hon Kelvin Davis Minister of Tourism	Discuss the contents of this report with Minister of Finance and officials by 7 May 2020	7 May 2020
Hon David Parker Associate Minister of Finance	Note the contents of this report	N/A
Hon Shane Jones Associate Minister for Finance	Note the contents of this report	N/A
Hon James Shaw Associate Minister for Finance	Note the contents of this report	N/A

Contact for telephone discussion (if required)

Name	Position	Telephone	1 st Contact
MBIE HOLD			
Alice Ansley	Analyst Growth and Public Services	s9(2)(k)	
Danni Thian	Senior Analyst Firm Support	+ s9(2)(a)	
Jean Le Roux	Manager Transitions Regions and Economic Development	+ s9(2)(a) (mob)	
Maureena van der Lem	Acting Director Firm Support	s9(2)(a) (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

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Joint Report: Joint Report: Treasury/MBIE: Tourism Sector:
COVID-19 Support

Executive Summary

The tourism industry has been a significant contributor to New Zealand's economy. However, Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.

To date, broad based interventions such as the Wage Subsidy Scheme, and to a lesser extent tax relief and the Business Finance Guarantee, have assisted the tourism sector in the short-term. Additionally, the recently enacted Small Business Cashflow (Loan) Scheme will also provide further short-term liquidity.

Officials consider that further assistance, via a sector-based approach may be warranted for tourism, and a package of support for the sector could be included in the Wave 2 CRRF on 11 May 2020.

We recommend that joint Ministers (Minister of Finance and Minister of Tourism) discuss with officials, by 7 May 2020, Ministerial preferences regarding:

- The need for a tourism sector support package, given other broad based interventions.
- If a tourism sector support package is preferred, then Ministerial preference on:
 - a. The sector definition.
 - b. The time horizon.
 - c. Options for the mechanism to provide sectoral support.
- How future long-term options are considered to make fundamental changes to achieve tourism outcomes as articulated in the New Zealand-Aotearoa Government Tourism Strategy.

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Recommended Action

We recommend that you:

- a **note** that Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.
- b **note** that officials consider that a sector-based approach may be warranted for tourism, initially focused on providing short-term support
- c **note** that any short-term support will enable officials to provide further advice on long-term options to achieve tourism outcomes in line with the Government's 'future of tourism strategy'.
- c **agree** that joint Ministers (Minister of Finance and Minister of Tourism) should discuss with officials, by 7 May 2020, their preferences for a tourism sector support package.

Agree/disagree.

Agree/disagree.

Hon Grant Robertson
Minister of Tourism

Hon Kelvin Davis
Minister of Finance

Hon Kelvin Davis
Minister of Tourism

Hon Grant Robertson
Minister of Finance

IN-CONFIDENCE

Joint Report: Joint Report: Treasury/MBIE: Tourism Sector: COVID-19 Support

Purpose of Report

1. On Wednesday 29 April 2020 the Minister of Finance requested joint advice from The Treasury and Ministry of Business Innovation and Employment (MBIE) on what a package of support for the tourism sector could look like, to be included in the Wave 2 CRRF on 11 May 2020.
2. This report responds to the Minister of Finance's request by providing options for Wave 2 CRRF as well as longer term considerations for Wave 3 (and beyond). We request that joint Ministers discuss the contents of this report with officials by 7 May 2020.
3. In order to provide Ministers with the requested advice in time for CRRF processes this briefing has been produced under significant time pressure. Specific limitations are noted in the body of the report.
4. We note that this report has been also been written in collaboration with Tourism New Zealand (TNZ) and the Department of Conservation has also been consulted on the proposed options.

Structure of this report

5. This report is separated into four sections:
 - Section 1: Provides brief outline of the tourism sector and COVID-19 Impacts (joint TSY-MBIE section).
 - Section 2: Provides an overview of the Government's current economic response framework, and how a sector approach could align with this framework (TSY section).
 - Section 3: Outlines three short-term options to provide immediate support to the sector (joint TSY-MBIE section).
 - Section 4: Outlines considerations for how to support the sector over the medium to longer term (MBIE section).

Section 1: Tourism Sector and COVID-19 Impacts (Joint section)

The tourism industry has been a critical part of our economy

6. The tourism industry has been a significant contributor to New Zealand's economy. In the year to March 2019 tourism:
 - Added \$27.3 billion to the economy: \$16.2 billion directly and \$11.2 billion in indirectly.
 - Contributed 9.8% of GDP.

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- Directly employed 229,566 people.¹
7. Tourism's contribution to GDP and employment varies significantly by region, with regions on the South Island much more dependant than those in the North Island. The West Coast and Otago are the two regions with the highest dependence on tourism spend as a proportion of GDP². Tourism has previously been identified as a sector many regions are looking to develop to support the creation of new jobs.



Source: MBIE, Tourism dashboard. Blue indicates North Island regions, red South Island.

Graph 1: International tourism as a % of regional GDP, March Year 2017

8. Tourism is also of significant importance to the Māori economy. NZ Māori Tourism data shows Māori represent at least 3,423 self-employed and 67,038 employees are involved in the tourism sector, reflecting a large proportion of the working age population of Māori (aged between 15 and 64, has a working population of 455,300). In addition, iwi balance sheets may be disproportionately affected by any changes in the sector, as these are geared towards tourism and commercial property.

Tourism is complex and is comprised of many sub-sectors, with both direct and indirect benefits

9. The tourism sector is complex and dispersed comprising different industries operating together to provide an experience for visitors.
10. Accommodation services, air passenger transport and holiday homes, are almost exclusively tourism supply. However, even in areas less commonly associated with tourism, visitor demand accounts for a significant proportion of total supply; including almost 50 percent of food and beverage services, 20 percent of retail sales in fuel and other automotive products and 14 percent of other retail sales. (Further detail in *Appendix 1: Additional detail on economic impacts of tourism*).
11. Unlike other sectors, tourism is defined by the consumer rather than the producer; tourism effectively adds to the total demand for goods and services by residents. This includes international demand, but also domestic demand³. As such, tourism has significant distributional benefits at the regional level (as demonstrated in Graph 1), and leads to a level of amenities and services provided that the resident population alone could not sustain.

¹ We note a significant proportion of which are migrant or visa workers and as the industry resizes, many of these workers may return home if unable to find alternate work (as they are ineligible for New Zealand welfare assistance).

² Source: MBIE.

³ Demand from New Zealanders outside their home district.

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12. Because the tourism sector does not represent an industry sector in a statistically definable way (i.e. there is no standard industry code), there is no common definition or agreed understanding of which firms comprise the sector. This makes the sector difficult to accurately describe, quantify, and tailor sector-specific policy.

COVID-19 has had a significant, immediate, effect on the tourism industry, and this effect will have lasting effects over the next 3 to 5 years

13. Covid-19 has essentially eliminated visitor movement and tourism spend. In the short-term it is one of the most highly impacted sectors; international tourism has completely stopped due to the closure of borders, and domestic tourism under COVID-19 Alert Levels 3 and 4 has also been brought to a standstill given the prohibition on movement between regions, mandatory business closures, and self-isolation requirements. Businesses are facing a high degree of uncertainty over when visitors and spending will return.
14. It is uncertain how much domestic tourism will occur under Alert Levels 1 and 2, as this will depend on final regulatory decisions (that is, what is permitted under each Alert Level), and people's willingness to travel. However, it is expected that there will not be any international tourism until the borders reopen and domestic tourism is expected to remain to an absolute minimal level under Level 2. Like domestic demand, even once the borders reopen, there is high uncertainty around people's willingness to travel making it hard to forecast when this sector might move into a full recovery phase.
15. Given tourism's role in New Zealand's overall economy, businesses of all types across the country are, and will continue to face, reduced demand. However, there are also strong regional and sector-specific components. Tourism-driven demand will depend on the relative size of the resident population, compared to the visitor population, as well as the cost structures of different firms. For example, hotels, and attractions with high fixed costs and a low probability of visitors, are very exposed. The sector supports over 20,000 small businesses.⁴
16. However, it is likely that, over the medium to long-term (3 to 5 years), tourism will recover as a sector. A large share of the sector could sustainably re-open once domestic travel restrictions are eliminated. The prospect of a trans-Tasman "bubble" provides further reason to suggest restored demand in the sector in the medium-term. Last year, nearly 1.5 million Australians visited New Zealand, representing more visitors than China, the U.S. and the U.K. combined.⁵ However, the average spend of domestic tourists is significantly less than international tourists.⁶ It is also likely that discretionary spending on travel will be lower post COVID-19 for international and domestic tourists. Therefore, the sector will need to adjust to a 'new normal' post COVID-19.

