



## BRIEFING

### Next Steps for the Strategic Tourism Assets Protection Programme and Tourism Recovery Fund

<b>Date:</b>	15 July 2020	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	20-21 0195

Action sought		
	Action sought	Deadline
Hon Kelvin Davis <b>Minister of Tourism</b>	<b>Agree to either</b>  Option One – Cease further work on the STAPP and pause the programme  or  Option Two – Fund a small selection of STAPP applicants which could be selected on the basis of stronger emphasis on regional spill over benefits to regions  or  Option Three – Support a selection of STAPP applicants through semi-commercial loans	16 July 2020
Hon Grant Robertson <b>Minister of Finance</b>		
Hon Nanaia Mahuta <b>Minister for Māori Development</b>		
Hon Eugenie Sage <b>Minister of Conservation</b>		
Fletcher Tabuteau <b>Under Secretary Regional Economic Development</b>		

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Saskia Vervoorn	Manager, Tourism Policy	04 896 5723	s 9(2)(a) ✓
s 9(2)(a)	Policy Advisor, Tourism System and Insights	s 9(2)(a)	

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

MBIE consulted with the Department of Conservation and Tourism New Zealand for the development of this advice. Due to the timeframe in which this advice was developed, only limited consultation occurred with The Treasury and Te Puni Kōkiri.

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments



## BRIEFING

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#### Purpose

This paper provides high level options for the next steps on the Strategic Tourism Assets Protection Programme (STAPP) following the Tourism Recovery Ministers' (TRM) meeting on Thursday 9 July 2020.

#### Recommended Action

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a. **Note** on 9 July 2020, Tourism Recovery Ministers asked officials to propose next steps for the STAPP  
*Noted*
- b. **Note** the changed economic context from the time STAPP was originally designed  
*Noted*
- c. **Agree to either**
- Option One – Cease further work on the STAPP and pause the programme (recommended)  
*Agree / Disagree*
- or*
- Option Two – Fund a small selection of STAPP applicants which could be selected on the basis of stronger emphasis on regional spill over benefits to regions  
*Agree / Disagree*
- or*
- Option Three – Support a selection of STAPP applicants through semi-commercial loans  
*Agree / Disagree*
- d. **Agree** not to proceed with previously agreed support for ITO sector for consistency with the change in approach to the STAPP  
*Agree / Disagree*
- e. **Agree** MBIE work with relevant agencies to provide advice on further options for the tourism recovery fund to TRM, including options to support the industry in its current form and supporting the transition to an improved future state (some of this advice development is already advanced as paragraphs 29 and 30 indicate)  
*Agree / Disagree*

- f. **Agree** that, as part of its broader advice on further broad-based support mechanisms for SMEs, Treasury, in consultation with MBIE and TNZ, consider modification of existing government loans schemes to help tourism businesses respond to the pressures they're facing

Agree / Disagree



Saskia Vervoorn  
**Manager, Tourism Policy**  
Labour, Science and Enterprise, MBIE

15 / 7 / 2020  
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Hon Kelvin Davis  
**Minister of Tourism**

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Hon Eugenie Sage  
**Minister of Conservation**

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Hon Grant Robertson  
**Minister of Finance**

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Fletcher Tabuteau  
**Under Secretary, Regional Economic  
Development**

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Hon Nanaia Mahuta  
**Minister for Māori Development**

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## Strategic Tourism Assets Protection Programme

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1. The STAPP was established through Budget 2020 as a tool to prevent economic scarring that would slow down any tourism recovery [DEV-20-MIN-0080].
2. Subsequently it was agreed that there was a need to expedite support through the STAPP and a truncated process was run [Briefing 3344 19-20].
3. During the TRM meeting on Thursday 9 July 2020, Ministers agreed to not approve any further allocation of STAPP funding at this time [meeting minutes in **Annex One**].
4. TRMs noted the significant assessment of STAPP applications that officials had completed and recognised that, due to the timeframes requested by TRM, a high trust and truncated process was undertaken and this impacted the depth of assessment.
5. From the information provided, TRMs were not able to confidently identify 'strategic tourism assets' from other tourism assets.
6. TRMs also did not consider they had enough information on individual tourism assets to decide whether or not support through the STAPP was appropriate.
7. TRMs were also concerned that analysis of STAPP applications indicated a high number of the more well-known tourism assets are owned and operated by larger firms who have made considerable profits over the past few years, and who prima facie should have commercial options available to them.

