

Coversheet: International Visitor Conservation and Tourism Levy

| | |
|---------------------|---|
| Advising agencies | Ministry of Business, Innovation and Employment |
| Decision sought | Implementing a levy on international visitors travelling to New Zealand to fund tourism infrastructure and conservation |
| Proposing Ministers | Hon Kelvin Davis |

Summary: Problem and Proposed Approach

Problem Definition

What problem or opportunity does this proposal seek to address? Why is Government intervention required?

Recent high growth in visitors has put pressure on visitor infrastructure (including on facilities and public conservation lands and waters managed by the Department of Conservation). The underlying problem is that visitors do not generate a revenue stream directly back to infrastructure owners for them to invest in assets and maintenance. The revenue that is generated from visitors through GST or rates on visitor-related businesses for example, is used to fund a range of public services.

Proposed Approach

How will Government intervention work to bring about the desired change? How is this the best option?

A package of funding tools is required to ensure those benefiting also help to fund costs, thereby addressing some of the challenges resulting from visitor growth. The first of these measures is the International Visitor Conservation and Tourism Levy (IVL). The investment will be used where other forms of revenue are difficult, or to support revenue generation.

The IVL alone will not fully address all the issues identified; instead it is a first step in a wider funding package. It will fill the gaps that other funding tools in the package can not address.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

No specific decisions have been made on where IVL revenue will be spent. As noted above, it is envisaged that \$80 million revenue will be used to support conservation and enhance tourism infrastructure. Therefore, the direct beneficiaries are likely to include central government agencies such as the Department of Conservation, and local government agencies responsible for most public tourism infrastructure.

Indirect beneficiaries include local communities in high visitor areas and domestic visitors who are currently 'crowded-out' due to capacity constraints.

Industry will also benefit as the IVL will contribute to a better visitor experience and maintaining the local community support for the sector to operate.

Where do the costs fall?

The cost falls directly on those who are liable for the IVL (i.e. most international visitors). New Zealand citizens and permanent residents are exempt from the IVL.

Administrative and compliance costs are minimal, as the collection of the IVL will be through existing immigration systems.

The IVL, like any other charge, may have impacts on commercial activity. This is likely to be limited to any price sensitivity effects on demand. As the IVL is less than 1 per cent of average visitor spend, price effects are expected to be low. However, there is limited information available.

What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

Increasing the costs of travel could impact New Zealand's attractiveness as a destination. Estimates on ticket price sensitivity have a wide range, with a point estimate of 1% one-off drop in growth in visitor volumes. However, the proposal has some significant variations from the scenario modelled:

- The IVL will be charged via immigration fees. These are highly inelastic, and remain comparable with other countries.
- The most price sensitive markets (Australia and Pacific Islands) have been exempted (though the key driver for the exemption is our international interests).
- Competitive dynamics (pricing), exchange rate movements, and global economics all affect demand to a greater degree than the proposed charge (which is less than 1% of average spend). The tourism forecasts considered the IVL charge, but did not make any adjustment for them as \$35 was not considered to have sufficient impact.

Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

The IVL is consistent with the Government's 'Expectations for the design of regulatory systems'.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?

Evidence of shortfalls in investment

Overall, there is sufficient evidence of a large scale shortfall in visitor-related infrastructure investment to support the introduction of the IVL. This is supported by sector reports that suggest that the total visitor-related infrastructure investment required could be in the order of \$100-\$150 million per annum. However, there are some limitations in the analysis and figures should only be considered as an indicator of scale.

Information on visitor forecasts

MBIE produces forecasts for both international tourism and visa pricing. The former are published annually to inform sector stakeholders, and the latter is used to inform visa fees. Both have a reasonable degree of reliability, though visa forecasts only cover a three year period.

Information on price effects of charging the IVL is limited, as noted above. MBIE considers the available figures to be high-end estimates.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:

The Treasury and the Ministry of Business, Innovation and Employment

Quality Assurance Assessment:

A joint quality assurance team from The Treasury and the Ministry of Business, Innovation and Employment has reviewed this Regulatory Impact Statement and considers that it meets the quality assurance criteria, enabling for Ministers to fairly compare the available policy options and take informed decisions on the proposals in this paper.