Section 2: Government's Economic Response Framework (Treasury section)

17. To date, broad based interventions such as the Wage Subsidy Scheme (WSS) and Business Finance Guarantee (BFG) have focused on maintaining business continuity and worker attachment. The recently enacted Small Business Cashflow (Loan) Scheme (SBCL), described in more detail below, is also likely to help many in the tourism sector.
18. Tourism businesses are benefiting from the WSS, data from Tourism New Zealand's most recent survey, cited that 87% have utilised the scheme. Uptake of other

⁴ Source: Tourism NZ.

⁵ Source: Stats NZ: <https://www.stats.govt.nz/information-releases/tourism-satellite-account-2019>

⁶ Source: Tourism NZ.

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measures, tax relief provisions (18% surveyed) and BFG⁷ (11%) are also low. However, as Alert Levels move downward and these interventions are modified or phased out, it is likely that demand for tourism will continue to be limited.

19. Treasury has advised that sector support should focus on adapting the existing objectives of businesses continuity and worker attachment, exploiting the potential of the Government's broad based interventions (TR2020/1271 refers).
20. There is risk, however, in establishing multiple, sector-specific interventions in addition to broad-based ones. The variety of lending instruments could create confusion and ultimately lead to business owners not taking up the best support option offered to them. This could also raise questions of equity for sector that do not benefit from such sector-specific interventions.
21. For this reason, Treasury has advised that any sector-specific Wave 2 interventions should be as targeted as possible toward those:
 - *Facing unique challenges* – to ensure a level playing field, initiatives should demonstrate that sector-specific support is needed to tackle a significant challenge brought on by COVID-19 that is unique to the sector.
 - *With significant flow-on effects* – there is a stronger case for support for a sector whose effects cascade outside that sector.
22. The Treasury considers that the tourism sector is facing unique challenges that could have significant flow on effects to the economy.
23. These effects will be very different depending on the region, as some regions are accustomed to a high proportion of demand coming from visitors rather than the resident population. (Although without this general demand, all firms in a region, regardless of sector, will face either the immediate or downstream effects of reduced tourism.)
24. Furthermore, regions with little ability to diversify their economies will feel the effects more acutely. Tourism New Zealand considers that the Bay of Islands, Waitomo, Rotorua, Queenstown and Kaikoura are examples of tourism-led regional economies with limited alternative labour markets or industries. Within specific regions, firms and attractions more directly reliant on visitors, particularly international visitors, will feel the strain more acutely in the short-term.
25. : existing broad based interventions,labourThe Treasury, therefore on balance, considers that a sector-based approach may be warranted for tourism. However, any decisions regarding a sector-based approach need to take account of the already existing (and future planned) broad based interventions.

Section 3: Options for the Tourism Sector (Joint section)

Consideration 1: The definition of the tourism sector

1A: How broad, in terms of industries, should the tourism sector be?

26. The tourism sector is not a single industry, therefore, there is a key decision to be made in determining how broadly it would be defined, for the purposes of providing support.

⁷ The BFG and the COVID-19 Loan Guarantee (CLG) (designed to operate outside the BFG for mid-sized businesses) rely on entities being able to take-on, and subsequently service, additional debt in the short-to-medium-term. The uncertainty faced by the sector, and its viability, means tourism businesses are often less 'bankable' for additional debt. An exception to this however is those businesses with access to land to leverage.

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27. The broader the definition, the larger the number of businesses that would be eligible for support and, therefore, the larger the fiscal cost to the Crown. For example:
- A narrowly defined sector could include accommodation services and attractions.
 - Whereas, a more broadly defined sector could also include retail and hospitality.
28. Within the above categories an additional layer of conditionality could be applied, requiring firms to demonstrate that they were strategically important for:
- the sector offerings and, therefore, recovery, and/or
29. a specific region's economic development - its existence creates significant positive externalities for other regional activities.
30. Appendix 2: Indicative policy framework to define support for the sector contains an indicative list of factors that could be used to assess whether businesses met the above criteria, should Ministers wish to progress with this level of targeting.
31. Ensuring essential transport links are maintained to support domestic tourism during the response and recovery is an important component of the approach. The Ministry of Transport has developed a framework for assessing where additional financial support (already appropriated through the aviation package agreed in March, prior to the establishment of the CRRF) might be appropriate beyond the Government's general economic support measures. The focus is on maintaining "essential transport connectivity", rather than supporting individual businesses to survive, and does not cover the general aviation sector (such as scenic helicopter services). The framework, applying across aviation and other forms of transport where applicable, is designed to support robust, efficient and consistent decision-making on a case-by-case basis. Based on the short amount of time to develop this advice, officials recommend a narrowly defined sector to minimise fiscal costs and allow for support to be targeted to a more specific set of businesses and their issues.

Please note: this box is a placeholder for text to be finalised and is not a redaction.

Consideration 2: the time horizon of any proposed package of support

32. Businesses within the tourism sector face both immediate and longer-term challenges. Therefore, it is also important to determine the time-horizon over which they want Crown support to be available. Different horizons for support should have different focus points:
- **Immediate/short-term:** next 6 months: focus on short-term liquidity support.
 - **Medium-term:** 6 to 12 months and beyond: focus on Wave 3 of the CRRF funding ^{s9(2)(f)(iv)} [REDACTED] There are opportunities for greater sector (and cross-sector involvement), active labour market policies and those focused on international connections and the border.
 - **Long-term:** 3 to 5 years: focus on achieving the Government's "reimagined tourism sector" – one that is more regionally inclusive, stronger environmentally, more economically productive and totally sustainable. in the tourism industry.

requires about

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Consideration 3: options for Wave 2 11 May 2020 CRRF process

33. For the purposes of this paper we have focused on 'buying time' through identifying two extensions to current broad based options and one new option. These options are focused on providing immediate/short-term relief to the sector (require further work before implementation).

- *Option 1:* Extension the duration of the wage subsidy scheme (WSS) – providing businesses in the sector with support for longer than the current 6 June 2020 expiration.

- s9(2)(f)(iv)

- *Option 3:* A grant scheme for the sector.

34. Each of these options is described in more detail below, with analysis contained in *Appendix 3*.

s9(2)(f)(iv)

Option 3: Cash grant

40. A cash grant to business operating in the tourism sector. Unlike the other two options that extend existing schemes, this would require establishing a new scheme from scratch. As such, there are new operational and implementation risks to manage.

41. However, MBIE Tourism has signalled it could take on responsibility of grant deployment, utilising the in-house expertise it has available, including a regional

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network with industry links. MBIE has indicated that this type of deployment would require additional operating funding required.

42. Additionally, there is a possibility to out-source a grant scheme to a third party, but in the time available, this option has not been analysed.
43. To make the scheme easy to administer, the grant could be a fixed sum, based on revenue lost or fixed costs. This ties to the eligibility criteria for the tourism sector, and supporting it through 'hibernation'.
44. a grant scheme could provide support without . However this option raises the largest equity risks, given there is no requirement for firms to repay. Officials have not specifically considered the option raised by Tourism New Zealand to create a fund to purchase strategic tourism assets on behalf of the Crown. However this could be either

Please note: this box is a placeholder for text to be finalised and is not a redaction.

Section 4: Longer-Term Possible Solutions for the Sector (MBIE section)

45. The options described above prioritise stabilising the sector through short-term liquidity measures to allow the Government and industry time to collaborate and consider longer term interventions based on:
 - Judgements on the take up of broad based measures.
 - Impacts of lowered Alert Levels on domestic consumption.
 - International developments.
46. There is an opportunity to ensure the settings in the tourism sector are aligned towards achieving a step change towards more productive, inclusive and sustainable growth. Tourism New Zealand has been tasked to drive this "reimagining".
47. These future options, which could be tied to a future round of the CRRF, have the opportunity to make more fundamental changes to achieve tourism outcomes as articulated in the New Zealand-Aotearoa Government Tourism Strategy:
 - Tourism sector productivity improves.
 - Aotearoa New Zealand delivers exceptional visitor experiences.
 - Tourism protects, restores and champions New Zealand-Aotearoa's natural environment, culture and historic heritage.
 - New Zealanders' lives are improved by tourism.
 - Tourism supports thriving and sustainable regions – ensure regional dispersal of visitors and enable visitor flows.
48. These interventions could involve greater sector (and cross-sector) involvement, and focus on measures needed to complement sectoral policies, such as employment, active labour market policies and those focussed on international connections and the border.

