

In Confidence

Office of the Minister of Conservation

Cabinet Environment, Energy and Climate Committee

Fees for tourism concessionaires from 1 January 2022

Proposal

- 1 This paper seeks a decision from Cabinet on whether to extend the current temporary fee waiver for tourism concessionaires or allow it to lapse.
- 2 If Cabinet agrees to extend the fee waiver, agreement is sought on whether to extend it for an additional six months, or until borders re-open to the majority of international travellers.

Relation to Government Priorities

- 3 Concession fees contribute funding to the Department of Conservation's (DOC) core activities such as track/hut maintenance and pest control. These programmes deliver on the Government's key priorities by helping "lay the foundations for the future" of a nature-based tourism economy.
- 4 The current fee waiver was included in the \$200m Tourism Communities: Support, Recovery, and Re-set plan, which aimed to accelerate our economic recovery through investment in business infrastructure and tourism support.

Executive Summary

- 5 As a response to the challenges of COVID-19, tourism concessionaires operating on PCL currently benefit from a waiving of their activity, management and monitoring fees. Without agreement to a further extension, the fee waiver will automatically lapse on 31 December 2021.
- 6 The fee waiver initially covered the period from 1 March 2020 to 30 June 2021. It was subsequently extended for a further six months to 31 December 2021.
- 7 In granting the current six-month fee waiver extension, I agreed to report back to Cabinet in October 2021 on the treatment of fees for tourism concessionaires from 1 January 2022. I have considered three options:
 - 7.1 **Option 1:** Extend the fee waiver for tourism concessionaires for a further six months to 30 June 2022.
 - 7.2 **Option 2:** Extend the fee waiver for tourism concessionaires until borders re-open to the majority of international travellers.
 - 7.3 **Option 3:** Allow the lapse of the fee waiver, reinstating fees for tourism concessionaires effective 1 January 2022.

- 8 The decision on whether to extend the fee waiver or allow it to lapse is finely nuanced. Challenges remain for the tourism sector with circumstances similar, or worse to April 2021 and it is currently unknown when the sector will be able to trade normally. However, at some stage the fee waiver will need to end.

Background

Tourism Recovery Ministers agreed to waive two types of fees for tourism concessionaires from 1 March 2020 to 31 December 2021

- 9 In June 2020, Tourism Recovery Ministers agreed to waive activity, management and monitoring fees for tourism concessionaires, that were payable for the period 1 March 2020 to 30 June 2021. Up to \$25m from the Tourism Sector Recovery Fund was made available to offset the loss of fee revenue to DOC over this period.
- 10 On 7 April 2021, Cabinet made the decision to extend the fee waiver for an additional six months to 31 December 2021. Up to \$10m of funding was made available to DOC from the Government's \$200m Tourism Communities: Support, Recovery and Re-set plan. [DEV-21-MIN-0067 refers]
- 11 As part of this package it was noted, "*DOC in consultation with MBIE and Treasury, will undertake a review of the impact on tourism concessionaires in September, with the Minister for Conservation reporting back to Cabinet in October 2021. This will enable agencies to provide advice on confirming concessions reinstatement or provide a further waiver if extraordinary circumstances warranted it.*"

Concessionaire experiences complement those provided by DOC in connecting people with nature and servicing the visitor economy

- 12 Concessionaires provide high quality experiences to connect people with nature and facilitate safe enjoyment of PCL. In addition to aiding DOC's visitor management, many contribute to conservation outcomes through pest control and promotion of our natural environment.
- 13 The role of tourism businesses is outlined in DOC's Heritage and Visitor Strategy. Concessionaires deliver visitor experiences that complement the publicly funded experiences provided by DOC.
- 14 Additionally, concessionaires offer employment opportunities in areas where the nature-based tourism sector has a significant role in the local economy.

Fees apply to all those who operate on PCL, both tourism and non-tourism related activities

- 15 Fees (collectively called concession fees) are made up of four components as shown below.



- 16 Activity fees comprise ~90% of total fees. They are predominantly charged on a per person or revenue percentage basis to reflect the amount of activity an operator undertakes. If visitor numbers are low, so are fees. Activity fees are collected as a royalty on behalf of the Crown. This revenue is then redistributed back to DOC the following year.
- 17 The other three fees are generally charged as a fixed fee and are Departmental revenue.