Reviewer Comments and Recommendations:

Section 1: General information

| |
|---|
| Purpose |
| The Ministry of Business, Innovation and Employment (MBIE) is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by Cabinet. |
| Key Limitations or Constraints on Analysis |
| <p>While the Government committed to introducing a levy on international visitors as part of its election manifesto, MBIE has considered a range of funding tools, including the IVL, to address the issues around conservation and tourism infrastructure. Alternative funding tools have not been thoroughly assessed for this RIA, but preliminary analysis is included.</p> <p>The RIA focusses on two short-listed implementation options for the IVL.</p> <p><i>Evidence of shortfalls in investment</i></p> <p>MBIE considers there is sufficient evidence of a large scale shortfall in visitor-related infrastructure investment to support the introduction of the IVL. This is supported by:</p> <ul style="list-style-type: none">• Sector reports that suggest that the total visitor-related infrastructure investment required could be in the order of \$100-\$150 million per annum. Due to some limitations in the analysis, figures should only be considered as an indicator of scale.• Stakeholder feedback, including MBIE Peak Season reviews that identify pressures in some hot-spots.• Engagement with local government on specific projects, for example for Tourism Infrastructure Fund projects. <p><i>Information on visitor forecasts</i></p> <p>Each year, MBIE produces international tourism forecasts to support planning and investment processes in the tourism industry. For the 2017 forecast, total arrivals were over-forecast by 0.3 per cent, while spend was over-forecast by 1.2 per cent, making it the most accurate forecast over the last seven years.</p> <p>Immigration New Zealand also collects immigration data of all arrivals into New Zealand. It also prepares forecasts of arrivals to support its pricing of visa applications. However, current forecasts are only available out to the year 2020, which is the proposed first year of the IVL.</p> <p>Information on price effects on demand is limited. MBIE’s forecast team consider the price effect to be too small to warrant adjusting forecasts.</p> |
| Responsible Manager (signature and date): |
| Richard Davies Tourism Policy Labour, Science and Enterprise Ministry of Business, Innovation and Employment |

Section 2: Problem definition and objectives

2.1 What is the context within which action is proposed?

2.3 What is the policy problem or opportunity?

Growing tourism sector offers opportunities to enrich NZ and New Zealanders

The tourism sector contributes positively to New Zealand’s economy; it creates employment opportunities, improves regional connectivity and supports amenities and services that would not otherwise be available in smaller communities.

Tourism is one of New Zealand’s largest sectors. In the year ended March 2017, tourism’s total contribution to GDP was estimated at \$36 billion to GDP, or 10 per cent of total GDP.

Estimates of crown benefit from international visitors suggest \$3.2 billion in revenue, and \$600 million in expenditure. In round terms, this suggests international visitors make a 3% net contribution to Crown revenue (making up 4% of the population on average).

In recent years, New Zealand has experienced significant visitor growth, with international visitor numbers increasing from 2.6 million in 2012 to 3.7 million in 2017. This growth is forecast to continue, reaching 5.1 million international visitors by 2024.

Tourism sector is reliant on publicly provided infrastructure where costs are not always met by users

Tourism, as a system, is heavily reliant on the provision of infrastructure and protection of our natural attractions. These are used by local residents, and domestic and international visitors.

Tourism infrastructure and services (including public conservation lands) have been put under pressure due to recent unexpectedly high visitor growth. Growth is expected to continue.

Many goods and services used by visitors are not provided by the market, because

- they are a public good (non-excludable, non-rival) ie there is no commercial proposition because you can’t charge for it and/or
- there are externalities (positive and negative) that make private provision lower than the level that is socially desirable (public toilets wouldn’t be provided in small towns, but this is desirable from a public health perspective, and visitor experience) and/or
- public provision may be more efficient (due to information asymmetries, transaction costs, or natural monopoly)

These three factors result in public provision. However, this means that tax- and rate-payers pay for provision, but they are only a portion of the beneficiaries. As a result those who benefit are not the same group as those who pay (free rider problem).

Government (local and central) also face financial constraints:

- scope for revenue may be limited because the goods are public goods, or due to expectations of free provision eg free access to public conservation lands
- historical settings mean that businesses and experiences have been built on a subsidised set of infrastructure (this can be addressed over time, but doesn’t fix the

problem now).

- Government and Councils have made trade-offs between priorities within their budget constraints which have resulted in under-investment/under-provision (this isn't to say that funds haven't gone to best use)

While some revenue options do exist within current settings, accessing them may take time. For example:

- a transition period to enable businesses to adjust to targeted rates that cost-recover (avoiding shocks)
- capital investment to enable new (smarter) revenue systems (enabling collection, differential charging etc)
- a social process is required to ensure new policies (eg user pays) are accepted and can endure.