However, in the long-term, the sector will need to restructure and will continue to face difficulties which should be considered as part of Wave 3

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49. The tourism sector is unlikely to look the same as it did pre-COVID, even in 2 years' time, and given the challenges the sector was facing prior to COVID-19 (fiscal and environmental pressures and major social license challenges), industry and MBIE are in broad agreement that this should not be the aspiration.
50. Industry restructuring and a pivoting to reflect the medium-term resizing of the sector is needed and these changes reflect new opportunities as we move to Wave 3.
51. There are also a number of critical barriers that have and will continue to prevent NZ's tourism system from reforming in any fundamental sense.
52. Tourism NZ and MBIE are currently considering the key reforms that will be critical to ensuring the tourism system is able to change in the way it needs to in the coming years. This includes working with the Department of Conservation (DoC), as it is the largest tourism provider and exclusive agent for its 'products' in the conservation estate⁸ as well as focusing on better real time data and monitoring system for the tourism sector. If Ministers want a package of support for the sector that focuses on restructuring and a pivoting the sector for the longer term, MBIE (supported by Tourism NZ) can provide further analysis on these options.

Next Steps

53. We recommend that joint Ministers (Minister of Finance and Minister of Tourism) discuss with officials, by 7 May 2020, Ministerial preferences regarding:
 - The need for a tourism sector support package, given other broad based interventions.
 - If a tourism sector support package is preferred, then Ministerial preference on:
 - i. The sector definition.
 - ii. The time horizon.
 - iii. Options for the mechanism to provide sectoral support.
 - How future long-term options are considered to make fundamental changes to achieve tourism outcomes as articulated in the New Zealand-Aotearoa Government Tourism Strategy.

⁸ With regard to DoC concessions, it is important to note that for many tourism firms, their concessions to operate on the DoC estate is their only major asset.

IN-CONFIDENCE**Appendix 1: Additional detail on economic impacts of tourism**

The following table shows the large number of different industries that are associated with the tourism.

Product (YE March 19)	Tourism Supply (\$m)	Total Supply (\$m)	Tourism product ratio
Accommodation services	3,303	3,440	0.96
Food and beverage serving services	4,701	11,272	0.42
Air passenger transport	5,620	5,663	0.99
Other passenger transport	4,545	6,694	0.68
Imputed rental on holiday homes	847	847	1.00
Cultural, recreation, and gambling services	1,172	6,017	0.19
Retail sales – alcohol, food, and beverages	2,440	71,356	0.03
Retail sales – fuel and other automotive products	2,218	12,550	0.18
Retail sales – other	7,824	59,328	0.13
Education services	1,128	7,129	0.16
Other tourism products	3,261	53,800	0.06

IN-CONFIDENCE**Appendix 2: Indicative policy framework to define support for the tourism sector (to be confirmed with MBIE)**

The following is an indicative list of factors that could be used to assess whether businesses are eligible for support:

- Are strategically important for the sector offerings and therefore recovery?
- Are strategically important for a specific region's economic development - its existence creates significant positive externalities for other regional activities?
- Are existing support mechanisms able to keep assets functional in within the short, medium and long-term?
- Is it an iconic part of the New Zealand tourism offering?
- Is it critical to a region's tourism offering, without which, that regional economy many not be able to recover?
- Is it an asset without which the tourism offering standard would be unacceptable or compromised?
- Is it of notable environmental, historic or cultural value?
- Are there insurmountable costs/challenges to pausing and resuming operations?

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Appendix 3: Indicative policy framework to define support for the sector

Analysis of options s9(2)(f)(iv)			
	Pro	Con	Additional context from industry
s9(2)(f)(iv)			
Option 3: Grant			
Establish a grant funding pool for the tourism sector	<ul style="list-style-type: none">Provides quick relief to affected businessTimely to set up and administerPossibly scalableBusiness' don't take on debt	<ul style="list-style-type: none">Depending on size of the grant – likely to be more costly than Options 1 and 2 s9(2)(f)(iv) but less than Option 3No cost recovery element for the Crown	

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TE TAI ŌHANGA
THE TREASURY**Treasury Report:** Tourism Sector: COVID-19 Support

Date:	Tuesday 5 May 2020	Report No:	T2020/1288
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report with Minister of Tourism and officials by 7 May 2020	7 May 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
			✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the signed report to the offices of the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw), and Minister of Tourism.

Enclosure: No

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Joint Report: Joint Report: Treasury/MBIE: Tourism Sector:
COVID-19 Support

Executive Summary

The tourism industry has been a significant contributor to New Zealand's economy. However, Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.

To date, broad based interventions such as the Wage Subsidy Scheme, and to a lesser extent tax relief and the Business Finance Guarantee, have assisted the tourism sector in the short-term. Additionally, the recently enacted Small Business Cashflow (Loan) Scheme will also provide further short-term liquidity for Small and Medium Enterprises (SMEs).

Tourism will not recover to 2019 levels for some time, and although the recently confirmed Alert Level 2 domestic travel allowances should provide some relief to the sector, it will still need to adjust. However, there is a risk that any recovery will be slowed by the loss of key firms or assets if the adjustment is too sudden.

MBIE, TNZ and the tourism industry agree that the long-term tourism strategy should aim to limit environmental, social and fiscal pressures.

The key judgment is how best to support the transition now, with risks to both under-investing or over-investing through immediate action.

Because of this, officials consider that sector-based assistance could support the long-term tourism transition. An initial package of support for the sector could be announced in the Wave 2 CRRF on 11 May 2020, but all options discussed in this paper would require immediate further work before being implementation ready.

We recommend that joint Ministers (Minister of Finance and Minister of Tourism) discuss with officials, by 7 May 2020, Ministerial preferences regarding:

- The need for a tourism sector support package, given other broad based interventions.
- If a tourism sector support package is preferred, then Ministerial preference on:
 - a. The sector definition.
 - b. The time horizon.
 - c. Options for the Wave 2 CRRF process.

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Recommended Action

We recommend that you:

- a **note** that Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.
- b **note** that tourism won't recover to 2019 levels for some time and current decisions could shape the future of the sector.
- c **note** that officials consider a sector-based approach may be warranted for tourism, initially focused on providing short-term support.
- d **note** that any short-term support should be designed to enable officials to provide further advice on long-term options to achieve tourism outcomes in line with New Zealand-Aotearoa Government Tourism Strategy.
- e **refer** the report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw), and to the Minister of Tourism.

Referred/not referred.

- c **agree** that joint Ministers (Minister of Finance and Minister of Tourism) should discuss with officials, by 7 May 2020, their preferences for a tourism sector support package.

Agree/disagree.

X
X

Hon Grant Robertson
Minister of Finance

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Joint Report: Joint Report: Treasury/MBIE: Tourism Sector: COVID-19 Support

Purpose of Report

1. On Wednesday 29 April 2020 the Minister of Finance requested joint advice from The Treasury and Ministry of Business Innovation and Employment (MBIE) on what a package of support for the tourism sector could look like, to be included in the Wave 2 CRRF on 11 May 2020.
2. This report responds to the Minister of Finance's request by providing options for Wave 2 CRRF as well as longer term considerations for Wave 3 (and beyond). We request that joint Ministers discuss the contents of this report with officials by 7 May 2020.
3. In order to provide Ministers with the requested advice in time for CRRF processes this briefing has been produced under significant time pressure. Specific limitations are noted in the body of the report.
4. We note that this report has been also been written in collaboration with Tourism New Zealand (TNZ) and the Department of Conservation has also been consulted on the proposed options.

Structure of this report

5. This report is separated into four sections:
 - Section 1: Provides brief outline of the tourism sector and COVID-19 Impacts (joint TSY-MBIE section).
 - Section 2: Provides an overview of the Government's current economic response framework, and how a sector approach could align with this framework (TSY section).
 - Section 3: Outlines three options to provide support to the sector (joint TSY-MBIE section).