The tourism sector has had access to a range of financial support packages since March 2020

- 18 The Government has supported the tourism sector since May 2020, through a range of packages. These include:
- 18.1 \$600m in tourism specific support through programmes such as the Strategic Tourism Assets Protection Programme (STAPP) and the Tourism Communities: Support, Recovery and Re-set Plan.
 - 18.2 Generic business support such as the wage subsidy scheme (available during each resurgence and recent Alert Level 4 lockdowns), the small business loan scheme (open until 31 December 2023), and taxation relief (ongoing).
- 19 The Government has signalled that the purpose of tourism sector funding has been to help businesses and regions to pivot to a domestic tourism market, and ensure that New Zealand has a viable international tourism sector when visitors return. However, this funding was not intended to be permanent.
- 20 These tourism support funds have now been fully allocated. Unlike the previous fee waiver decisions, DOC understands no further government funding is currently available.
- 21 In addition to direct business support, significant investments have been made through Tourism New Zealand (TNZ), Air NZ, Jobs for Nature, regional development agencies and others to support a sustainable domestic tourism industry.

Domestic tourism was performing well, but is impacted by both changing alert levels and impacts on consumer confidence after alert level shifts

- 22 Prior to COVID-19, approximately 60% (\$23.7b) of all tourism spend came from domestic tourism. This was true for all districts with the exception of Fiordland

(37%), Kaikoura (39%), Queenstown Lakes (32%), Mackenzie (47%) and the West Coast (39%).

- 23 Until 18 August 2021, when New Zealand re-entered an Alert Level 4 lockdown, domestic tourism had been performing well. Research from TNZ showed that from May 2020 to March 2021, New Zealanders spent an additional \$1.1b on domestic travel compared with pre-COVID levels. Districts most likely to see an increase in spend were those within a three-hour drive of major population centres.
- 24 While we have seen that some tourism concessionaires have adapted well to the primarily domestic context, others who are highly reliant on international tourism continue to struggle. This is true for all districts identified in paragraph 21. The Government has provided targeted funding to these communities through the \$200m Tourism Communities: Support, Recovery and Re-set Plan.
- 25 Aucklanders account for the majority of domestic tourism. While Auckland remains at Alert Level 4 or Alert Level 3, domestic travel and visitor activity is impacted in every district. Additionally, it is anticipated that the latest lockdown will adversely impact consumer confidence going into the peak summer season.

The impact and timing of international border openings remain uncertain

- 26 The trans-Tasman bubble opened on 19 April 2021. Early indications were that Australian bookings were strong for the ski season and for the summer. From its inception there have been several pauses to travel, with an eight-week travel freeze announced on 23 July 2021. It is currently unknown uncertain when quarantine-free travel will resume.
- 27 In August 2021, Government announced a plan to reconnect New Zealanders to the world. This included establishing new individual risk-based border settings that would establish low, medium and high-risk pathways into the country. It is currently unknown what countries this will apply to, and when.
- 28 I have received letters from both Tourism Industry Aotearoa (TIA) and the Tourism Export Council (TEC) requesting an extension of the tourism fee waiver in recognition that the tourism sector is still impacted by the changes caused by Covid-19. The industry consensus is that it will be March 2022 before we see a phased return of international visitors, and 2024/25 until New Zealand will see a meaningful number of international visitors.
- 29 TIA's "wedge of uncertainty" forecast suggests international tourism spend could still be below \$4b by 2024, compared to a \$12b spend pre-COVID, reflecting a continuation of low international visitor numbers, even when international travel returns.

Options Overview

- 30 The waiver of concession fees was made at a time of great uncertainty for the tourism industry, with limited time and information to make decisions on. While

support was able to be provided to tourism operators quickly, it was not a targeted approach, i.e. it only benefits those businesses that operate on PCL.

31 By 31 December 2021, tourism concessionaires will have had 22 months of fees waived. When the six-month extension was granted in April 2021, it was publicly signalled that concession fees would be reinstated on 1 January 2022, unless exceptional circumstances warranted a continued waiver of fees.

32 With the fee waiver set to lapse, a decision needs to be made regarding the future treatment of tourism related concession fees from 1 January 2022. I have considered three options:

32.1 **Option 1:** Extend the fee waiver for tourism concessionaires for a further six months to 30 June 2022.

32.2 **Option 2:** Extend the fee waiver for tourism concessionaires until borders re-open to the majority of international travellers.

