Submission to

Ministry of Business, Innovation & Employment

on the

Consultation on International Visitor Conservation and Tourism Levy

Date: 20 July 2018

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the consultation on the International Visitor Conservation and Tourism Levy (IVL).

This submission is filed without prejudice to TIA's future position. Our ability to prepare a comprehensive submission responding to the consultation document relied on the provision by MBIE of information relevant to the connection between the consultation document and the benefits that would accrue. If any information is provided at a later date, TIA reserves the right to comment further.

EXECUTIVE SUMMARY

1. The remarkable growth in the New Zealand visitor economy since 2013 has delivered enormous benefits – including more jobs, new business opportunities and a significantly increased Government tax take.

2. However, the pace of growth has exposed decades of infrastructure under-investment by central and local government. This has placed pressure on the tourism system. It is widely accepted across industry and government that New Zealand must address current and approaching public infrastructure deficits, respond to community concerns and build future industry capability.

3. The tourism industry is at crossroads, poised for further growth and benefit to New Zealand, but requiring a planned, co-ordinated and strategic approach to investment. It is important that government does not take a narrow or ad-hoc approach to tourism investment, only focusing on the investment of the IVL. There is much more at play here – an opportunity to look at the tourism system in New Zealand, where the weaknesses and deficits are, and then a planned and strategic approach to investment. The Government needs to take stronger leadership, in partnership with industry.

4. International visitors are not freeloaders and are already more than paying their way. The Government's own report shows that it collects $3.27 billion a year from international tourism, while spending $638 million a year attracting and looking after those visitors. The net benefit to Government from international tourism is therefore $2.6 billion a year.

5. The proposed levy will provide another source of revenue for the Government from international visitors. It is crucial that it makes a difference, by being precisely targeted to those areas and issues where central government intervention is most needed.

6. Under the definition of a levy, the monies raised must be used to fund things that are directly associated with those paying the levy. Therefore, the IVL cannot go to general funding of the Department of Conservation or any other government agency; there must be a demonstrable link from the spend back to the interests of the international visitor.

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7. TIA has identified five areas where the IVL should be prioritised for investment. These are:
    1) Visitor-related investment in the Department of Conservation and on Public Conservation Land
    2) Communities with high visitor to resident ratios
    3) Local and mixed use infrastructure
    4) Research and development
    5) Building business capability.

8. Through a TIA survey, tourism operators have indicated broad support for the introduction of the IVL, but this support is conditional on the final design of the scheme.

9. The IVL design process needs a planned and deliberate approach including an understanding of what is already adequately provided for through other funding mechanisms, what is not working, and what is falling through the gaps.

10. The IVL allocation process needs to be transparent and equitable, with clearly set methods of resource allocation, reasons for project selection and a robust tendering process. The funds must only be allocated after the project to be funded has been fully assessed and has been found to meet government and industry strategic goals.

11. TIA will advocate for the following criteria to be met:
    - That the funds are allocated to priorities that will enhance the visitor and community experience;
    - That the funds are used for new or additional initiatives and not to replace existing government funding;
    - That the fund is not absorbed into the Provincial Growth Fund with a promise to invest in tourism related infrastructure;
    - That industry representatives are involved in the decision-making/allocation process;
    - That a review period is built into the operating model, with a minimum review period of three years to check that the intended objectives are being met;
    - That the IVL legislation includes a five-year sunset clause;
    - That the levy rate is not reviewed for a minimum of five years;
    - That no further new taxes are levied on the tourism industry including regional taxes such as bed taxes or regional tourism levies.

12. A comprehensive global PR campaign is vital to educate would-be visitors about why they are being charged to come to New Zealand, and what is intended to be achieved with this IVL.

13. TIA supports setting the IVL rate at the upper end - $35 per person - subject to alignment with the conditions and investment priorities noted above.

RECOMMENDATIONS

14. That the Government addresses current and approaching public infrastructure deficits, responds to community concerns and builds future industry capability in the tourism industry.

15. That the Government takes a strategic and transparent view of investment into the tourism industry and works in partnership with the industry.

16. That the funds raised by the IVL are allocated to priorities that will enhance the visitor and community experience.

17. That the Government prioritises the following five areas for allocation of the IVL funds:
    1) Visitor-related investment in the Department of Conservation and on Public Conservation Land
    2) Communities with high visitor to resident ratios
    3) Local and mixed use infrastructure
    4) Research and development
    5) Building business capability.

18. That the funds raised by the IVL are used for new or additional initiatives and not to replace existing government funding.

19. That the IVL is not absorbed into the Provincial Growth Fund with a promise to invest in tourism related infrastructure.

20. That industry representatives are involved in the decision-making/allocation process in the IVL fund allocation.

21. That a review period is built into the IVL operating model, with a minimum review period of three years and with clear measurements to determine whether the intended objectives are being met.

22. That there is a five-year sunset clause that provides that the levy shall cease to have effect, unless further legislative action is taken to extend it.

23. That the IVL rate is not reviewed for a minimum of five years.

24. That no further new taxes are levied on the tourism industry including regional taxes such as bed taxes or regional tourism levies.

25. That there will be a comprehensive global PR campaign to educate would-be visitors about why they are being charged to come to New Zealand, and what is intended to be achieved with this IVL.

INTRODUCTION

26. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With around 1600 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions and retail, airports and airlines, transport as well as related tourism services.

27. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive Chris Roberts.

