



BRIEFING

Support for Inbound Tour Operators

Date:	23 June 2020	Priority:	Medium
Security classification:	In Confidence	Tracking number:	3728 19-20

Action sought		
	Action sought	Deadline
Tourism Recovery Ministers Group Hon Kelvin Davis Minister of Tourism Hon Grant Robertson Minister of Finance Hon Nanaia Mahuta Minister of Māori Development Minister of Local Government Hon Eugenie Sage Minister of Conservation Fletcher Tabuteau Secretary of Regional Economic Development	<p>Note that inbound tour operators (ITOs) play an important part in the tourism system, but are not readily comparable against all three Strategic Tourism Assets Protection Programme (STAPP) eligibility criteria and that we recommend that the ITO applications are considered separately.</p> <p>Note that a large number of applications from ITOs have been received for the STAPP.</p> <p>Note that MBIE has submitted a bid for support for ITOs to rebuild demand in international markets as part of Wave 3 of the COVID-19 Response and Recovery Fund.</p> <p>Agree that support for ITOs be funded separately from the Tourism Recovery Fund in the event that the Budget bid is unsuccessful.</p> <p>s 9(2)(h)</p> <p>Agree that, if funding is made available to support ITOs, MBIE will conduct a separate application and assessment process for the ITO sector.</p> <p>Agree that officials will work in partnership with Tourism New Zealand and Tourism Export Council New Zealand to determine the most appropriate approach to supporting key ITOs.</p> <p>Agree that MBIE report back to the TRM Ministers' next meeting on the detail for</p>	25 June 2020

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	<p>determining eligibility of ITOs for further funding and how applications will be assessed.</p> <p>Note that conducting a separate process will likely result in a delay in the consideration and announcement of funding for ITOs to the rest of the STAPP process.</p>	
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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)	Senior Policy Advisor, Tourism System and Insights	s 9(2)(a)		

The following departments/agencies have been consulted
Tourism New Zealand

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



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Purpose

This briefing provides the Tourism Recovery Ministers Group with background on the role of inbound tour operators (ITOs) in the tourism system, the impacts of COVID-19 on ITOs, the difficulty of using the STAPP process to assess ITOs' intangible assets alongside physical tourism assets and officials' recommended approach to considering support for ITOs.

Recommended action

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

- a **Note** that inbound tour operators (ITOs) play an important part in the tourism system, but are not readily comparable against all three Strategic Tourism Assets Protection Programme (STAPP) eligibility criteria and that we recommend that the ITO applications are considered separately. *Noted*
- b **Note** that a large number of applications from ITOs have been received for the STAPP. *Noted*
- c **Note** that MBIE has submitted a bid for support for ITOs to rebuild demand in international markets as part of Wave 3 of the COVID-19 Response and Recovery Fund. *Noted*
- d **Agree** that support for ITOs be funded separately from the Tourism Recovery Fund in the event that the Budget bid is unsuccessful.

Agree / Disagree

e

s 9(2)(h)

- f **Agree** that, if funding is made available to support ITOs, MBIE will conduct a separate application and assessment process for the ITO sector. *Agree / Disagree*
- g **Agree** that officials will work in partnership with Tourism New Zealand and Tourism Export Council New Zealand to determine the most appropriate approach to supporting key ITOs. *Agree / Disagree*
- h **Agree** that MBIE report back to the TRM Ministers' next meeting on the detail for determining eligibility of ITOs for further funding and how applications will be assessed. *Agree / Disagree*

Agree / Disagree

- i **Note** that conducting a separate process will likely result in a delay in the consideration and announcement of funding for ITOs to the rest of the STAPP process.