The main areas where these effects manifest are visitor-related or mixed-use local infrastructure and public conservation lands (arguably NZ's major drawcard).

Visitor growth is exacerbating underlying capacity constraints

Both central and local government are also dealing with situations where infrastructure has not kept up with domestic growth and/or no longer meets modern standards and expectations. The growth in visitor numbers has further exacerbated this problem, especially where local demands are already causing capacity constraints.

To maintain the visitor experience and social licence for tourism, we need to address funding for publicly provided tourism related infrastructure and services

Without intervention, the current issues are likely to continue to grow, especially given the forecast of continued growth in the tourism industry. This could lead to a loss of social licence for the tourism sector (as has been seen overseas) and/or negative impacts on the visitor experience. Both would damage New Zealand's reputation as a destination (with potential flow-ons to other spheres), and a reduction in the size of our tourism sector (and therefore the economy).

Evidence/symptoms of the current problem (identified through a range of sources) include:

- Over-crowding at visitor hot-spots, resulting in adverse impacts in the immediate environment and deterioration in the visitor experience.
- Locals and domestic visitors cannot access places in the way they traditionally could when numbers were lower.
- A perception that local taxpayers are bearing the financial burden of visitor-related infrastructure for the benefit of international visitors.
- Loss of local community support for the tourism sector to operate.

If these issues are not addressed, the costs of tourism could potentially outweigh the benefits we enjoy as a result of a thriving tourism sector, including employment, amenities, economic benefits and connections with our trade partners. The sector could also contract as a result of deterioration in the visitor experience, or loss of local community support for the sector

Government intervention is necessary to ensure funding for conservation and tourism infrastructure is placed on a financially sustainable footing. This means that those who

benefit from infrastructure and services provided are contributing meaningfully to costs.

2.2 What regulatory systems are already in place?

Local Government

Local government is one of the primary providers of visitor-related infrastructure. Local government's main revenue source is rates, which is provided through the Local Government (Rating) Act 2002. In addition, local government also has a range of user-charge options. Local government's ability to respond to the problem is constrained by a number of factors:

- Local councils are primarily focussed on the needs of their ratepayers and are reluctant to invest in infrastructure where locals are not the major beneficiaries.
- Developing regions are required to invest significant sums well in advance of enjoying the economic benefits.
- There are often constraints around charging for the use of public infrastructure, including inability to exclude those who do not pay and undesirable outcomes if people do not use the facilities.

The Minister of Local Government has initiated an inquiry into local government costs and revenue. Visitor-related infrastructure issues are within the scope of the inquiry.

Department of Conservation

The Department of Conservation (DOC) is responsible for managing public conservation lands and waters (PLC&W) in New Zealand, which features many of the main attractions for international visitors to New Zealand. Under current settings, DOC is unable to charge for access into public conservation lands and waters.

DOC has a number of revenue sources including central government funding, concession fees returned to the department and user charges for facilities on public conservation lands. DOC has recently initiated a differential pricing trail for accommodation on four of the Great Walks, where international visitors are charged double the amount paid by domestic visitors. A strategic review of visitor revenue is also underway.

Recent Budgets have included substantial increases for DOC for biodiversity and visitor-related funding.

DoC currently faces a number of funding constraints:

- Appropriations are not tied to actual use by visitors, limiting ability to cater for additional demand
- Charging and concession structures that do not recognise the full cost of provision and/or the commercial value of the asset involved
- Balancing increasing recreation/tourism and conservation activity (recognising the mutual benefits, as well as the trade-offs)

Tourism Infrastructure Fund

The Government also established the Tourism Infrastructure Fund (TIF) in Budget 2017, providing \$100 million over four years. The purpose of the TIF is to support the development of public visitor-related infrastructure where tourism growth is placing pressure on existing infrastructure, and where the local community is unable to respond in a timely way without

assistance.

Two funding rounds have now been concluded where a total of \$34 million in co-funding was approved to support projects totalling \$75 million.

Provincial Growth Fund

The Government established the Provincial Growth Fund (PGF) in Budget 2018, investing \$1 billion per annum over three years in regional economic development. The PGF aims to lift productivity potential in the provinces and its priorities are to enhance economic development opportunities, many of which would be tourism-related.