28. Any enquiries relating to this paper should in the first instance be referred to Nienke van Dijken, TIA Policy Analyst at nienke.vandijken@tia.org.nz or by phone on 04 494 1842.

STAKEHOLDER CONSULTATION

29. In preparing this submission, TIA has engaged with its members, central government agencies, New Zealand and overseas industry organisations. 451 members responded to a TIA survey on their views of preferred models of central government funding and where allocation of funds should be prioritised. Survey results are provided throughout the submission.

COMMENT

Our understanding of the issue

30. Government wants to rethink current funding arrangements to better align those who pay for infrastructure with those who benefit from it. Its aim is to enable sustainable growth, which enables New Zealanders to continue to enjoy the benefits generated by the tourism industry.

31. Government is considering a range of options to create a sustainable package that includes conservation, local government, transport and central funding.

32. Government is proposing that a levy on some international visitors, to fund tourism infrastructure and conservation, should form part of that package.

33. Government does not want to impose any new taxes on New Zealanders.

Our Response

There is a need to respond to tourism growth

34. In the past decade, the visitor economy in New Zealand has experienced a period of stagnation (2008-2012) followed by a period of rapid growth (2013-18). In the year ended March 2017, total tourism spend in New Zealand was $36.0 billion, compared to $27.2 billion in the year ended March 2013.

35. The growth has come from both domestic tourism (which is 60% of total spend) and international tourism. Since 2013, annual international visitor arrivals have increased from 2.6m to 3.8m. Visitor forecasts from MBIE are for international visitor numbers to grow 4.6% per annum, reaching 5.1 million visitors in 2024.

36. The private sector is responding to the increased demand by investing billions of dollars in products, staff and infrastructure – airplanes, airports, hotels, vehicle fleets, attractions, new and upgraded tourism offerings. The number of people directly employed in tourism grew by 56,000 between 2013 and 2017. Tourism businesses support regional tourism activity through general and targeted rates, contributing to regional marketing alliances and their own marketing efforts.

37. While it has brought tremendous benefits, the recent pace of tourism growth has exposed decades of under-investment by central and local government. This has placed pressure on the tourism system.

38. It is widely accepted across industry and government that New Zealand must address current and approaching public infrastructure deficits, respond to community concerns and build future industry capability.

39. As the Government acknowledges in its consultation document, *"both central and local government are dealing with instances where infrastructure has not kept up with domestic growth and/or no longer meets modern standards or expectations. Visitor growth (both domestic and international) further exacerbates this problem..."*

40. International visitors are not freeloaders. They already pay taxes and are more than paying their way. TIA believes these taxes, including the existing Border Clearance Levy and $1.5 billion a year in GST need to be taken into account when additional charges on visitors are contemplated.

41. The MBIE-commissioned Deloitte Report, "Financial Costs and Benefits of International Tourism" calculates the Government collects $3.27 billion a year from international tourism (including $1.0 billion in PAYE paid by tourism employees and $350m in company taxes paid by tourism operators). The same report estimates the Government currently spends $638m a year attracting and looking after those visitors. The net benefit to Government from international tourism is therefore $2.6 billion a year.

42. The proposed IVL will provide another source of revenue for the Government. It is crucial that it makes a difference, by being precisely targeted to those areas and issues where central government intervention is most needed.

43. A levy has a specific definition. The money collected through a government-imposed levy must be used to fund things that are directly associated with those paying the levy. Therefore the funds raised by the IVL cannot go into general funding of the Department of Conservation or any other government agency; there must be a demonstrable link from the spend back to the interests of the international visitor.

A strategic approach to investment is required

44. The tourism industry is at crossroads, poised for further growth and benefit to New Zealand but requiring a planned, co-ordinated and strategic approach to investment. It is important that government does not take a narrow or ad hoc approach to tourism investment, only focusing on the investment of the IVL. There is much more at play here – an opportunity to look at the tourism system in New Zealand, where the weaknesses and deficits are, and then a planned and strategic approach to investment. There is a need for the Government to take stronger leadership in partnership with industry.

45. The proposal to introduce the IVL comes at a time when there are already two significant funding pools for tourism infrastructure - the 3-year $3 billion Provincial Growth Fund (PGF) and the 4-year $100 million Tourism Infrastructure Fund (TIF). While the PGF, launched earlier in 2018, is in its early stages, the tourism industry has been a significant beneficiary of the PGF funds allocated to date and it is anticipated this will continue. TIA understands that in the current 'pipeline' of applications being considered by the PGF, there are around $400 million of tourism-related projects.

46. The TIF allocated $14.2 million to 34 local council infrastructure projects in 2017 and is currently assessing a second round of 50 applications. The PGF and TIF provide funding solutions through to YE July 2021.

47. DOC received increased funding allocations in the 2017-18 and 2018-19 Budgets. It is trialling differential pricing, with international visitors paying double for huts on four of the Great Walks. It is also significantly increasing its concession fees.

48. The new Government Policy Statement on Land Transport recognises the importance of transport connections for domestic and international visitors. The New Zealand Transport Agency is also developing tools that will incorporate a wider range of economic benefits in project appraisals, including tourism.

49. The IVL, taken together with the above range of initiatives and ongoing private sector investment, should address the priority funding issues. There does remain the valid question of how the costs and benefits of visitor growth directly impact on local

government. However, the Productivity Commission is about to initiate a review of the local government funding structure. The Government has said visitor infrastructure issues will be within the scope of this inquiry. Consideration of any further tourism taxes, levies or rates at a local or central government level must now pause to allow the Productivity Commission to do its work.