Noted

 <p>Saskia Vervoorn Manager, Tourism Policy Labour, Science and Enterprise, MBIE 23/06/2020</p>	<p>Hon Kelvin Davis Minister of Tourism / /</p>
<p>Hon Eugenie Sage Minister of Conservation / /</p>	<p>Hon Grant Robertson Minister of Finance / /</p>
<p>Fletcher Tabuteau Secretary of Regional Economic Development / /</p>	<p>Hon Nanaia Mahuta Minister of Māori Development Minister of Local Government / /</p>

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Background

1. Inbound tourism relates to all international tourist traffic entering a country. Inbound tour operators' (ITOs) role in the tourism system is to provide a link between overseas consumers, retail agents and wholesalers and New Zealand tourism operators or suppliers of tourism products. ITOs stimulate demand for New Zealand tourism product.
2. ITOs are one part of the travel distribution system, which is a complex, global network of independent businesses. The relative importance of the role that ITOs play in stimulating demand varies from market to market and there is no longer necessarily a linear sales pipeline between suppliers and purchasers, including because of the ability for consumers and wholesalers to purchase products directly or through online travel agents. Trade channels in some markets are more distributed meaning there is a less pivotal role for ITOs (Australia) and others remain more linear with a large amount of trade moving through ITOs (China and Indonesia). It is also not uncommon for an ITO to be part of a larger company that operates a wholesale arm in an overseas market, or for a wholesaler to also operate the travel agencies that sell its packages. ITOs can also conduct tour operations themselves in New Zealand.
3. There are more than 86 ITOs across New Zealand. The trade association, Tourism Export Council New Zealand (TECNZ) represents 76 ITOs and approximately 90 per cent of ITO volume. TECNZ acts as an advocate for the New Zealand inbound tour industry and tourism industry operators.

Current situation

4. Sustained New Zealand border restrictions have impacted the many ITOs who are dependent on international markets for the majority of their revenue. While ITOs are understood to be continuing to take forward international bookings, the revenue received for these bookings will likely be held in trust rather than providing ITOs with a source of cash flow.
5. ITOs have accessed support via the Government's broad based business support options, including the Wage Subsidy Scheme, Small Business Cash Flow Loan Scheme and the Temporary Loss-Carry Back Scheme. However, the finite nature of these broad-based measures, challenges associated with securing bank loans or private investment, and the uncertainty over when the border will reopen will mean that many ITOs will not see a meaningful return in revenue for many months and face imminent decisions about staff retention and business hibernation or closure.
6. Some ITOs are attempting to pivot to the domestic market. However, New Zealanders are typically confident to book travel themselves. The domestic market is small and will not sustain competition for a large group of ITOs to compete over.
7. Many ITOs do not operate in the Australian market, so a Trans-Tasman safe travel zone would also have limited impact on ITO revenues. This is because in short haul markets, such as Australia, visitors often travel to New Zealand more than once and purchase shorter, more frequent trips. With familiarity comes the confidence to plan their own trip, travel to destinations beyond the gateways or travel in a less structured, more independent style.
8. Many ITOs have developed long-standing relationships with overseas wholesalers and international buyers. These relationships include the understanding of cultural expectations and visitor preferences in those markets. If key ITOs were to exit the tourism industry it would take time and resources to re-establish these relationships. There is also a special class of ITOs and tour operators for the Chinese group market that have obtained Approved Destination Status (ADS), which takes time to obtain.

9. When international travel resumes, these trade relationships will be critical to re-establishing market share and maintaining New Zealand's presence in a highly disrupted and competitive marketplace.
10. Some ITOs have innovated to be able to increasingly provide customised itineraries with broader options than the traditional offerings. Some ITOs have developed special interest products (educational, golf, farm tours) and markets (luxury) that potentially attract visitors to New Zealand who would not have come otherwise.

Strategic Tourism Assets Protection Programme (STAPP)