Note: Both the Tourism Infrastructure Fund and Provincial Growth Fund are time limited and do not offer long-term solutions to the problem of meeting costs for publicly-provided visitor-related infrastructure and services.

2.4 Are there any constraints on the scope for decision making? Or links to other work?

Wider funding package in development

The proposed IVL is one of the funding tools in a wider package in development across other central and local government mechanism. The IVL is not expected to address all the challenges resulting from visitor growth.

Commitment to seamless border processing

The government has committed to making border processing as seamless as possible through technology and process improvements, for example the introduction of smart gates and the proposal to remove departure cards. The design of the IVL would need to be consistent with this approach.

New Zealand's international interests and obligations

The IVL needs to be consistent with New Zealand's wider international interests and obligations.

Dependency on ETA decisions

The preferred collection method involves attaching the IVL in the application fees for the proposed ETA (used for border security and facilitating passenger movements). Analysis of the options is dependent on a decision to implement the ETA.

Timely intervention

Ministers indicated that decisions on the IVL are required in time for the 2019/20 fiscal year.

2.5 What do stakeholders think?

Stakeholders

Tourism Infrastructure and Conservation funding stakeholders include:

- Conservation and domestic recreation groups who are interested in preserving the natural environment and may be affected by poor infrastructure and over-crowding
- Tourism sector who has an interest in the quality of the visitor experience, social licence for the sector to operate, and the potential demand and compliance impacts of charging arrangements
- Local communities who are funders of last resort for infrastructure, may be impacted by over-crowding, benefit from additional economic activity and higher levels of local amenities
- Local Government who is responsible for providing much of the visitor-related infrastructure

Consultation

MBIE has engaged on two rounds of consultation. The first was pre-engagement with key stakeholders (including TIA, LGNZ, aviation and cruise representatives) to inform the initial design.

Public consultation was held in July 2018. 107 submissions were received, with 45 just under half of submissions from the general public, and the remainder from tourism industry, local government, and other representative bodies (including the NZ Conservation Authority).

Further targeted consultation is planned to inform IVL expenditure decisions. Legislation will also be subject to select committee process.

Stakeholder feedback

A large majority of submitters support the introduction of an IVL, however, many caveated that support with expectations about the way in which the revenue should be managed (hypothecation, transparency, and representation in decision-making).

A smaller group of submitters felt that international visitors already contribute their share through general taxation (citing \$1.5 billion in GST).

Around half of submitters suggested that the IVL should be introduced alongside complementary revenue tools (including local visitor levy, user charges).

In terms of the proposed collection mechanism for the IVL, stakeholders were supportive of the use of immigration systems to collect the IVL (low compliance costs) and noted significant concerns with any at-the-border collection mechanism. Views on exemption of Australians were mixed. There was support for it on the basis of price sensitivity, others pointed out that Australian visitors have similar impacts on demand as any other visitor and that Australians are New Zealand's biggest market.

There was also majority support for the proposed rate of \$35 or higher.

Sections 3 & 4: Options identification and impact analysis

This section presents the options identified and assesses their impact against criteria. It is in three parts:

- Subsection A: Options analysis for a sustainable funding package for tourism infrastructure and conservation
- Subsection B: Options analysis for implementing an international visitor levy
- Subsection C: Additional design components of the IVL to achieve objectives

Subsection A: Options analysis for a financially sustainable funding package for tourism infrastructure and conservation

| |
|---|
| <p>A.1 What options are available to achieve financially sustainable tourism infrastructure and conservation?</p> <p>A.2 What criteria have been used to assess these?</p> |
| <p><i>A package of funding tools is required to create responsive and sustainable funding model for the tourism system</i></p> <p>Through initial analysis of a range of funding tools, MBIE identified that no single funding tool will meet all objectives of a sustainable funding model. Instead, a package of funding tools is required to address the many different challenges identified in the section above.</p> <p>MBIE considers that a package of funding tools will need to support the following objectives:</p> <ul style="list-style-type: none">• Scale of revenue to enable strategic investments• Certainty of revenue to enable long-term planning• Fair distribution of costs• Support for regions to realise their tourism potential, and enjoy the subsequent social and economic benefits• Cost-effective collection of revenue <p>The broad range of potential funding options includes:</p> <ul style="list-style-type: none">• International visitor levy• Local visitor levy (potentially collected by accommodation providers)• Central government funding (a new fund from general taxation)• Further development of revenue options on public conservation lands and waters (DOC) (user charges, concessions, commercial partnerships)• Revenue options available to local government within existing regulatory settings (user charges, differential rating, commercial partnerships) <p>Options identified and an initial assessment against the criteria are shown in Table A.4</p> |

A.3 What other options have been ruled out of scope, or not considered, and why?