Section 1: Tourism Sector and COVID-19 Impacts (Joint section)

The tourism industry has been a critical part of our economy

6. The tourism industry has been a significant contributor to New Zealand's economy. In the year to March 2019 tourism:
 - Added \$27.3 billion to the economy: \$16.2 billion directly and \$11.2 billion in indirectly.
 - Contributed 9.8% of GDP.
 - Directly employed 229,566 people.¹

¹ We note a significant proportion of which are migrant or visa workers and as the industry resizes, many of these workers may return home if unable to find alternate work (as they are ineligible for New Zealand welfare assistance).

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7. Tourism's contribution to GDP and employment varies significantly by region, with regions on the South Island much more dependant than those in the North Island. The West Coast and Otago are the two regions with the highest dependence on tourism spend as a proportion of GDP². Tourism has previously been identified as a sector many regions are looking to develop to support the creation of new jobs.



Source: MBIE, Tourism dashboard. Blue indicates North Island regions, red South Island.

Graph 1: International tourism as a % of regional GDP, March Year 2017

8. Tourism is also of significant importance to the Māori economy. NZ Māori Tourism data shows Māori represent at least 3,423 self-employed and 67,038 employees are involved in the tourism sector, reflecting a large proportion (16%) of the working age population of Māori (aged between 15 and 64, has a working population of 455,300). There is also a significant gender distribution across Māori tourism, with women making up 66% of employees. In addition, iwi balance sheets may be disproportionately affected by any changes in the sector, as these are geared towards tourism and commercial property.

Tourism is complex and is comprised of many sub-sectors, with both direct and indirect benefits

9. The tourism sector is complex and dispersed comprising different industries operating together to provide an experience for visitors.
10. Accommodation services, air passenger transport and holiday homes, are almost exclusively tourism supply. However, even in areas less commonly associated with tourism, visitor demand accounts for a significant proportion of total supply; including almost 50 percent of food and beverage services, 20 percent of retail sales in fuel and other automotive products and 14 percent of other retail sales. (Further detail in *Appendix 1: Additional detail on economic impacts of tourism*).
11. Unlike other sectors, tourism is defined by the consumer rather than the producer; tourism effectively adds to the total demand for goods and services by residents. This includes international demand, but also domestic demand³. As such, tourism has significant distributional benefits at the regional level (as demonstrated in Graph 1), and leads to a level of amenities and services provided that the resident population alone could not sustain.

² Source: MBIE.

³ Demand from New Zealanders outside their home district.

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12. Because the tourism sector does not represent an industry sector in a statistically definable way (i.e. there is no standard industry code), there is no common definition or agreed understanding of which firms comprise the sector. This makes the sector difficult to accurately describe, quantify, and tailor sector-specific policy.

COVID-19 has had a significant, immediate, effect on the tourism industry, and this effect will have lasting effects over the next 3 to 5 years

13. Covid-19 has essentially eliminated visitor movement and tourism spend. In the short-term it is one of the most highly impacted sectors; international tourism has completely stopped due to the closure of borders, and domestic tourism under COVID-19 Alert Levels 3 and 4 has also been brought to a standstill given the prohibition on movement between regions, mandatory business closures, and self-isolation requirements. Businesses are facing a high degree of uncertainty over when visitors and spending will return.
14. The recently confirmed Alert Level 2 domestic travel allowances should provide some relief to the sector, but it is still uncertain how much domestic tourism will occur as this also depends on people's willingness. This uncertainty is even greater for international travel, making forecasting for when the sector will move into a full recovery phase challenging.
15. Given tourism's role in New Zealand's overall economy, businesses of all types across the country are, and will continue to, face reduced demand. However, there are also strong regional and sector-specific components. Tourism-driven demand will depend on the relative size of the resident population, compared to the visitor population, as well as the cost structures of different firms. For example, hotels, and attractions with high fixed costs and a low probability of visitors, are very exposed. The sector supports over 20,000 small businesses.⁴
16. However, it is likely that, over the medium to long-term (3 to 5 years), tourism will recover. The prospect of a trans-Tasman "bubble" provides further reason to suggest restored demand in the sector in the medium-term. Last year, nearly 1.5 million Australians visited New Zealand, representing more visitors than China, the U.S. and the U.K. combined.⁵ However, the average spend of domestic tourists is significantly less than international tourists.⁶ It is also likely that discretionary spending on travel will be lower post COVID-19 for international and domestic tourists. Therefore, the sector will need to adjust to a 'new normal' post COVID-19.
17. This means that the decisions government makes under wave 2 are critical, with risks in two directions – overinvestment keeps labour and capital in firms that may not have a strong future, while underinvestment may mean key firms or assets exit, and their absence slows the recovery.

Section 2: Government's Economic Response Framework (Treasury section)

18. To date, broad based interventions such as the Wage Subsidy Scheme (WSS) Business Finance Guarantee (BFG) and recently enacted Small Business Cashflow (Loan) Scheme (SBCL) have focused on maintaining business continuity and worker attachment.
19. Tourism businesses are benefiting from the WSS, data from Tourism New Zealand's most recent survey cited that 87% have utilised the scheme. However, uptake of other

⁴ Source: Tourism NZ.

⁵ Source: Stats NZ: <https://www.stats.govt.nz/information-releases/tourism-satellite-account-2019>

⁶ Source: Tourism NZ.

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measures, tax relief provisions and the BFG⁷ are low at 18% surveyed and 11% respectively. Tourism New Zealand anticipate many smaller tourism businesses will utilise the SBCL, but ultimately it is too early to tell. It will also not support all tourism businesses, given the scheme is only eligible to businesses with up to 50FTEs. However, as Alert Levels move downward and these interventions are modified or phased out, it is likely that demand for tourism will continue to be limited.

20. Treasury has advised that sector support should focus on adapting the existing objectives of businesses continuity and worker attachment, exploiting the potential of the Government's broad based interventions (TR2020/1271 refers).
21. There is risk, however, in establishing multiple, sector-specific interventions in addition to the broad-based ones. The variety of lending instruments could create confusion and ultimately lead to businesses being unable to determine which instrument of support would best fit their need. Sector-specific interventions also raise questions of equity for other sectors that do not benefit from such specific interventions.
22. For this reason, Treasury has advised that any sector-specific Wave 2 interventions should be as targeted as tightly as possible toward those sectors.
 - *Facing unique challenges* – to ensure a level playing field, initiatives should demonstrate that sector-specific support is needed to tackle a significant challenge brought on by COVID-19 that is unique to the sector.
 - *With significant flow-on effects* – there is a stronger case for support for a sector whose effects cascade outside that sector.
23. The Treasury considers that the tourism sector is facing unique challenges that could have significant flow on effects to other sectors in the economy.
24. Furthermore, because different regions are reliant on tourism to a different degree⁸, and different regions have different abilities to diversify their local economies, the flow on effects will be felt more acutely in certain places⁹. Even within certain regions, firms and attractions more directly reliant on visitors, particularly international visitors, will feel the strain more acutely in the short-term.
25. Key tourism-led regional economies are also still recovering from the impacts of other events which are compounding the effects of COVID-19. These include Christchurch and Kaikoura, who are still recovering from the earthquakes of the last decade, the West Coast who are still recovering from the significant impacts of flooding in 2019, and the Bay of Plenty who are still recovering from the effects of the Whakaari White Island eruption. These regions can be expected to show less resilience to the impacts of COVID-19 compared to other regions around New Zealand, and will likely show disproportionate burden placed on Māori businesses, which have significant footprint in these areas.
26. Given Tourism has been especially negatively affected by COVID19, Treasury considers a sector based approach should be considered. Any decisions on providing sector specific support should be balanced with:

⁷ The BFG and the COVID-19 Loan Guarantee (CLG) (designed to operate outside the BFG for mid-sized businesses) rely on entities being able to take-on, and subsequently service, additional debt in the short-to-medium-term. The uncertainty faced by the sector, and its viability, means tourism businesses are often less 'bankable' for additional debt. An exception to this however is those businesses with access to land to leverage.

⁸ As some regions are accustomed to a high proportion of demand coming from visitors rather than the resident population, although without this general demand, all firms in a region, regardless of sector, will face either the immediate or downstream effects of reduced tourism.

⁹ Tourism New Zealand considers that the Bay of Islands, Waitomo, Rotorua, Queenstown and Kaikoura are examples of tourism-led regional economies with limited alternative labour markets or industries.

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- equity implications of similarly affected businesses outside the sector not receiving support,
- existing broad based interventions, and
- the possibility of delaying productive reallocation of resources, particularly labour given the large number of people employed in the industry.