50. Government has suggested six areas where the IVL could be spent and asked for feedback on these. We note that five of the six already receive assistance through other central government funds:

- Local infrastructure/amenities such as toilets, car parks, water supply, playgrounds and walking tracks – Tourism Infrastructure Fund
- Strategic investments to support tourism development in emerging regions – Provincial Growth Fund
- Support for tourism businesses such as business incubators and skills development – Tertiary Education Commission and NZTE
- Conservation and biodiversity activity such as predator eradication, breeding programmes, native planting – DOC funding and DOC/private sector partnerships
- Conservation visitor infrastructure and facilities such as interpretation, parking solutions and track maintenance/development – DOC funding.

51. Investment of the IVL needs a planned and deliberate approach including an understanding of what is already adequately provided for through other funding mechanisms, what is not working, and what is falling through the gaps.

52. Any strategic approach to investment also needs to address other barriers to infrastructure beyond funding. Earlier this year TIA convened a Tourism Infrastructure Panel with representatives from Local Government NZ, Infrastructure NZ, Treasury and tourism operators. The Panel was asked to identify the barriers and solutions to tourism infrastructure. The resulting feedback highlighted that getting the right infrastructure is a challenge for most industries in New Zealand. The issues are wide and include a complex regulatory area, political risk, the number of parties involved (central/local government, private sector) and money/funding.

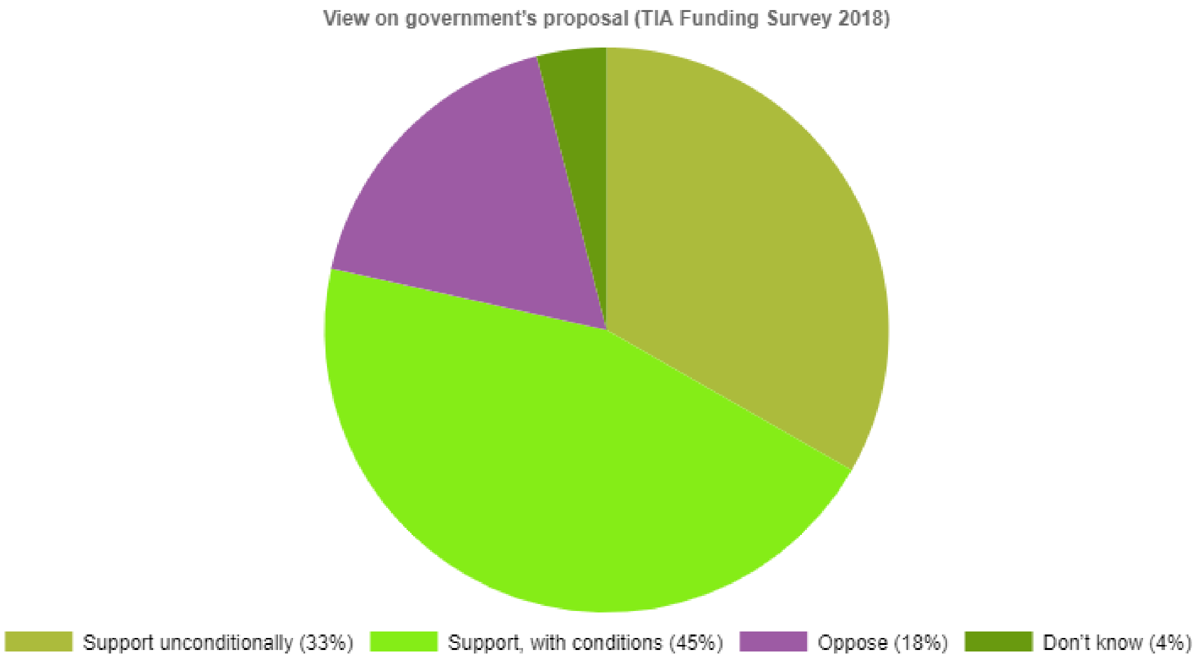
53. To approach the IVL work with only a narrow view on how the fund should be spent would be short-sighted and not cognisant of the wider infrastructure environment.

Support for the IVL - under certain conditions

54. TIA will support the introduction of the IVL, but that support is conditional.

55. A tax at the border is not the tourism industry’s preferred approach for how investment priorities should be funded. TIA’s survey of members identified returning a share of the $1.5 billion in GST international visitors pay annually as the preferred funding option. The second favoured option was greater use of user pays. A border tax paid by international visitors is the third-favoured funding model. Refer to Appendix 1 for the full list of preferred investment methods.

56. In a specific survey question on the IVL, 78% of respondents were prepared to support it, though the majority were only supportive under certain conditions.



Source: TIA Funding Survey (2018)

57. Our support for the IVL includes the following conditions:

- That the funds are allocated to priorities that will enhance the visitor and community experience. A suggested list of priorities is in the next section of this submission;

- That the funds are used for new or additional initiatives and not to replace existing government funding;

- That the fund is not absorbed into the PGF with a promise to invest in tourism related infrastructure. It must be different and provide incremental funding beyond what the PGF might invest in tourism infrastructure;

- That industry representatives are involved in the decision-making/allocation process;

- That a review period is built into the operating model, with a minimum review period of three years to check that the intended objectives are being met;

- That the IVL legislation includes a five-year sunset clause. Tourism is a dynamic and rapidly changing global phenomenon. It should not be presumed that the IVL will be appropriate in perpetuity. A sunset clause is needed that provides that the levy shall cease to have effect, unless further legislative action is taken to extend it;

- That the rate of the levy is not reviewed for a minimum of five years. Ad hoc reviews of fees and levies are frustrating for both visitors and operators. Stability in government charges is important to the industry;

- That no further new taxes are levied on the tourism industry including regional taxes such as bed taxes or regional tourism levies.