A range of options have been identified, however, Ministers have directed officials to develop an international visitor levy, as a first step to establishing a financially sustainable model for tourism infrastructure and conservation.

Other work currently underway includes, a strategic review of Department of Conservation visitor revenue, the Minister for Local Government has initiated a Local Government Funding Inquiry, and the NZTA is implementing changes in its operations to give effect to the 2018 Government Policy Statement on Land Transport.

Further work is required on all options, other than the IVL. The following assessment should be considered preliminary only.

A.4 Impact Analysis - preliminary assessment of funding package options

| No action | International Visitor Levy | Central Government Funding (A new fund) | Local Government options (user charges, partnering, differential rates) | User charges on public conservation lands and waters | Local Accommodation Levy (local levy based on guest nights) |
|---|--|---|---|---|--|
| Scale of revenue to enable strategic investments | 0 ++ IVL generates scale of revenue, that will adjust with growth | + Scale of revenue would be subject to assessment of relative priority across all budget bids Fund would not automatically adjust with changes in visitor numbers | + Councils can pursue options that generate revenue commensurate with local requirements, but are limited to their own ratepayer base. Difficult for emerging or embryonic destinations to develop sufficient revenue to invest. | + DOC can pursue options that generate revenue levels commensurate with requirements, but cannot currently charge for access or use of tracks. | + Councils can pursue options that generate revenue levels commensurate with local requirements, but are limited to their own ratepayer base. Difficult for emerging or embryonic destinations to develop sufficient revenue to invest. |
| Certainty of revenue to enable long-term planning | 0 + High certainty for DoC. Unlikely to deliver certainty to local government beyond specific projects. | + High certainty for DoC. Unlikely to deliver certainty to local government beyond specific projects. | ++ High certainty, in relation to the current/forecast scale of visitors | ++ High certainty, in relation to the current/forecast scale of visitors | ++ High certainty, in relation to the current/forecast scale of visitors |
| Fair distribution of costs | 0 + Addresses perceptions that international visitors make a fair contribution to tourism infrastructure and conservation. However, it is a relatively blunt targeting tool, with limited link to actual use of services. In addition, only captures liable international visitors | 0 The tourism sector notes \$1.5 billion in GST revenue from international visitors. However, taxation is not about cost-recovery, but raising revenue for public services. Of note international visitors make up 4% of the population at any point in time, and make a net revenue contribution to the Crown of 3% | ++ User-charge options are linked with actual use. There is also scope to match business benefits (balanced against complexity of the rating system). | ++ User-charge options are linked with actual use. There is also scope to match business benefits (balanced against complexity of the concessions system). | ++ User-charge options are linked with actual use. |

| | No action | International Visitor Levy | Central Government Funding (A new fund) | Local Government options (user charges, partnering, differential rates) | User charges on public conservation lands and waters | Local Accommodation Levy (local levy based on guest nights) |
|---|-----------|---|---|---|--|---|
| Support for regions to realise their tourism potential | 0 | ++ Funds generated could be applied to regional projects. | ++ Funds could be applied to regional projects | + Strong option for established destinations, and some emerging ones. Difficult for some emerging or embryonic destinations to develop sufficient revenue to invest. | + Funds generated could allow for strategic investments to support regions to realise their tourism potential in relation to nearby public conservation lands and waters. Limited ability to contribute other than through collaboration/partnership. | + Strong option for established destinations, and some emerging ones. Difficult for some emerging or embryonic destinations to develop sufficient revenue to invest. |
| Cost-effective collection of revenue | 0 | 0 Cost of collection will be highly dependent on the collection mechanism. The preferred option is very low cost. | 0 Funding from the consolidated fund would be cost-effective | 0 Variable, some options can use existing systems; others could be collected cheaply with supporting infrastructure; some current options not cost-effective. | 0 Variable, some options can use existing systems; others could be collected cheaply with supporting infrastructure; some current options not cost-effective. | - Requires new systems for both councils and accommodation providers. Monitoring and enforcement more expensive than current local government tools. |
| Overall assessment | 0 | ++ Improvement on status quo, that will enable investment to support other revenue options). However will not directly address operating costs outside of DOC. | + Improvement on status quo, that will enable investment to support other revenue options). However, likely to be smaller scale, given fiscal constraints, will not adjust with visitor numbers, and will not directly address operating costs outside of DOC. | ++ Improvement on status quo, particularly strong on local revenue certainty and fairness. Requires transition period, and some capital investment | ++ Improvement on status quo, particularly strong on certainty for DOC and fairness. Requires some capital investment. Limited in application of funds. | 0 Further work required to better understand the revenue collection costs. May be useful for high volume destinations. |
| No single option offers scale for investment and certainty of revenue for asset providers (local government, DOC). A package is therefore required. | | | | | | |