Section 3: Options for the Tourism Sector (Joint section)

Consideration 1: The definition of the tourism sector***1A: How broad, in terms of industries, should the tourism sector be?***

27. The tourism sector is not a single industry, therefore, if Ministers choose to consider a sector package, the definition of the sector will be important.
28. This is a strategic decision, the broader the definition the larger the number of businesses that would be eligible for support and, therefore, the larger the fiscal cost to the Crown. For example:
 - A narrowly defined sector could include accommodation services and attractions.
 - Whereas, a more broadly defined sector could also include retail and hospitality.

1B: Should the definition of the sector also require firms to demonstrate 'criticality'?

29. Within the above categories, Ministers could apply an additional layer of conditionality, to target support to businesses within those industries that are critical to future of tourism. This would require businesses to demonstrate that they were strategically important for:
 - the tourism sector offerings and, therefore, recovery, and/or
 - a specific region's economic development - its existence creates significant positive externalities for other regional activities
 in order to qualify for support.
30. This level of conditionality would greatly increase the complexity of administering any support under a sector based package. The risk of legal challenge may also increase with greater scope for discretion to be applied by decision-makers in determining whether a business meets the eligibility criteria. However, it does reduce the risk that the Government supports a large number of firms that are potentially not viable given the outlook for tourism over the next five years. It also reduces the risk of incentivising labour market attachment in a sector that will need to resize.
31. Appendix 2: Indicative policy framework to define support for the sector contains an indicative list of factors that could be used to assess whether businesses met the threshold of being "critical to the future of tourism", should Ministers wish to progress with this level of targeting. Further work will need to be done to develop recommendations as to the sort of evidence that could be used to demonstrate eligibility criteria are met, focussing on evidence that is independent and capable of being objectively determined.
32. Ensuring essential transport links are maintained during the response and recovery is an important component of the sector. The Ministry of Transport has developed a framework for assessing where additional financial support (either through the aviation

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package approved in March or via the proposed funding sought from the CRRF) might be appropriate beyond the Government's general economic support measures. The focus is on maintaining "essential transport connectivity", rather than supporting individual businesses to survive, and does not cover transport operators that focus on the tourism and recreational markets. The framework, applying across aviation and other forms of transport where applicable, is designed to support robust, efficient and consistent decision-making on a case-by-case basis.

33. Based on the short amount of time to develop this advice, officials recommend a narrowly defined sector to minimise fiscal costs and allow for support to be targeted to a more specific set of businesses and their issues.

Key decisions need to be made on the definition of the tourism sector including: how broad (in terms of industries) the definition should be, and whether the definition of the sector also require firms to demonstrate 'criticality' for the recovery.

Consideration 2: the time horizon of any proposed package of support

34. Businesses within the tourism sector face both immediate and longer-term challenges. Therefore, it is also important to determine the time-horizon over which Crown support could be made available. Different horizons for support should have different focus points:

- **Immediate/short-term:** next 6 months: focus on short-term liquidity support.
- **Medium-term:** 6 to 12 months and beyond: focus on Wave 3 of the CRRF funding ^{s9(2)(f)(iv)} [REDACTED]. There are opportunities for greater sector (and cross-sector involvement), active labour market policies and those focused on international connections and the border.
- **Long-term:** 3 to 5 years: focus on achieving the Government's "reimagined tourism sector" – one that is more regionally inclusive, stronger environmentally, more economically productive and sustainable. MBIE, TNZ and the industry are in broad agreement, that the situation in the tourism industry pre-Covid with environmental, social and fiscal pressures is not the aspiration for the future of the industry.

35. To support consideration of these horizons, requires judgement about how best to support the industry to adjust towards the longer-term aspiration, knowing that an adjustment in the sector will be required as tourism demand won't recover to pre-COVID levels for the next 3-5 years, and there are risks with under-and over investing as part of Wave 2.

Businesses within the tourism sector face both immediate and longer-term challenges. Ministers need to make a decision on the time-horizon over which Crown support could be made available.

Consideration 3: options for Wave 2 as part of the 11 May 2020 CRRF process

36. You asked for advice on a support package that could be announced as part of the CRRF on 11 May 2020, however, all options would require further work before being implementation ready.
37. Officials have identified three options that Ministers could consider.
38. Options 1 and 2 focus on 'buying time' through providing immediate/short-term relief to the sector. This will allow Ministers to consider the strategic choices associated with

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medium and long-term interventions before committing. Whereas option 3 commits the Government to providing a long-term support package, but preserves flexibility for further analysis on the package's exact scope.

39. The proposed three options all require further work before being implementation ready

- *Option 1:* Extend an existing broad based measure – either the duration of the WSS beyond 6 June 2020, ^{s9(2)(f)(iv)} [REDACTED]
- *Option 2:* A targeted, short-term grant scheme available to small and large businesses operating in the sector.
- *Option 3:* A tagged contingency to establish a Tourism Partnership.

40. Each of these options is described in more detail below.

s9(2)(f)(iv)



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Option 2: Cash grant

48. A cash grant to business operating in the tourism sector. Unlike the other two options that extend existing schemes, this would require establishing a new scheme from scratch. As such, there are new operational and implementation risks to manage.
49. Ministers would need to determine eligibility of firms (i.e. consideration 1A and 1B above), and the size of the grants. These considerations can determine who should administer the grant scheme. MBIE Tourism has signalled it could take on responsibility of grant deployment if eligibility were tightly targeted, utilising the in-house expertise it has available, including a regional network with industry links. MBIE has indicated that this type of deployment would require additional operating funding.
50. If a larger more generic scheme is preferred there is a possibility to out-source a grant scheme to a third party, but in the time available, this option has not been analysed.
51. To make the scheme easy to administer, the grant could be a fixed sum, based on revenue lost or fixed costs which would need to be objectively determined to reduce the risk of legal challenge. A targeted cash grant scheme would provide immediate liquidity support to the sector, without requiring it to take on more debt. However, this option raises the largest equity risks, given there is no requirement for firms to repay.

Option 3: A tagged contingency to establish a Tourism Partnership

52. Recognising that there are some existing broad-based measures that can be used to support short-term liquidity for tourism firms if desired, and that time is needed to assess trends in domestic demand and decide on NZ's international border policy, a tagged contingency option could support the delivery of a medium- to long- term sector response.
53. Ministers could establish a tagged contingency to support a formal 12-month Tourism Partnership, formalising and slightly expanding the business, government and industry group set up by the Minister for Tourism earlier in April 2020. With added worker, iwi and regional representation, this Partnership could draw on the contingency through joint agreement with the Minister of Tourism and Minister of Finance, and would be tasked with convening relevant sector and regional entities, in partnership with the Government, to examine the options for the sector at this crucial period.
54. The Partnership would co-design the interventions needed for the sector in the medium and longer term, in line with the Government's transition approach. It could draw on the contingency for projects quickly, but could also report back with recommendations for consideration in future CRRF funding rounds. As part of the suite of interventions available, we would expect the Partnership to consider include redeployment and other ALMPs.
55. The governance of the Partnership would be important to get right, to avoid conflicts of interest and dominance by incumbents. The Partnership could also be given a clear remit to consider options which support overall Government objectives, such as those previously set out in the Economic Plan (and under consideration in the context of Wave 3).
56. The quantum of the tagged contingency could be determined in the context of other requests for funding in the CRRF, and depend on whether Ministers wished for the Tourism Partnership to be considered for future CRRF funding rounds (or whether this was the total quantum of support targeted towards the sector).

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57. At this stage officials have not specifically considered the option raised by Tourism New Zealand to create a fund to purchase strategic tourism assets on behalf of the Crown. However, this could be as part of Option 3.

Hold – for central team.

Next Steps

58. We recommend that joint Ministers (Minister of Finance and Minister of Tourism) discuss with officials, by 7 May 2020, Ministerial preferences regarding:
- The need for a tourism sector support package, given other broad based interventions.
 - If a tourism sector support package is preferred, then Ministerial preference on:
 - i. The sector definition.
 - ii. The time horizon.
 - iii. Options for the Wave 2 CRRF process.

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Appendix 1: Additional detail on economic impacts of tourism

The following table shows the large number of different industries that are associated with the tourism.