Where should the money be spent? - Investment priorities for the IVL

58. The tourism industry has generated a range of information sources on the priority areas for investment. In April 2017, TIA in partnership with Deloitte completed a National Tourism Infrastructure Assessment. The Assessment identified the areas for investment in tourism infrastructure and prioritised these based on the level of co-ordination required and the impact on addressing that infrastructure gap. Visitor accommodation, airports, telecommunications, car parking, public toilets, water and sewerage systems, and road transport were the areas of need requiring greatest intervention. Refer to Appendix 2 for more information.

59. The 2018 TIA funding survey listed 16 possible areas for infrastructure investment and asked members to prioritise these. Concern about investment in accommodation has eased (reflecting the increased pipeline of hotel developments). Public facilities (e.g. water and sewerage, public toilets) and environmental management and protection (e.g. air and water quality, waste management, protection of biodiversity) received the greatest support followed by infrastructure on public conservation land (e.g. tracks, huts, signage, carparks, toilets, campsites). Refer Appendix 3 for the full list of investment areas.

60. Drawing on the above information and discussions with stakeholders, TIA has identified five areas where the IVL should be prioritised for investment. These are:

    1) Visitor-related investment in the Department of Conservation and on Public Conservation Land
    2) Communities with high visitor to resident ratios
    3) Local and mixed use infrastructure
    4) Research and development
    5) Building business capability.

Visitor-related investment in Department of Conservation and on Public Conservation Land

61. TIA supports the allocation of IVL funds for investments on Public Conservation Land (PCL) and in the Department of Conservation's capability to manage visitors. Access to the 'great outdoors' is a significant part of the visitor proposition. Our scenery and landscapes remain constant as the main reason international visitors come to New Zealand, and the Department of Conservation carries a significant share of the responsibility in both creating access for visitors and protecting the environment that provides the enjoyment.

62. Members were asked in the recent TIA survey for their preferred revenue split between tourism and conservation. The overall preference for industry is roughly a 60/40 split (57% tourism / 43% visitor-related conservation).

63. The funding going to conservation directly from international visitors must enhance a sustainable visitor experience. We have identified four priority areas for the investment of the conservation component of the IVL.

    a) Tourism-related infrastructure on PCL

    The member survey identified investment into DOC infrastructure/infrastructure on public conservation lands (e.g. tracks, huts, signage, carparks, toilets, campsites) as the third priority overall and the top priority for DOC related expenditure (refer Appendix 3). There is a need to fix the current infrastructure deficit and to proactively invest in order to support a safe and enjoyable experience for visitors and to maintain the support of New Zealanders for tourism on PCL.

    The visitor infrastructure needs on PCL are significant in some locations, magnified by increased visitor usage and prolonged under-investment. An assessment of infrastructure needs is firstly required to inform and prioritise the required investment. Some particular infrastructure needs, such as investment in the Milford corridor and at Punakaiki, may require a separate investment approach outside of the IVL. The industry will expect to have a voice in the priority infrastructure areas for investment.

    b) DOC policy and insight capability

    There is a significant need to build capability and capacity within DOC to manage tourism on PCL. In 2015, TIA and DOC formalised their relationship via Project Groundswell, which sought to build a partnership that is positive, enduring and a win/win for tourism and conservation. One of the early obstacles to progressing this partnership was a lack of visibility and clarity about DOC's approach to tourism. While good progress has been made, such as the introduction of a Recreation, Heritage and Tourism team within DOC's policy arm, there is still much to do.

We support DOC’s desire to take a broad and long-term view to planning and management of visitors on PCL. A shift to a design-led approach is required rather than the asset-management response that currently dominates.

TIA will be seeking an undertaking that the review of National Park Plans (NPP) will be adequately resourced. The review of some NPPs important to tourism operators has been delayed and requested partial NPP reviews not undertaken, due primarily to resourcing constraints within DOC. A combination of a 10-year review cycle, a non-responsive plan template and significant increased visitor demand means these NPPs have become outdated and are a barrier to supporting sustainable visitation to PCL.

While additional allocation has been made in the 2018-19 DOC budget to capability building, we support further funding allocation if it enables a long-lasting internal structure that prioritises strategic tourism investment, planning and implementation within DOC. If the IVL is not seen as an appropriate source of this funding, it should come directly from Government.

c) Biodiversity Management

Investment into environmental management including biodiversity protection is a high priority for members (refer Appendix 3). While cognisant that investment in protecting flora, fauna and wildlife could be limitless, we are supportive of an allocation of the IVL going into this area, including on environmental advocacy, on the condition that there are clear and direct benefits for the visitor experience.

Initiatives such as supporting predator-free zones and enhancing the environment already have wide industry support and are highly valued by visitors. Further work needs to be undertaken into developing greater clarity of where biodiversity protection delivers clear and direct benefits to tourism. Such work will inform investment of DOC’s tourism related resources and encourage the efforts of tourism businesses to grow conservation.

d) Public/Private partnerships on PCL Land

One of the long-term frustrations for tourism operators has been the barriers to pursuing appropriate new commercial opportunities on PCL. We support an investment of the IVL funds into identifying opportunities on PCL where there can be a win/win for conservation and visitors. This will provide a positive return by supporting businesses that grow conservation and enabling better forward planning for both DOC and operators.