Subsection B: Options analysis for implementing an international visitor levy

B.1 What options are available to implement the IVL?

B.2 What criteria have been used to assess these?

B.3 What options were not considered and why?

A long list of 14 variations on collection were identified. Broadly these can be categorised as

- Targeting options: citizen/residency test versus a tax residency test;
- Collection options: through ticketing, an arrivals/departure charge, additional charge on immigration applications, or refunds

Criteria to assess design options for the IVL

Ability to target international visitors

The Government intends that the proposed IVL is only payable by international visitors to New Zealand. This enables international visitors to make a direct contribution to tourism infrastructure and conservation, and supports social licence for the tourism sector.

To ensure only international visitors pay the IVL, policy design needs to consider options that allow for targeting that is as accurate as possible, identification of liability and compliance, and ease of enforcement.

Impacts on border passenger processing and travellers and carriers

The IVL design should be consistent with the Government's commitment to seamless border processing and require no additional passenger processing at the border and no additional steps for international visitors.

Costs

The collection and administration of the IVL should also be as cost-effective as possible, while also imposing as little cost as possible for other non-governmental agencies such as airlines, cruise operators and airport companies.

Alignment with New Zealand's international agreements and interests

Section 6(a)

In addition, New Zealand also enjoys unique international relations with Australia and other Pacific Island countries. The IVL design should be consistent with these agreements and interests.

Section 6(a)

was identified:

a short-list of options

1. A citizen/residency test collected via immigration applications
2. A tax residency (proxy) test collected via a departure charge

These options are assessed against the criteria in the following table (B.4)

B.4: Impact Analysis for IVL collection options

| | No action | Citizen/residency test collected via immigration applications | Tax residency (proxy) test collected via a departure charge |
|---|-----------|--|---|
| Ability to target international visitors only | 0 | <p style="text-align: center;">++</p> <p>This option will capture visitors from both visa-required and visa-waiver countries. Using immigration systems also provides flexibility to target specific groups of visitors.</p> | <p style="text-align: center;">-</p> <p>This option will capture New Zealand citizens and residents that are no longer residing in New Zealand. There is also the risk that New Zealand citizens and resident would be liable if they are unable to prove their tax-residency.</p> |
| Impact on border processing | 0 | <p style="text-align: center;">+</p> <p>Information required is already available in current government systems, and no additional transactions would be required for travellers and carriers.</p> | <p style="text-align: center;">--</p> <p>Departure charges do not align with the move towards seamless border processing and would create extra 'touch points' for travellers, increasing queue and processing times.</p> |
| Administrative and compliance costs | 0 | <p style="text-align: center;">++</p> <p>As this option uses existing immigration systems it will involve minimal marginal costs for INZ, carriers and travellers.</p> | <p style="text-align: center;">--</p> <p>This option will involve significant set-up costs for new IT system and additional infrastructure at the border. There would also be cost implications for carriers and travel agents. Further delays are anticipated due to likely last minute compliance activity.</p> |
| Alignment with New Zealand's international agreements and interests | 0 | Section 6(a) | |
| Overall assessment | | <p style="text-align: center;">++</p> <p>This option will capture visitors from both visa-required and visa-waiver countries. It also provides flexibility to target specific groups of visitors.</p> | <p style="text-align: center;">-</p> <p>This option will capture New Zealand citizens and residents that are no longer residing in New Zealand. There is also significant additional compliance and administrative costs involved. Section 6(a)</p> |

Subsection C: Additional design components of the IVL to achieve objectives

C.1 What options are available to mitigate impacts of the IVL on New Zealand’s international interests (and other criteria)?

Exemptions to mitigate unintended consequences

Section 6(a)

However, collecting through the immigration system also enables more refined targeting. This has led to / enabled the creation of the following exemptions to align with our international interests.