Product (YE March 19)	Tourism Supply (\$m)	Total Supply (\$m)	Tourism product ratio
Accommodation services	3,303	3,440	0.96
Food and beverage serving services	4,701	11,272	0.42
Air passenger transport	5,620	5,663	0.99
Other passenger transport	4,545	6,694	0.68
Imputed rental on holiday homes	847	847	1.00
Cultural, recreation, and gambling services	1,172	6,017	0.19
Retail sales – alcohol, food, and beverages	2,440	71,356	0.03
Retail sales – fuel and other automotive products	2,218	12,550	0.18
Retail sales – other	7,824	59,328	0.13
Education services	1,128	7,129	0.16
Other tourism products	3,261	53,800	0.06

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IN-CONFIDENCE**Appendix 2: Indicative policy framework to define support for the tourism sector (to be confirmed with MBIE)**

The below is an indicative list of factors that could be used to assess whether businesses are eligible for support. Further work, including consultation with iwi, would be needed to develop this criteria, including what the necessary evidence base might be to inform it. It is important that any amendments to current support mechanisms are clear and objectively determined to reduce the risk of challenge.

- Are existing support mechanisms able to keep assets functional in within the short, medium and long-term?
- Is it an iconic part of the New Zealand tourism offering?
- Is it critical to a region's tourism offering, without which, that regional economy many not be able to recover?
- Is it an asset without which the tourism offering standard would be unacceptable or compromised?
- Is it of notable environmental, historic or cultural value?
- Are there insurmountable costs/challenges to pausing and resuming operations?

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TE TAI ŌHANGA
THE TREASURY**Treasury Report: Tourism Sector: COVID-19 Support**

Date:	Tuesday 5 May 2020	Report No:	T2020/1288
		File Number:	SH-1-6-1-3-2-2-1

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Indicate your views on the recommendations in this report by 6 May 2020	6 May 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Danni Thian	Senior Analyst, Firm Support Directorate	s9(2)(k) (wk)	
Silkie Whitworth	Senior Analyst, COVID Policy	s9(2)(k) (wk)	
Maureena van der Lem	Director, Firm Support Directorate	s9(2)(k) (wk)	
Alastair Cameron	Manager, COVID Policy	s9(2)(a) (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

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Treasury Report: Tourism Sector: COVID-19 Support

Executive Summary

The tourism industry has been a significant contributor to New Zealand's economy. However, Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.

To date, broad based interventions such as the Wage Subsidy Scheme, and to a lesser extent tax relief and the Business Finance Guarantee, have assisted the tourism sector in the short-term. Additionally, the recently enacted Small Business Cashflow (Loan) Scheme will also provide further short-term liquidity for Small and Medium Enterprises (SMEs).

You are receiving this advice whilst simultaneously considering advice a number of important policy decisions that will affect the need for and scope of different interventions targeted at the tourism sector, including on whether to extend and/or target the Wage Subsidy Scheme. Given we estimate 87% of tourism businesses are using the scheme, this decision would have considerable impacts on the short-term viability of the sector. In addition, if in the coming weeks it becomes clear that tourism firms are applying for the Small Business Cashflow (Loan) Scheme, this will impact on whether a more bespoke package is required, and how it is built. Operationalising a Trans-Tasman bubble could also lessen the disruption to the sector, but any decision on this border policy is not on the near horizon.

There is an opportunity to support the short-term liquidity of the sector now, and buy time to gauge the domestic demand for tourism and for businesses to adjust, before paving the way for a more sustainable and prosperous long-term future of the sector.

If you wish to signal support for the tourism sector in the 11 May CRRF funding round, we therefore recommend providing a tagged contingency. This preserves flexibility for further analysis on the package's exact scope (which might include further measures to support short-term liquidity), to take into account the decisions above and their impacts, as well as your long-term economic objectives.

MBIE, Tourism NZ and the tourism industry agree that the long-term tourism strategy should aim to limit environmental, social and fiscal pressures. There is an opportunity to structure the governance and criteria for this tagged contingency to meet these aims through a partnership approach, involving just transition and tripartite principles (see pages 9-10).

If a tagged contingency is your preference, we recommend you discuss with the Minister for Tourism – noting that this proposal has been briefly discussed with MBIE, and might build on existing work the Minister is leading.

You also asked for specific options on what an 11 May CRRF package could include. As noted above, current broad-based measures are preferable, but the following may be implementable on a longer time scale:

Option 1: Extend existing broad-based measures – through the duration or greater targeting of the WSS beyond 6 June 2020; ^{s9(2)(f)(iv)}

Option 2: A targeted, short-term grant scheme available to small and large businesses operating in the sector.

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Recommended Action

We recommend that you:

- a **note** that Covid-19 has essentially eliminated visitor movement and tourism spend, as a result tourism is one of the most negatively impacted sectors in the economy.
- b **note** that tourism will not recover to 2019 levels for some time and current decisions relating to the Wage Subsidy Scheme, rollout of the Small Business Cash Flow (Loan) Scheme, and in relation to the international border will shape the future of the sector.
- c **agree** that a sector-based approach may be warranted for tourism, initially focused on providing short-term liquidity support through extensions of broad-based measures, and through a funding mechanism to support interventions that can be deployed when domestic demand trends are better understood.

Agree/disagree.

- d **note** that options (1) and (2) presented in this report are not implementable by the 11 May CRRF deadline.
- e **note** that setting a tagged contingency for tourism in the upcoming CRRF round would however allow the Government the flexibility to fund initiatives that are appropriate for the sector as trends in domestic demand for tourism become clear.
- f **agree** to discuss this proposal with the Minister for Tourism.

Agree/disagree.

- g **agree** to direct officials to provide further advice on the governance and spending criteria for a tagged contingency.

Agree/disagree.

Alastair Cameron
Manager, COVID Policy

Hon Grant Robertson
Minister of Finance

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Treasury Report: Tourism Sector: COVID-19 Support

Purpose of Report

1. On Wednesday 29 April 2020 the Minister of Finance requested advice from The Treasury on what a package of support for the tourism sector could look like, to be included in the Wave 2 CRRF on 11 May 2020.
2. This report responds to the Minister of Finance's request by providing options for Wave 2 CRRF as well as longer term considerations for Wave 3 (and beyond). We request that joint Ministers discuss the contents of this report with officials by 6 May 2020.
3. In order to provide Ministers with the requested advice in time for CRRF processes this briefing has been produced under significant time pressure. Specific limitations are noted in the body of the report.
4. We note that this report has been also been written in collaboration with MBIE officials, who are content that we convey that they have indicated support for the recommendations.

Structure of this report

5. This report is separated into three sections:
 - Section 1: Provides brief outline of the tourism sector and COVID-19 Impacts.
 - Section 2: Provides an overview of the Government's current economic response framework, and how a sector approach could align with this framework.
 - Section 3: Outlines three options to provide support to the sector.

Section 1: Tourism Sector and COVID-19 Impacts

The tourism industry has been a critical part of our economy

6. The tourism industry has been a significant contributor to New Zealand's economy. In the year to March 2019 tourism:
 - Added \$27.3 billion to the economy: \$16.2 billion directly and \$11.2 billion in indirectly.
 - Contributed 9.8% of GDP.
 - Directly employed 229,566 people.¹

¹ We note a significant proportion of which are migrant or visa workers and as the industry resizes, many of these workers may return home if unable to find alternate work (as they are ineligible for New Zealand welfare assistance).

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7. Tourism is spread across New Zealand, however its contribution to GDP and employment varies significantly by region, with regions on the South Island much more dependant than those in the North Island. The West Coast and Otago are the two regions with the highest dependence on tourism spend as a proportion of GDP². Tourism has previously been identified as a sector many regions are looking to develop to support the creation of new jobs.



Source: MBIE, Tourism dashboard. Blue indicates North Island regions, red South Island.

Graph 1: International tourism as a % of regional GDP, March Year 2017

8. Tourism is also of significant importance to the Māori economy. NZ Māori Tourism data shows Māori represent at least 3,423 self-employed and 67,038 employees are involved in the tourism sector, reflecting a large proportion (16%) of the working age population of Māori (aged between 15 and 64, has a working population of 455,300). There is also a significant gender distribution across Māori tourism, with women making up 66% of employees. In addition, iwi balance sheets may be disproportionately affected by any changes in the sector, as these are geared towards tourism and commercial property.