## Changed economic context

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8. The development of the STAPP recognised that travel and tourism was particularly hard hit by COVID-19, and that there was a high degree of uncertainty around the recovery of the tourism sector. Importantly, the STAPP was designed at a time of uncertainty around domestic tourism, and a Trans-Tasman bubble appearing likely before the end of 2020 and wider international travel in 2021 being a serious possibility.
9. As such, the initial STAPP funding round was considered as part of government's fiscal stimulus response, providing a bridge for the industry and securing strategic tourism assets that provide beneficial network effects until the trans-Tasman bubble and wider international travel could lift demand.
10. Since then, several things have become apparent:
  - Consumer spending in New Zealand has shown positive signs, although it is too early to see the full impacts of COVID-19 (they may be masked by stimulus, and the international situation hasn't stabilised).
  - The prospects for global travel in the foreseeable future have reduced, with setbacks in Australia, and the impacts of increasingly divergent approaches to the management of COVID-19 playing out around the world.
  - There have been reports of strong domestic tourism and firms are continuing to adjust to the changed reality of domestic tourism (initial peaks may be the product of pent-up demand and school holiday travel).
  - Firms now have clarity on the future of wage subsidy support.
11. As such, the requirements for a tourism recovery plan looks different now compared to a few months ago. In particular, economic scarring through the loss of strategic tourism assets appear less imminent in the short term but, equally, the future is more uncertain that it was a few months ago.

## Options for the STAPP

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12. Following the decisions made by the TRMs on 9 July 2020, TRMs asked that officials develop alternative options for the STAPP. We have set out three options for consideration below. Officials recommend proceeding with Option One. This could be combined with the redeployment of the Tourism Recovery Funds as described from paragraphs 28 to 31.

### Option One – Cease further work on the STAPP and pause the programme.

13. TRM could direct MBIE to cease work on the STAPP, not fund any more tourism assets through this current process and pause the programme. The rationale for this decision would be as follows:
- Any economic scarring will likely not manifest for several months. There have been positive signs of strong domestic tourism flows in many parts of the country. This, combined with the uptake of government broad based COVID-19 support measures, such as the extension of the wage subsidy and DOC concessions waiver, has likely put many of the STAPP applicants in a stronger financial position than when the STAPP was announced. Many tourism assets, especially those operated by larger firms, are less likely to be at imminent risk of failure.
  - But equally the longer term is more uncertain and there is no guarantee that a grants scheme now would be the most appropriate mechanism to support longer term recovery.
  - It is expected that impacts will become more pronounced once the Wage Subsidy Scheme comes to an end in September.
  - The long-term implications of COVID-19 and New Zealand's response to COVID-19 on tourism remains unclear. Postponing or closing the STAPP now will preserve Crown funds, allow officials to conduct further empirical analysis and provide advice accordingly on more informed and better targeted support mechanisms when COVID-19 impacts become clearer.

### Option Two – Support a small selection of STAPP applicants

14. Alternatively, TRMs may wish to fund a small selection of strategic tourism assets, which could be selected on the basis of stronger emphasis on regional spill over benefits to regions. This may mean TRMs intervening for tourism assets that:
- operate in those regions experiencing the most pronounced economic downturn as a result of COVID-19 or, in regions previously most exposed to international visitors; and that
  - genuinely and defensibly act to bring in visitors specifically for their asset or extend visitor stays in regions to overnight (i.e. support assets that, if they did not operate, would result in many visitors passing through during the day).

While MBIE has not yet completed a detailed assessment, example of target regions may be the West Coast and Southland.

15. Funding up to approximately 10 assets at this scale would also allow for proper due diligence to be undertaken to ensure that in these cases the Crown would genuinely be fulfilling the role of a liquidity provider of 'last resort'.
16. s 9(2)(h)
17. s 9(2)(h)

18. s 9(2)(h)

### **Option Three – Support a selection of STAPP applicants through semi-commercial loans**

19. Lastly, TRMs may still wish to support a selection of strategic tourism assets through loans.
20. In light of the changed economic context and industry feedback, the Crown can justify being less willing to deploy grants as there is less certainty that an asset would survive until international visitors return in sufficient numbers.
21. Using semi-commercial loans, would help mitigate Crown risk in supporting these strategic tourism asset and be better suited for current economic context.
22. This will also allow TRMs to use the information and analysis available through the current STAPP process and not need substantial new information.
23. The use of loans is still within scope of the STAPP and was an agreed mechanism [Briefing 3344 19-20].
24. Loan interventions do take longer and more resource to setup and administer, but with the current positive signs of domestic tourism, many tourism businesses are in more positive positions than first anticipated and less risk of imminent failure. It is also not unreasonable to expect the private sector to share the increased uncertainty and risk.