- Travellers entering New Zealand for diplomatic, military, medical, and humanitarian purposes have been exempted to meet Vienna Convention obligations
- Australian citizens and residents are exempted in order to maintain the principal of free movement between Australia and New Zealand which underpins the Trans-Tasman Travel Arrangement
- People transiting through to Antarctica are exempted to meet our obligations under the Antarctic Treaty, and in support of our interests in Antarctica
- Pacific Island countries and Regional Seasonal Employment workers are exempted as some of these countries hold NZ citizenship, and to support New Zealand’s partnership role in working with Pacific Island countries to support their development goals.
- Business Visitor Visa travellers (including APEC business travel cards) are exempted as the majority of this group are APEC card holders, and as part of that arrangement travel cards are issued by the home country. Requiring payment of the IVL would add additional compliance costs to the system.
- Exemptions have also been granted for groups that are entering New Zealand temporarily for specific purposes. These groups are ship and airline crew; and transiting travellers.

In 2020, MBIE forecasts suggest around 3.6 million visitors in total (excluding visitors with New Zealand citizenship). In terms of scale, the largest exemption is Australian citizens and residents, which is estimated at 1.2 million visitors in 2020. The remaining exemptions total around 200,000 visitors.

Levy rate to be set at \$35

The levy rate has been set at less than 1% of average visitor expenditure in order to minimise potential impacts on expenditure (noting limitations on the quality of information available about price effects). A majority of stakeholders indicated a preference for the higher end of the range consulted on (\$25-\$35).

Section 5: Conclusions

5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

As noted in previous section, the IVL forms part of a wider funding package and is not intended to address all the issues relating to visitor growth.

Having considered the two design options against the criteria in section 3.2, MBIE's preferred option is to target the IVL based on immigration status (with exemptions for the groups identified in section 3.1) and to collect it through an additional charge on visa and ETA application fees.

Collecting the IVL through the immigration system is the preferred approach because it:

- allows for the accurate targeting of international visitors as it relies on existing, well-tested systems
- offers a high degree of flexibility in targeting as exemption are relatively straightforward to implement and can be adapted over time if required
- is low cost to administer with estimated set-up costs of \$1 million and minimal ongoing expenses
- requires no additional passenger processing at the border and no additional steps for international visitors.

Section 6(a)

MBIE and Ministers consider that a package of funding tools is required to ensure that tourism infrastructure and conservation move to a more financially sustainable footing. The IVL is an important component of that wider package. Swift implementation will also support enabling investment for other revenue options such as 'smart' forms of user-charges. This makes the IVL an important first step.

Most submissions supported the introduction of an IVL, and many of those also concurred that it should be one of a number of instruments. Some highlighted the importance of local funding options, these will be considered in further work.

5.2 Summary table of costs and benefits of the preferred approach

| Additional costs of proposed approach, compared to taking no action | | | |
|---|---|--|--------------------|
| Affected parties | Comment: | Impact | Evidence certainty |
| <i>Regulated parties</i> International visitors | All international visitors who are not exempt would be liable for the IVL. New Zealand citizens and residents will be exempt. The rate of the IVL is expected to be between \$25 and \$35, generating \$57-\$80 million in 2020. | Nil to New Zealand citizens and residents | High |
| <i>Regulators</i> INZ | The government proposes to collect the IVL through existing immigration system and the proposed ETA. Therefore the marginal cost for implementing the IVL is largely IT set-up. | Initial start-up cost of \$1 million (IT changes to visa system), minimal ongoing costs. | Medium-High |
| <i>Wider government</i> | Risk of loss of GST (point estimate based on limited information on likely impacts) | \$8 million | Low |
| <i>Other parties</i> Passenger Carriers | While the implementation of the ETA could include some administrative costs on airlines, airports and travellers, there are no direct additional costs relating to the IVL for carriers and passengers. | Nil | High |
| Total Monetised Cost | The IVL is not payable by New Zealand citizens and residents and therefore not included in this calculation. | \$1m Additional risk of up to \$8 million | High Low |
| Non-monetised costs | Risk of impact on visitor demand and expenditure. More details in section 5.3 | Low | Low |