It is in the vested interest of tourism operators that there is a healthy and protected natural environment. There is a range of exemplars where the commercial sector has invested heavily to protect that environment. Canopy Tours in Rotorua, the winner of the NZ Supreme Tourism Award in 2016, is a strong example of where public and private partnerships are a win/win for both DOC and the industry, but there are many others that are less well known. Tourism operators are some of this country's greatest conservation advocates.

We understand that DOC is required to work with a wide range of stakeholders, including tourism, recreation, iwi and local communities. We consider that there are greater opportunities for public/private partnerships on PCL and that well planned sustainable tourism opportunities should benefit all stakeholder groups. Proactive consideration of opportunities will help support thoughtful management of visitors to PCL.

Communities with high visitor to resident ratios

64. Outside of the main centres, New Zealand has many regions that are sparsely populated. Some of these regions have outstanding natural attractions and host significant and growing numbers of visitors. They are critical components of New Zealand's overall tourism proposition.

65. The economic benefits from tourism for these regions are substantial. However, the ability to invest in the infrastructure and facilities needed to maximise the value of tourism now and into the future is limited.

66. In these locations with a high visitor to resident ratio, the burden of providing the necessary investment cannot all fall on the local ratepayers.

67. Some of the IVL funding should be set aside to support these regions. According to MBIE data there are four regions where the annual guest night per resident population ratio is greater than 40:
    - Mackenzie District 182.1
    - Queenstown-Lakes District 122.6
    - Westland District 96.7
    - Kaikoura District 78.6

Local and Mixed Use Infrastructure

68. Local and Mixed Use Infrastructure is a term used to identify the range of public infrastructure used by both locals and visitors. The three components of local and mixed-use infrastructure are:

    a. supports tourism activity and is important to the visitor experience at individual locations (local tourism infrastructure);
    b. is typically used by both local resident communities and visitors, but tourism demand has impacted residents' ease of access (mixed use infrastructure);
    c. is typically funded by government, mostly local government but sometimes central government (public infrastructure).

69. The range of local and mixed-use infrastructure includes car parks, toilets, access ways and urban public spaces, public transport, cycle ways, recreation and sport facilities, facilities on public conservation land and airport facilities.

70. In a broad approach to determine the size of the local and mixed-use infrastructure deficit, local councils were asked by TIA and LGNZ in 2017 to provide a list of projects that might qualify for tourism infrastructure funding. The resulting list identified 673 projects. The top five infrastructure types were toilets, carparks, recreation and sports facilities, public information and cycle ways. Collectively the top five made up 53% of the pipeline.

71. The Tourism Infrastructure Fund (TIF) goes some way towards addressing the deficit. However, it is focused on alleviating immediate pressures from visitor growth and has to date largely responded to community demands for additional public toilet facilities.

72. We consider that a proportion of the IVL should go to local and mixed-use infrastructure. This should be clearly defined to address needs that the TIF is unable to meet. This may include providing infrastructure to support future demand in a region or location where there is tourism potential to be unlocked.

73. Due to the broad nature of local and mixed-use infrastructure, an industry assessment panel such as the TIF currently employs will be important in identifying the priority areas.

Research and development

74. The tourism industry suffers from a number of structural market failures due to the fragmented nature of the industry, which means that clubbed 'industry-good' cannot be undertaken without some form of intervention. Areas where this market failure has been addressed include TIA's advocacy role supported through membership subscription, the Government's investment in Tourism New Zealand to address the market failure for marketing, and the Government's limited investment in basic industry data. However, the market failure for tourism industry research and development has found no solution.

75. In this space, the Government's Science and Innovation investment operates to criteria that serves to limit tourism-related investment to virtually zero. Only occasionally do funds emerge from industry or the Government's tourism policy function for larger research projects, e.g. MBIE's China research, TIA's infrastructure project and the industry-funded McKinsey report.

76. The net result is an industry that is very poorly supported by information of all sorts, which is seriously inhibiting industry decision making. We view this inadequacy of research and development to be a major strategic risk to the industry's sustainable future.

77. TIA looks to how other large export industries address their 'industry-good' requirements. The common thread is that these industries have a levy on the production of the relevant commodity which is used for industry-good activities, whether advocacy, marketing and research, etc. Often these levies are enacted in legislation. Examples of these 'supply-side levies' include Dairy NZ, Beef and Lamb

and NZ Winegrowers - all of which have substantial research and development programmes underway under the control of their industry. We also see that these industries are very effective in leveraging this base R&D funding in developing partnership programmes and projects from the Government's Science and Innovation investment.

78. As such, the tourism industry is currently missing out on two fronts: 1) it does not have a levy to support base R&D requirements and 2) it cannot use the base funds to leverage other R&D funding sources.

79. Given the inherent inability to levy the tourism industry supply side, options for a levy on the 'demand-side' should be explored. With the Government proposing an international visitor levy that would establish such a revenue stream, it logically follows that a portion of the levy should be used as a structural response to the tourism R&D market failure issue.

80. TIA also considers it essential that the funds are assigned to the industry, as per the model applied in the primary industries. This would enable the industry to define its R&D priorities and advance a responsive research programme. This would support the development of the industry's R&D capability and would reflect the maturity of the tourism industry to manage its own information needs.