32.3 **Option 3:** Allow the lapse of the concession fee waiver, reinstating concession fees for tourism concessionaires effective 1 January 2022.

33 The decision to extend the fee waiver or allow it to lapse is finely nuanced. Although challenges for tourism remain, the fee waiver will need to end at some point to establish the appropriate foundations for the industry's future. The rationale, issues and risks of each option are outlined below.

Summary of Options Analysis

	Option 1 and 2: Fee waiver extended	Option 3: Fee waiver lapses
Rationale	<ul style="list-style-type: none"> Tourism concessionaires connect people with nature and support communities. Acknowledges the context is constantly changing. Supports some tourism businesses to downsize or hibernate. 	<ul style="list-style-type: none"> Recognises that fees paid will reflect the level of business activity. Avoids creating market distortions and equity concerns from a concession fee waiver. Reduces pressure on DOC's baseline funding.

Option 1 – Extend the fee waiver for tourism concessionaires for six months (to 30 June 2022)

Rationale

34 An extension of the waiver would increase the likelihood of more concessionaires being able to deliver tourism services to visitors. Established concessionaires possess knowledge about visitor safety and local impacts, can meet returning demand quicker, and already hold the necessary permissions to operate on PCL.

- 35 The tourism sector has continued to adjust to a domestic market and the path to reconnecting with the world is now clearer. However, the ability of some concessionaires to pivot to the domestic market for the short or medium term is limited due to the nature of their product or geographic location.
- 36 This will provide support for tourism concessionaires until there is more certainty around the timing of border openings.

Issues and risks

- 37 The concession fee waiver was established as a form of temporary support, to allow businesses to adapt or pivot to a domestic market. It was not intended to be permanent.
- 38 A further waiver of all tourism related concession fees risks providing unnecessary financial support to businesses who have adapted well to a primarily domestic market. Additionally, it may delay necessary market adjustments for those operators who are no longer financially viable.
- 39 The fee waiver provides tourism concessionaires with a competitive advantage over those who operate on private land, assuming the latter do not receive rental relief. The activity-based nature of concession fees is already a respite not afforded to many operating on private land paying fixed rentals or property loan repayments.

Option 2: Extend the fee waiver for tourism concessionaires until international borders re-open to the majority of international travellers

Rationale

- 40 This is the same as paragraph 33 and 34 for Option 1.
- 41 Additionally, option 2 acknowledges that many tourism concessionaires are reliant on international markets. By linking the reinstatement of fees to the reopening of international borders the Department is further increasing the likelihood of concessionaires being able to deliver tourism services to international visitors when they return.

Issues and risks

- 42 These are the same as paragraphs 36-38 for Option 1.
- 43 The duration of extending the waiver until borders re-open to the majority of international travellers is unknown. The financial impact could extend into future financial years.

Option 3 – Allow the lapse of the concession fee waiver, reinstating concession fees for tourism concessionaires effective 1 January 2022

Rationale

- 44 Businesses derive a financial benefit from operating on PCL and should be charged a fee which fairly reflects that benefit. Activity fees are charged on a per-person or revenue percentage basis. If activity levels are low, so are fees.
- 45 An extension of the fee waiver would result in reduced baseline funding to DOC and, in the absence of additional funding allocated from other sources, would require cuts to core DOC programmes. Forecasting suggests the reduction in DOC baseline funding by extending the fee waiver for an additional six-months would be in the range of \$4.5-6.5m per annum.

Issues and risks

- 46 Although activity fees are only part of a business' total cost structure, those struggling to cover fixed costs may find a reinstatement of fees challenging. Many struggling businesses will have already adapted or hibernated their operations however, there is a minor risk some businesses may cease trading. This risk is most likely for the handful of tourism concessionaires who pay a fixed fee ^{Sec 9(2)(b)(ii)} [REDACTED] rather than the vast majority whose fees are based on their level of activity.