Tourism is complex and is comprised of many sub-sectors, with both direct and indirect benefits

9. The tourism sector is complex and dispersed comprising different industries operating together to provide an experience for visitors.
10. Accommodation services, air passenger transport and holiday homes, are almost exclusively tourism supply. However, even in areas less commonly associated with tourism, visitor demand accounts for a significant proportion of total supply; including almost 50 percent of food and beverage services, 20 percent of retail sales in fuel and other automotive products and 14 percent of other retail sales. (Further detail in *Appendix 1: Additional detail on economic impacts of tourism*).
11. Unlike other sectors, tourism is defined by the consumer rather than the producer; tourism effectively adds to the total demand for goods and services by residents. This includes international demand, but also domestic demand³. As such, tourism has significant distributional benefits at the regional level (as demonstrated in Graph 1), and leads to a level of amenities and services provided that the resident population alone could not sustain.

² Source: MBIE.

³ Demand from New Zealanders outside their home district.

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12. Because the tourism sector does not represent an industry sector in a statistically definable way (i.e. there is no standard industry code), there is no common definition or agreed understanding of which firms comprise the sector. This makes the sector difficult to accurately describe, quantify, and tailor sector-specific policy.

COVID-19 has had a significant, immediate, effect on the tourism industry, and this effect will have lasting effects over the next 3 to 5 years

13. Covid-19 has essentially eliminated visitor movement and tourism spend. In the short-term it is one of the most highly impacted sectors; international tourism has completely stopped due to the closure of borders, and domestic tourism under COVID-19 Alert Levels 3 and 4 has also been brought to a standstill given the prohibition on movement between regions, mandatory business closures, and self-isolation requirements. Businesses are facing a high degree of uncertainty over when visitors and spending will return.
14. The recently confirmed Alert Level 2 domestic travel allowances should provide some relief to the sector, but it is still uncertain how much domestic tourism will occur as this also depends on people's willingness. This uncertainty is even greater for international travel, making forecasting for when the sector will move into a full recovery phase challenging.
15. Given tourism's role in New Zealand's overall economy, businesses of all types across the country are, and will continue to, face reduced demand. However, there are also strong regional and sector-specific components. Tourism-driven demand will depend on the relative size of the resident population, compared to the visitor population, as well as the cost structures of different firms. For example, hotels, and attractions with high fixed costs and a low probability of visitors, are very exposed. The sector supports over 20,000 small businesses.⁴
16. However, it is likely that, over the medium to long-term (3 to 5 years), tourism will recover. The prospect of a trans-Tasman "bubble" provides further reason to suggest restored demand in the sector in the medium-term. Last year, nearly 1.5 million Australians visited New Zealand, representing more visitors than China, the U.S. and the U.K. combined.⁵ However, the average spend of domestic tourists is significantly less than international tourists.⁶ It is also likely that discretionary spending on travel will be lower post COVID-19 for international and domestic tourists. Therefore, the sector will need to adjust to a 'new normal' post COVID-19.
17. This means that the decisions government makes under wave 2 are critical, with risks in two directions – overinvestment keeps labour and capital in firms that may not have a strong future, while underinvestment may mean key firms or assets exit, and their absence slows the recovery.

Section 2: Government's Economic Response Framework

18. To date, broad based interventions such as the Wage Subsidy Scheme (WSS) Business Finance Guarantee (BFG) and recently enacted Small Business Cashflow (Loan) Scheme (SBCL) have focused on maintaining business continuity and worker attachment.
19. Tourism businesses are benefiting from the WSS, data from Tourism New Zealand's most recent survey cited that 87% have utilised the scheme. However, uptake of other

⁴ Source: Tourism NZ.

⁵ Source: Stats NZ: <https://www.stats.govt.nz/information-releases/tourism-satellite-account-2019>

⁶ Source: Tourism NZ.

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measures, tax relief provisions and the BFG⁷ are low at 18% surveyed and 11% respectively. Tourism New Zealand anticipate many smaller tourism businesses will utilise the SBCL, but ultimately it is too early to tell. It will also not support all tourism businesses, given the scheme is only eligible to businesses with up to 50FTEs. However, as Alert Levels move downward and these interventions are modified or phased out, it is likely that demand for tourism will continue to be limited.

20. Treasury has advised that sector support should focus on adapting the existing objectives of businesses continuity and worker attachment, exploiting the potential of the Government's broad based interventions (TR2020/1271 refers).
21. There is risk, however, in establishing multiple, sector-specific interventions in addition to the broad-based ones. The variety of lending instruments could create confusion and ultimately lead to businesses being unable to determine which instrument of support would best fit their need. Sector-specific interventions also raise questions of equity for other sectors that do not benefit from such specific interventions.
22. For this reason, Treasury has advised that any sector-specific Wave 2 interventions should be as targeted as tightly as possible toward those sectors.
 - *Facing unique challenges* – to ensure a level playing field, initiatives should demonstrate that sector-specific support is needed to tackle a significant challenge brought on by COVID-19 that is unique to the sector.
 - *With significant flow-on effects* – there is a stronger case for support for a sector whose effects cascade outside that sector.
23. The Treasury considers that the tourism sector is facing unique challenges that could have significant flow on effects to other sectors in the economy.
24. Furthermore, because different regions are reliant on tourism to a different degree⁸, and different regions have different abilities to diversify their local economies, the flow on effects will be felt more acutely in certain places⁹. Even within certain regions, firms and attractions more directly reliant on visitors, particularly international visitors, will feel the strain more acutely in the short-term.
25. Key tourism-led regional economies are also still recovering from the impacts of other events which are compounding the effects of COVID-19. These include Christchurch and Kaikoura, who are still recovering from the earthquakes of the last decade, the West Coast who are still recovering from the significant impacts of flooding in 2019, and the Bay of Plenty who are still recovering from the effects of the Whakaari White Island eruption. These regions can be expected to show less resilience to the impacts of COVID-19 compared to other regions around New Zealand, and will likely show disproportionate burden placed on Māori businesses, which have significant footprint in these areas.
26. Given tourism has been especially negatively affected by COVID19, Treasury considers a sector based approach should be considered. Any decisions on providing sector specific support should be balanced with:

⁷ The BFG and the COVID-19 Loan Guarantee (CLG) (designed to operate outside the BFG for mid-sized businesses) rely on entities being able to take-on, and subsequently service, additional debt in the short-to-medium-term. The uncertainty faced by the sector, and its viability, means tourism businesses are often less 'bankable' for additional debt. An exception to this however is those businesses with access to land to leverage.

⁸ As some regions are accustomed to a high proportion of demand coming from visitors rather than the resident population, although without this general demand, all firms in a region, regardless of sector, will face either the immediate or downstream effects of reduced tourism.

⁹ Tourism New Zealand considers that the Bay of Islands, Waitomo, Rotorua, Queenstown and Kaikoura are examples of tourism-led regional economies with limited alternative labour markets or industries.

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- equity implications of similarly affected businesses outside the sector not receiving support,
- existing broad based interventions, and
- the possibility of delaying productive reallocation of resources, particularly labour given the large number of people employed in the industry.

Section 3: Options for the Tourism Sector

Consideration 1: The definition of the tourism sector***1A: How broad, in terms of industries, should the tourism sector be?***

27. The tourism sector is not a single industry, therefore, if Ministers choose to consider a sector package in the future, the definition of the sector will be important.
28. This is a strategic decision, the broader the definition the larger the number of businesses that would be eligible for support and, therefore, the larger the fiscal cost to the Crown. For example:
 - A narrowly defined sector could include accommodation services and attractions.
 - Whereas, a more broadly defined sector could also include retail and hospitality.

1B: Should the definition of the sector also require firms to demonstrate 'criticality'?

29. Within the above categories, Ministers could in future apply an additional layer of conditionality, to target support to businesses within those industries that are critical to future of tourism. This would require businesses to demonstrate that they were strategically important for:
 - the tourism sector offerings and, therefore, recovery, and/or
 - a specific region's economic development - its existence creates significant positive externalities for other regional activities
30. This level of conditionality would greatly increase the complexity of administering any support under a sector based package. The risk of legal challenge may also increase with greater scope for discretion to be applied by decision-makers in determining whether a business meets the eligibility criteria. However, it does reduce the risk that the Government supports a large number of firms that are potentially not viable given the outlook for tourism over the next five years. It also reduces the risk of incentivising labour market attachment in a sector that will need to resize.
31. Appendix 2: MBIE's indicative policy framework to define support for the sector contains an indicative list of factors that could be used to assess whether businesses met the threshold of being "critical to the future of tourism", should Ministers wish to progress with this level of targeting. Further work will need to be done to develop recommendations as to the sort of evidence that could be used to demonstrate eligibility criteria are met, focussing on evidence that is independent and capable of being objectively determined.
32. Ensuring essential transport links are maintained during the response and recovery is an important component of the sector. The Ministry of Transport has developed a framework for assessing where additional financial support (either through the aviation package approved in March or via the proposed funding sought from the CRRF) might be appropriate beyond the Government's general economic support measures. The focus is on maintaining "essential transport connectivity", rather than supporting

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individual businesses to survive, and does not cover transport operators that focus on the tourism and recreational markets. The framework, applying across aviation and other forms of transport where applicable, is designed to support robust, efficient and consistent decision-making on a case-by-case basis.