Building business capability

81. We consider there is a strong case for allocating funds to build business capability across the industry. While individual businesses will have different requirements, TIA's Tourism Sustainability Commitment (TSC) provides a starting framework to consider for capability building. The TSC requires businesses to build capability in 14 areas:

1	Businesses focus on long-term financial performance
2	Businesses invest capital to grow, and/or to improve quality and productivity
3	Businesses innovate and have effective strategies to mitigate the effects of seasonality
4	Businesses undertake visitor satisfaction monitoring, evaluation and reporting
5	Businesses innovate to improve or upgrade their offering to enhance visitor experience
6	Businesses educate visitors about New Zealand's cultural and behavioural expectations
7	Businesses pay a fair wage to all staff
8	Businesses support their workforce to flourish and succeed
9	Businesses actively engage with the communities in which they operate
10	Businesses have socially and environmentally sustainable supply chains
11	Businesses contribute to ecological restoration initiatives
12	Businesses have carbon reduction programmes towards carbon neutrality
13	Businesses have waste reduction and management programmes
14	Businesses actively engage with their visitors and communities on the importance of restoring, protecting and enhancing New Zealand's natural environment

82. The vision of the TSC is New Zealand leading the world in sustainable tourism. To achieve this aspiration, we need to have individual businesses achieving international best practice. Better business leads to improved productivity, highly satisfied visitors, happy communities, and a protected and enhanced natural environment.

83. TSC business goals 3 and 5 are about innovation, which is an imperative if we are to remain an attractive destination. Understanding and making use of the latest technology is one aspect of this necessary innovation. Business goals 6 and 14 involve educating visitors about New Zealand's cultural and behavioural expectations and the core concept of Kaitiakitanga. Innovation and guardianship are important capabilities that tourism businesses can be assisted to achieve.

84. TSC business goals 7 and 8 require industry capability building in the area of People and Skills. People are the lifeblood of the tourism industry. While some areas of the tourism system have transitioned to technology solutions, particularly in the planning and booking stages, people remain core to the delivery phase of the visitor experience. Kanohi ki te kanohi – tourism is about face-to-face personal interaction.

85. Attracting and retaining the right people has been an endemic issue for many years. There has been historic under-investment and lack of industry and government co-ordination in addressing people and skill issues.

86. In 2014, TIA investigated the underlying issues in its report 'People & Skills 2025'. This report identified that an additional 36,000 FTEs were required in the tourism industry to meet demand by 2025. The report also identified a list of 24 action areas to respond to the issues.

87. Some priority areas are being addressed. For example, a joint TIA/ATEED research project is currently underway into the perceptions young New Zealanders and their parents have of jobs and careers in the tourism industry. The next stage will be the development of a business case into what the industry needs to do to attract and retain New Zealanders, lessening reliance on migrant staff.

88. The industry requires a planned, co-ordinated and funded approach to ensuring it has the right workforce for the future and the allocation of IVL funds to this area is an industry priority.

A fair IVL allocation process

89. The IVL allocation process needs to be transparent and equitable, with clearly set methods of resource allocation, reasons for project selection and a robust tendering process. There is concern within the industry that the IVL could simply be a cash grab by central government. To avoid this possibility, the tax must be strictly ring-fenced.

90. The funds collected by the IVL must go into a Memorandum Account to be allocated only after the project to be funded has been fully assessed and found to meet government and industry strategic goals.

91. It is important to the industry that it is well-represented in investment decisions. Industry is currently represented on the TIF assessment panel and a bottom line for industry support is that tourism operators are represented at the decision-making table.

92. We assume there will be full transparency of income and expenditure. Costs associated with managing and administering the fund should be kept to a minimum while recognising that good decision making is not necessarily cheap as it requires excellent insight, strong stakeholder engagement and having the right people at the table.

Preferred levy rate

93. The Government has proposed a range of $25 to $35 per person, which it estimates will raise $57 to $80 million in the first year. There was no clear preference from members who responded to the TIA funding survey on what level the IVL should be set at (refer Appendix 5).

94. TIA supports setting the rate at the upper end - $35 per person - subject to alignment with the conditions and investment priorities noted earlier. We consider that setting it at the lower end may result in unwelcome short-term pressure to increase the rate. Additionally, we favour a rate that will provide adequate funding to address the issues. We consider the additional $23m p.a. if the IVL is set at $35 (40% more than if set at $25) will enable all of the priority areas (as outlined earlier) to be funded.

95. As noted earlier, we ask that the rate be set for a minimum of 5 years. Ad-hoc reviews of fees and levies are frustrating for both visitors and operators. Stability in the tax is important to the industry.

Design of the collection system

96. TIA accepts that the proposed Electronic Travel Authority (ETA) and Visas provide a reasonable way of collecting the new tax, and is preferable to adding it to airline and cruise tickets or having booths at airports and cruise ports. TIA is providing more detailed feedback on the ETA in an associated submission.

97. We understand that because of various agreements between Australia and New Zealand, it is not possible to apply the IVL to Australian citizens and permanent residents. This is unfortunate particularly when New Zealanders are paying the AUD$60 Passenger Movement Charge when departing Australia.

98. Because of claimed administrative difficulties, it is proposed to exempt crew on cargo ships from paying the IVL. However, crew on cruise ships and international aircrew are expected to pay the IVL. One of the aims of introducing the IVL is 'aligning those who benefit from publicly-provided infrastructure with those who are paying as closely as possible'. As is the case with the existing Border Clearance Levy (BCL), aircraft crew and cruise ship crew should also be exempt from the IVL. They do not visit the country for tourism but are employed or under contract to work on a transport vessel.