11. MBIE has received 44 applications from ITOs to the STAPP, s 9(2)(b)(ii) s 9(2)(b)(ii) The remaining applicants requested approximately \$28 million in total support. Details of applications by ITOs are included in Annex One.
12. Provision exists within the STAPP for intangible assets to be considered in scope where they fit any of the attraction, access or amenities asset categories. An example was given to Ministers [MBIE 334 19-20] that 'where an inbound tourism operator has extensive trade relationships that enables visitors to access attractions, this could be eligible'. ITOs demonstrably provide an access conduit to New Zealand tourism operations.
13. The design of the STAPP was intended to capture a broad range of tourism assets. However, although eligible to apply for the STAPP, most ITO applicants will receive low scores against the generic criteria relative to other applicants in the STAPP assessment, particularly in relation to strategic significance. The process was designed primarily to support the protection of physical assets, so intangible assets, such as trade relationships, are proving relatively less competitive.
14. Due to the significant role that ITOs play in the tourism system, MBIE officials recommend that applications received for the STAPP should be separated and dealt with through a separate process.
15. s 9(2)(h) MBIE officials recommend a truncated process be made available to all ITOs to apply to the ITO-specific fund and that ITO applicants to the STAPP be given the opportunity to resubmit amended applications to respond to the revised ITO-specific eligibility criteria.
16. MBIE officials recommend the ITO assessment process involve a partnership with Tourism New Zealand (TNZ) and Tourism Export Council New Zealand (TECNZ) to determine the most appropriate approach to supporting key ITOs. MBIE and TNZ recommend a market-based approach to protecting key ITOs in critical markets and their trade relationships. Officials will discuss such a partnership with TECNZ if this approach is approved by the Ministers Group. This approach roughly accords with TECNZs proposal for how support for the sector should be determined. Ministers will still make final decisions on funding for ITOs.
17. The proposed process will necessarily entail some delay in the assessment and announcement of support for ITOs. The details of the forward process will be provided to Tourism Recovery Ministers for the 2 July 2020 meeting.

Market-based portfolio approach

18. A market-based approach would provide funding support to ITOs with market penetration in New Zealand's most valuable post-COVID market or markets as well as key segments within those markets (such as group, luxury, free independent travellers, ADS).
19. Funding support would be allocated to ITOs that have the greatest market penetration in specific markets. Funding could prioritise the ITOs with footprints in key markets or could take a portfolio approach to ensure a range of markets and market segments are represented.

Good practice-based

20. Funding could also be provided to ITOs demonstrating 'good practice'. For example, ITOs that have demonstrated a commitment to sustainability (including social, environmental, and economic sustainability) could be prioritised. ITOs that have helped shape demand and progress regional and seasonal dispersal goals could also be prioritised.
21. This approach would recognise previous good practice and elevate ITO practice leaders, rather than attempting to shift future practice of previous poor performers through the use of conditions in funding.

Possible funding mechanisms

22. The advice below is provided without visibility of any additional broad based support that may be under consideration by government, such as a further extension of the Wage Subsidy Scheme or other liquidity support for firms, which may alleviate pressures on ITOs.
23. Funding could be made available through Wave 3 of the Budget as a separate allocation, as a part of the Tourism Recovery Package or ITOs' applications could be processed through the Strategic Tourism Assets Protection Programme (STAPP) alongside other applications.
24. On 17 June, MBIE submitted a 'Support for inbound tour operators (ITOs) to rebuild demand in international markets' initiative to the COVID-19 Response and Recovery Fund (CRRF) for \$20m to support 10-12 key ITOs that service critical markets. Officials recommend that Ministers support funding for ITOs from the CRRF to ensure that the Tourism Recovery Fund can be utilised to protect tourism product supply, while CRRF funds are used to safeguard and/or stimulate demand.
25. Should this bid not be successful, Ministers may elect to fund ITOs from the \$400 million Tourism Recovery Package. This will necessitate less funding being made available for the retention of tourism assets and support to firms to pivot to the new market conditions.
26. Funding could be ring-fenced from the Tourism Recovery Package to provide support to ITOs outside of the STAPP generic application process, similar to that provided to the RTOs.
27. The proposed partnership of MBIE, TNZ and TECNZ would need to consider whether it is appropriate that those ITOs that also operate a tour function in New Zealand should have their applications split, with the inbound tourism component of the business being considered through the ITO funding and the tour operation component assessed through the STAPP.
28. MBIE officials recommend that Tourism Recovery Ministers consider the provision of any funding for ITOs from the Tourism Recovery Package alongside the STAPP applications, Tourism Transitions Programme and New Zealand Tourism Futures Taskforce priorities.

Annexes

Annex One: STAPP applications from ITOs

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Business Trading Name (RFA)	FTEs in 2019	Business Revenue in 2019	Visitor numbers	Total Funding Requested
s 9(2)(b)(ii)				

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