Future decisions need to be made on the definition of the tourism sector including: how broad (in terms of industries) the definition should be, and whether the definition of the sector also require firms to demonstrate 'criticality' for the recovery.

Consideration 2: the time horizon of any proposed package of support

33. Businesses within the tourism sector face both immediate and longer-term challenges. Therefore, it is also important to determine the time-horizon over which Crown support could be made available. Different horizons for support should have different focus points:

- **Immediate/short-term:** next 6 months: focus on short-term liquidity support.
- **Medium-term:** 6 to 12 months and beyond: focus on Wave 3 of the CRRF funding ^{s9(2)(f)(iv)} [REDACTED] There are opportunities for greater sector (and cross-sector involvement), active labour market policies and those focused on international connections and the border.
- **Long-term:** 3 to 5 years: focus on achieving the Government's "reimagined tourism sector" – one that is more regionally inclusive, stronger environmentally, more economically productive and sustainable. MBIE, TNZ and the industry are in broad agreement, that the situation in the tourism industry pre-Covid with environmental, social and fiscal pressures is not the aspiration for the future of the industry.

34. The nearer term horizons each require judgement about how best to support the industry to adjust towards the longer-term aspiration, knowing that an adjustment in the sector will be required as tourism demand won't recover to pre-COVID levels for the next 3-5 years, and there are risks with under- and over investing as part of Wave 2.

Businesses within the tourism sector face both immediate and longer-term challenges. Ministers should consider the time-horizon over which Crown support could be made available.

Consideration 3: options for Wave 2 as part of the 11 May 2020 CRRF process

35. There is an opportunity to support the short-term liquidity of the sector through existing measures now, and buy time to gauge the domestic demand for tourism and for businesses to adjust, before paving the way for a more sustainable and prosperous long-term future of the sector.
36. If you wish to signal support for the tourism sector in the 11 May CRRF funding round, we therefore recommend providing a tagged contingency. This preserves flexibility for further analysis on the package's exact scope (which might include further measures to support short-term liquidity), to take into account decisions relating to the Wage Subsidy Scheme, border-related policies, take up of the Small Business Cash Flow (Loan) Scheme, and their cumulative impacts; as well as your long-term economic objectives.
37. To support a medium-to long term response, the tagged contingency could support a formal 12-month Tourism Partnership, formalising and slightly expanding the business, government and industry group set up by the Minister for Tourism earlier in April 2020.

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Chaired by the Minister for Tourism, and with added worker, iwi and regional representation, this Partnership could draw on the contingency through joint agreement with the Minister of Tourism and Minister of Finance, and would be tasked with convening relevant sector and regional entities, in partnership with the Government, to examine the options for the sector at this crucial period.

38. The Partnership would co-design the interventions needed for the sector in the medium and longer term, in line with the Government's just transition and tripartite approach. It could draw on the contingency for projects quickly, but you may also decide that it could report back with recommendations for consideration in future CRRF funding rounds.
39. We suggest that spending from the contingency would be agreed jointly by the Minister of Finance and the Minister for Tourism. However protocols for Ministerial consultation on bids put forward by the Minister for Tourism, on behalf of the Partnership, would also need to be considered, as well as how spending is reported (for example through a Cabinet Committee).
40. The governance of the Partnership would be important to get right, to avoid conflicts of interest and dominance by incumbents, and to help facilitate bold and innovative approaches to medium- and long-term reform. We suggest that the Partnership should be mandated to consult groups including regional economic development bodies in the course of their work. Maori Tourism NZ may also be valuable participants.
41. There is an opportunity to guide the work of the Partnership so that bids for contingency funds were in line with the government's overall economic strategy. Criteria could be developed highlighting the need for interventions to deliver outcomes that would cushion the impacts for the sector and minimise long-term scarring effects, putting the sector on a sustainable footing. This could involve a range of policy instruments, including ALMPs relating to redeployment, skills and training.
42. Formalising and funding this Partnership would be an extension of the work already underway, under the leadership of the Minister of Tourism. We therefore recommend you discuss this option with him.
43. The quantum of the tagged contingency could be determined in the context of other requests for funding in the CRRF, and depend on whether Ministers wished for the Tourism Partnership to be considered for future CRRF funding rounds (or whether this was the total quantum of support targeted towards the sector).
44. If a tagged contingency is your preference, we recommend you discuss with the Minister for Tourism – noting that this proposal has been discussed with MBIE, and might build on existing work he is leading.

Core considerations for Ministers on the creation of a tagged contingency for a Tourism Partnership relate to the quantum of funding to set aside to incentivise the right approach; criteria for future spending; governance of the Partnership; and protocols on Ministerial consultation and joint agreement. Subject to your discussions, agencies could provide future advice on these matters.

45. The following options may also be implementable on a longer time scale. They are not mutually exclusive:
46. **Option 1: Extend existing broad-based measures –** s9(2)(f)(iv)

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47. *Option 2: A targeted, short-term grant scheme* available to small and large businesses operating in the sector.
48. Each of these options is described in more detail below.

s9(2)(f)(iv)

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Option 2: Cash grant

56. Unlike the other two options that extend existing schemes, this would require establishing a new scheme from scratch. As such, there are new operational and implementation risks to manage.
57. Ministers would need to determine eligibility of firms (i.e. consideration 1A and 1B above), and the size of the grants. These considerations can determine who should administer the grant scheme. MBIE Tourism has signalled it could take on responsibility of grant deployment if eligibility were tightly targeted, utilising the in-

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house expertise it has available, including a regional network with industry links. MBIE has indicated that this type of deployment would require additional operating funding.

58. If a larger more generic scheme is preferred there is a possibility to out-source a grant scheme to a third party, but in the time available, this option has not been analysed.
59. To make the scheme easy to administer, the grant could be a fixed sum, based on revenue lost or fixed costs which would need to be objectively determined to reduce the risk of legal challenge. A targeted cash grant scheme would provide immediate liquidity support to the sector, without requiring it to take on more debt. However, this option raises the largest equity risks, given there is no requirement for firms to repay.
60. At this stage officials have not specifically considered the option raised by Tourism New Zealand to create a fund to purchase strategic tourism assets on behalf of the Crown. However, this could be as part of a tagged contingency.

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IN-CONFIDENCE**Appendix 1: Additional detail on economic impacts of tourism**

The following table shows the large number of different industries that are associated with the tourism.

Product (YE March 19)	Tourism Supply (\$m)	Total Supply (\$m)	Tourism product ratio
Accommodation services	3,303	3,440	0.96
Food and beverage serving services	4,701	11,272	0.42
Air passenger transport	5,620	5,663	0.99
Other passenger transport	4,545	6,694	0.68
Imputed rental on holiday homes	847	847	1.00
Cultural, recreation, and gambling services	1,172	6,017	0.19
Retail sales – alcohol, food, and beverages	2,440	71,356	0.03
Retail sales – fuel and other automotive products	2,218	12,550	0.18
Retail sales – other	7,824	59,328	0.13
Education services	1,128	7,129	0.16
Other tourism products	3,261	53,800	0.06

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IN-CONFIDENCE**Appendix 2: Indicative policy framework to define support for the tourism sector (to be confirmed with MBIE)**

The below is an indicative list of factors that could be used to assess whether businesses are eligible for support. Further work, including consultation with iwi, would be needed to develop this criteria, including what the necessary evidence base might be to inform it. It is important that any amendments to current support mechanisms are clear and objectively determined to reduce the risk of challenge.

- Are existing support mechanisms able to keep assets functional in within the short, medium and long-term?
- Is it an iconic part of the New Zealand tourism offering?
- Is it critical to a region's tourism offering, without which, that regional economy many not be able to recover?
- Is it an asset without which the tourism offering standard would be unacceptable or compromised?
- Is it of notable environmental, historic or cultural value?
- Are there insurmountable costs/challenges to pausing and resuming operations?

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