99. Conversely, there is currently no intention to apply the IVL to visitors arriving via private yachts. However, these visitors are required to pay the BCL so for consistency, the IVL should also apply.

Engaging and informing international visitors

100. There is a vital need for a comprehensive global PR campaign to educate would-be visitors about why they are being charged to come to New Zealand, and what will be achieved with the IVL. We would want them to feel positive about their contribution.

101. The ETA needs to promote the IVL in a positive light, as a contribution to enhancing and protecting the destination they are about to visit. It should not turn visitors off by looking like a tax to fill government coffers.

102. If the global campaign does not achieve sufficient reach, the introduction of the IVL/ETA could be chaotic. Canada had an 18-month education period ahead of introducing its ETA, and still saw hundreds of passengers turning up for flights to Canada unaware they needed a travel authority. There must not be a premature introduction of the ETA/IVL.

<u>Follow up process</u>

103. TIA wishes to participate in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.

BACKGROUND

104. Tourism for New Zealand is big business as the country's largest export sector. It is a major contributor to the New Zealand economy that will always be here and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

105. The tourism industry delivers the following value to New Zealand's economy:

- Tourism is a $99 million per day and $36 billion a year industry. Tourism delivers around $40 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another $59 million in economic activity every day.

- The tourism industry directly and indirectly supports 14.5% of the total number of people employed in New Zealand. That means 399,150 people are working in the visitor economy.

- Tourism is New Zealand's biggest export industry, earning $14.5 billion or 20.7% of New Zealand's foreign exchange earnings (year ended March 2017).

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Appendix 1

TIA Funding Survey – preferred Central Government investment approaches

Central government investment approach	**Support**
A share of the GST paid by international visitors	79%
User fees and charges (e.g. DOC hut and camping fees)	75%
Border tax paid by international visitors only	60%
Central Government Grants (e.g. Provincial Growth Fund which is open to a broad range of projects, including tourism)	59%
Allocation from general tax/other central government income	53%
Co-funding with local government (e.g. the Tourism Infrastructure Fund)	51%
Co-funding with private sector (e.g. grants, public/private partnerships such as the Tourism Growth Partnership)	44%
Regional visitor tax (i.e. a local tax on a wide range of visitor-related services, ring-fenced for reinvestment in that region)	21%
Regional bed tax (i.e. a local tax added to the price of accommodation, ring-fenced for reinvestment in that region)	18%
Border tax paid by all travellers	11%
National bed tax (i.e. a tax added to the price of all accommodation across the country, collected and allocated by central government)	10%
An industry levy paid by tourism operators	8%
Other (please specify)	3%
None of the above	0%

Source: TIA Funding Survey (2018)

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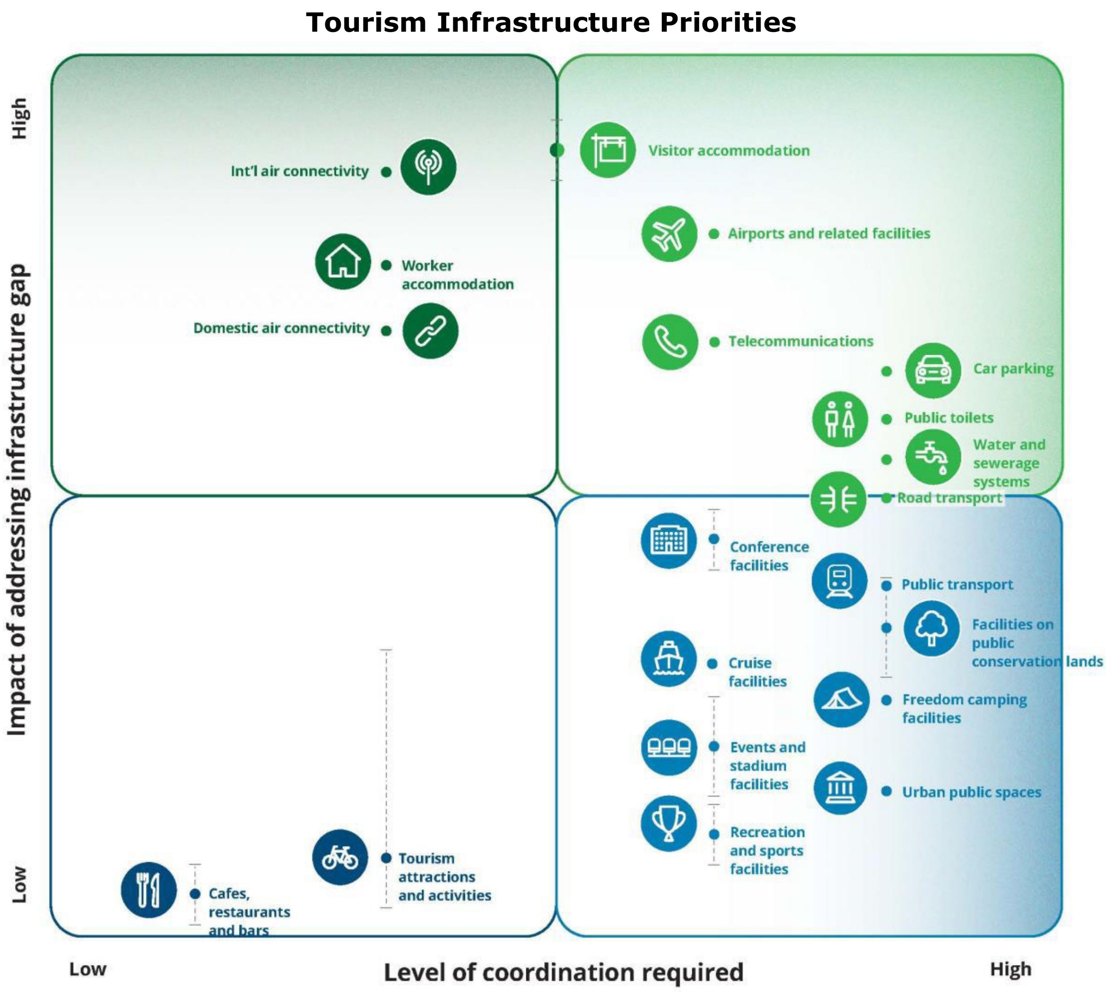
Appendix 2