### **ITO support through STAPP**

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25. At their meeting on 2 July 2020, TRMs agreed to remove all ITO applications from the STAPP application process and make up to \$20 million available from the Tourism Recovery Package for Inbound Tour Operator (ITO)-specific support. ITOs were only being considered for support as a subset of the strategic tourism assets. If we don't proceed with further STAPP funding (or only in limited form), it would not be consistent to proceed with funding for the ITO sector.
26. In order to progress application design, MBIE has had in-confidence discussions with the Tourism Export Council about the proposed support for the ITO sector but no public commitment has yet been made.
27. If options two or three for the STAPP are chosen, it is unlikely that ITOs who applied through the STAPP will receive support through current STAPP criteria.

### **Further options for the Tourism Recovery Fund**

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28. The options presented above for the STAPP would result in significantly less investment than first anticipated. There will likely be a significant portion of the \$400 million Tourism Recovery Fund left over, regardless of which option is chosen.
29. Options to support the industry in its current form:
  - Major activities and events funding to stimulate domestic visitation and build consumer confidence (advanced)
  - Demand stimulation for domestic tourism to complement the Tourism NZ marketing (requires further consideration and consultation)
  - A loan scheme to provide liquidity (requires further consideration and consultation)
30. Supporting the transition to an improved future state:
  - Digital uplift fund (relatively advanced)

- Innovation fund (relatively advanced)
- Regional Tourism Organisations reform (relatively advanced)
- iSite reform (advanced)

31. s 9(2)(b)(ii)

## **Modifying existing government loans schemes**

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32. MBIE understands that Treasury is developing advice on further broad-based support mechanisms for SMEs. As part of this, officials could consider whether the modification of existing government loans schemes, such as the Business Finance Guarantee Scheme and Small Business Cashflow (loan) Scheme, would be effective in helping tourism businesses respond to the pressures they're facing.
33. Consideration could be given to whether modifying existing terms (such as amounts lent, security requirement and repayment terms) would result in notable increase in uptake of the program and, consequently make the modifications a worthwhile exercise for the Crown.
34. Should it be appropriate, this offering could be extended to other trade-exposed industries significantly impacted by border restrictions and COVID-19 related health regulations.
35. Should such an approach be pursued, ITOs would, in principle, be eligible for support as well.

## **Annexes**

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Annex One - Tourism Recovery Ministers Meeting

## **Annex One - Tourism Recovery Ministers Meeting**

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**Tourism Recovery Ministers met on Thursday, 9 July 2020 to discuss the proposals for Strategic Asset Protection Programme funding.**

Tourism Recovery Ministers:

- noted the work of officials to assess and summarise the applications in a short timeframe.
- noted that the application process followed was high-trust and truncated due to the short timeframes. This created limitations in the quality of the applications including a variability in the information provided.
- noted that there had been a change to the operating environment for tourism businesses in the time since the funding was announced and the applications were being considered. This included delays to the Trans-Tasman bubble, extending the Wage Subsidy, establishment of the DoC Concessions relief fund and an increase in domestic tourism in many areas of the country.
- noted that because of these changes, it is difficult to assess what qualifies as a 'strategic tourism asset' against other tourism assets.
- noted that a number of the key attractions in the tourism industry are concentrated in a small number of companies
- noted that applicants had declared that they had exhausted alternative sources of funding but that officials were unable to independently determine that this was the case in the time available
- noted that officials could not confirm that the underlying asset (as opposed to the firm or current owner) would be lost to the Tourism system in the absence of a Crown intervention
- noted concerns about the most appropriate mechanism to support the tourism system
- asked officials to develop options for STAPP funding (fund a much smaller number of tourism assets with a stronger emphasis on regional importance) or other support for tourism businesses through the Tourism Recovery Package