Financial Implications

- 47 As referenced in paragraph 15, activity fees are predominantly charged on a per person or revenue percentage basis to reflect the amount of activity an operator undertakes. Activity fees are collected as a royalty on behalf of the Crown. This revenue is then redistributed back to DOC the following year.
- 48 Pre-COVID, ~70% of tourism related activity fee revenue came from five large operators who are all domiciled in the districts with a high reliance on international tourism.
- 49 Therefore, irrespective of a further waiver of fees, the ongoing impact of COVID-19 and international border closures is expected to lead to reduced tourism numbers and revenue, resulting in a shortfall in activity fee revenue collected from tourism concessionaires. Until tourism activity recovers there will be a corresponding reduction in DOC's baseline in the following year.
- 50 A fee waiver extension will result in an additional cost pressure to DOC. The current climate makes forecasting revenue impacts difficult. DOC's original forecasting has the revenue shortfall (and subsequent cost pressure) of an additional six-month fee waiver at \$4.5-6.5m. Additionally, there is a further estimated shortfall (cost pressure) from tourism-related Departmental revenue of ~\$5m (e.g. campsites and great walks).
- 51 Additionally, if the fee waiver is extended until international borders reopen there is a risk that there will be financial implications beyond 30 June 2022.

52 Without additional funding or an accepted cost pressure bid, DOC will be required to reduce and reprioritise funding across core DOC work programmes. This includes programmes that underpin the value proposition of public conservation land to visitors such as track/hut maintenance and our heritage and biodiversity work programmes.

Legislative Implications

53 There are no legislative impacts arising from this paper.

Impact Analysis

54 There are no regulatory proposals in this paper, and therefore Cabinet's impact analysis requirements do not apply.

Population Implications

55 Many tourism operators have adapted to the primarily domestic market, and so a return to paying concession fees should not have any disproportionate effects on population groups. However, I note that we can expect fewer international tourists for some time yet and that operators that predominately rely on international visitors may struggle, e.g., Māori cultural tourism offerings and some smaller, rural communities.

Human Rights

56 There are no human rights implications arising from this paper.

Consultation

57

Sec 9(2)(b)(ii)



58 The Treasury and the Ministry of Business, Innovation and Employment were consulted on this paper. They were both in support of a reinstatement of fees. The Department of Prime Minister and Cabinet was informed.

59 While I have not formally consulted with the industry on this matter, I have received a letter from TIA requesting that fees are waived for an additional six-months, and from TEC requesting the fees are waived until one year after the international border are reopened. TEC assumed international borders would reopen in March 2022.

Communications

- 60 I will announce the Cabinet's decision as soon as practicable after it is made, in consultation with the Prime Minister, the Minister of Finance and the Minister of Tourism. DOC will inform the public and industry stakeholders via its usual channels.

Proactive Release

- 61 I intend to proactively release this Cabinet paper, subject to and redactions consistent with the Official Information Act 1982, when I make my announcements.

Recommendations

The Minister for Conservation recommends that the Committee:

- 1 **Note** that in June 2020, Tourism Recovery Ministers agreed to waive activity, management and monitoring fees for tourism concessionaires that were payable for the period 1 March 2020 to 30 June 2021. \$25m from the Tourism Recovery Fund was transferred to the Department of Conservation to fund this;
- 2 **Note** that in April 2021, Cabinet agreed to extend the fee waiver for an additional six months to 31 December 2021, with up to \$10m of funding being made available to DOC from the Government's \$200m Tourism Communities: Support, Recovery and Re-set plan. [DEV-21-MIN-0067]
- 3 **Note** that as part of this package Cabinet directed the Department of Conservation to undertake a review of the impact on tourism concessionaires, with the Minister for Conservation reporting back to Cabinet in October 2021;
- 4 **Note** that the current concession fee waiver lapses on 31 December 2021;
- 5 **Note** that the Minister of Conservation recommends that concession fees for tourism concessionaires be reinstated from 1 January 2022;
- 6 **Agree** to either:
 - 6.1 Extend the fee waiver for tourism concessionaires for a further six months to 30 June 2022; or
 - 6.2 Extend the fee waiver for tourism concessionaires until borders re-open to the majority of international travellers; or
 - 6.3 Reinstatement of concession fees for tourism concessionaires effective 1 January 2022;
- 7 **Note** that activity fees are Crown revenue which is distributed to DOC's baseline funding the following year, and that an extension to the fee waiver would impact DOC's baseline funding;

- 8 **Note** that without additional funding or an accepted cost pressure bid, DOC will be required to reduce and reprioritise funding across core DOC work programmes.

Authorised for lodgement

Hon Kiritapu Allan

Minister of Conservation

RELEASED BY THE MINISTER OF CONSERVATION