TIA National Tourism Infrastructure Assessment - Tourism Infrastructure Priorities



Source: TIA National Tourism Infrastructure Assessment (2017)

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Appendix 3

TIA Funding Survey 2018 – Investment priorities

Investment priorities	**Support**
Public facilities (e.g. power, water and sewerage, public toilets)	73%
Environmental management and protection (e.g. air and water quality, waste management, protection of biodiversity)	73%
DOC infrastructure/infrastructure on public conservation lands (e.g. tracks, huts, signage, carparks, toilets, campsites)	67%
Land transport (e.g. roads, vehicle rentals, parking, rest areas)	57%
Labour and skills/workforce development	51%
Communications (e.g. mobile networks, WiFi)	40%
Activities and attractions (e.g. adventure activities, cultural activities/attractions, recreational facilities, museums and galleries, cycle trails)	37%
Destination marketing	35%
Accommodation (e.g. hotels, motels, hostels, holiday parks, private accommodation)	32%
Rail transport (e.g. railways and trains)	31%
Insight, research and development (i.e. having the right insight readily available to inform decision-making)	31%
Visitor information (e.g. i-SITEs, online resources, road and other signage)	30%
Business tourism events and infrastructure (e.g. conference facilities)	22%
Air transport (e.g. airports, airline services)	21%
Maritime transport (e.g. cruise facilities and waterways, ferries)	18%
Other (please specify)	4%
None of the above	0%

Source: TIA Funding Survey (2018)

Appendix 4

TIA Funding Survey 2018 – Government-suggested areas for IVL spend

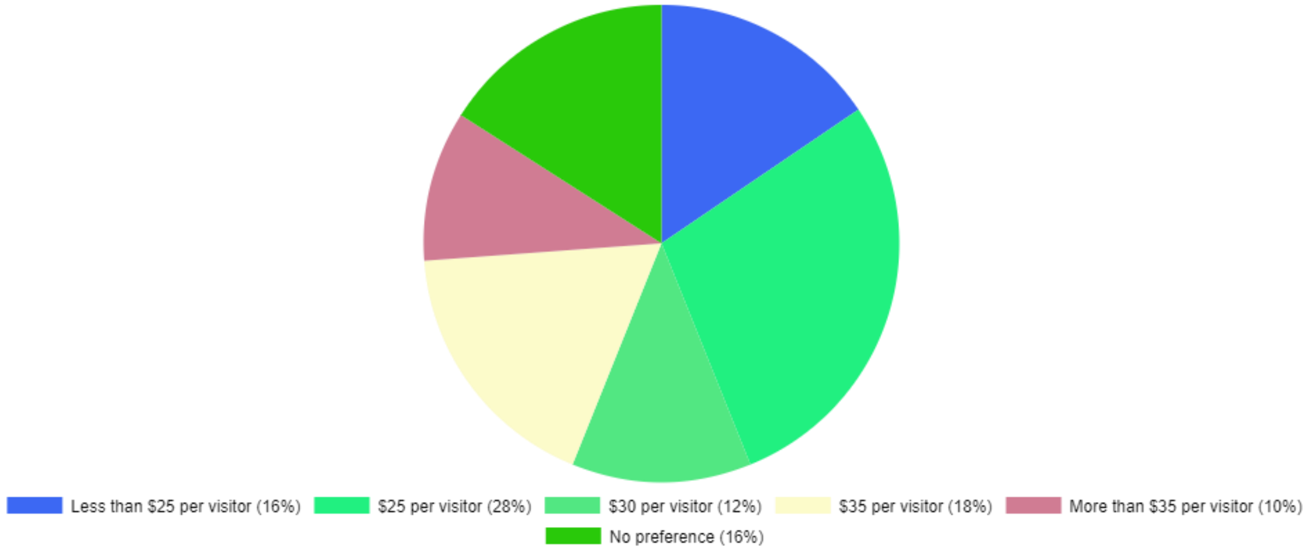
1 = highest priority and 8 = lowest priority

Areas	**Order of priority**
Local infrastructure/amenities	2.6
Protect the values of our wild places	3.2
Visitor infrastructure/facilities on conservation land	3.6
Strategic investments to support tourism development in emerging regions	4.0
Conservation and biodiversity activity	4.0
Support for new systems for sustainable funding for local infrastructure	4.1
Develop visitor attractions	4.7
Support for tourism businesses such as business incubators, etc.	5.0

Source: TIA Funding Survey (2018)

Appendix 5

TIA Funding Survey 2018 – Support for the proposed levy rate



Source: TIA Funding Survey (2018)

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