Expected benefits of proposed approach, compared to taking no action

| Affected parties | Comment: | Impact | Evidence certainty |
|---|---|--|---------------------------|
| <i>Regulated parties</i> International visitors | Revenue will be used to support conservation and tourism infrastructure, which in turn will improve the visitor experience. | Medium | Medium |
| <i>Regulators</i> | Nil | | |
| <i>Wider government</i> | \$80m revenue per annum for tourism infrastructure and conservation (likely applied across central and local government) | \$80 million per annum | High |
| <i>Other parties</i> Local Government Local communities | Support for tourism infrastructure would reduce the financial burden on local government. New Zealanders will benefit from additional investments in conservation and tourism infrastructure e.g. better amenities along tourism routes, or through the upgrade of existing facilities on public conservation land . | Included in the \$80 million above Medium across NZ, high in some locations | High |
| Total Monetised Benefit | IVL revenue collected will be dependent on the IVL rate. | \$80 million per annum | High |
| Non-monetised benefits | Conservation and amenity benefits | Medium – High | High |

5.3 What other impacts is this approach likely to have?

Impact on visitor demand

An increase in the cost of travel may reduce New Zealand's competitiveness as a destination and could impact on our passenger links with the world. A drop in visitor numbers could lead to a drop in visitor expenditure, with flow-on effects such as reduced employment and taxation.

The level of impact of the IVL is unclear. New Zealand Customs Service has previously engaged Sapere to estimate the possible effects of the Border Clearance Levy (BCL) on visitor numbers and expenditure. The Sapere report estimated that an increase in ticket prices by \$22 could result in a one-off drop in growth of visitor expenditure of between \$37 million and \$185 million (90% confidence interval). Adjusting for the exemption of Australians, this would translate to between \$24 million and \$124 million for the IVL. This information has also informed our estimate of potential GST impact (up to \$8 million, should price effects emerge).

However, there is little evidence of the estimated impacts of the BCL having emerged.

Factors that make the total impact of the IVL proposal unclear include:

- The IVL will be charged via immigration fees. These are highly inelastic, and remain comparable with other countries (the Sapere report is therefore not directly applicable).
- Competitive dynamics (pricing), exchange rate movements, and global economics all affect demand to a greater degree than the proposed charge (which is less than 1% of average spend). The tourism forecasts considered the IVL charge, but did not make any adjustment for them as \$35 was not considered to have sufficient impact.
- Incomes have adjusted since the Sapere work (and as travel is a luxury good, this is likely to reduce the elasticity)
- The proposed levy rate has been set at \$35, higher than the \$22 modelled by Sapere.

Section 6(a)

5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

The proposed IVL is consistent with the Government's 'Expectations for the design of regulatory systems'. It proposes to collect revenue to support conservation and tourism infrastructure in New Zealand, delivering net benefits for New Zealanders. The preferred approach seeks to achieve its objectives in a cost effective way with minimal impacts on the regulated individuals.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?

New legislation will be required to empower Immigration New Zealand to collect the IVL, and they will manage its collection alongside application fees. The IVL will be levied as an additional charge on application fees for selected visas and ETAs, and will be paid at the point of making an application.

The IVL will likely be in place in the second half of 2019. A communications plan is in development to ensure smooth implementation of the ETA and IVL.

The Government has yet to make final decisions on the expenditure process for the IVL. However, it is intended to use IVL revenue to support conservation and tourism infrastructure. Total expenditure will be monitored and tracked against revenue via a memorandum account.

6.2 What are the implementation risks?

Dependency on ETA implementation

The proposed IVL is dependent on the implementation of ETAs. Should there be a delay in introducing the ETA platform, Immigration New Zealand would not be able to collect the IVL from visitors from visa-waiver countries.

In order to meet the IVL deadline of the second half of 2019, the ETA platform will be introduced in two phases:

- Phase one to enable basic screening and charging of the IVL and ETA fee from the first quarter of 2019/20
- Phase two to enable additional screening capability (including automated matching against watch lists and the capability to interact with intending travellers) introduced over the following 12 months.

Expenditure

The Government has yet to decide on the final arrangement of the expenditure process. The Government will put forward a high-level proposal, including the decision-making process, which will be subject to further consultation.

MBIE has extensive experience in managing expenditure programs of varying scale, which will help inform the final design for IVL expenditure.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Expenditure monitoring and reporting

Stakeholders have highlighted a desire for transparency and accountability with regards to expenditure of IVL revenue. The government will use memorandum accounts to manage fluctuations in revenue and expenditure, with inflows and outflows monitored on a quarterly basis.

The government proposes to do regular reporting on the IVL revenue and expenditure. When the expenditure priorities are agreed, key performance indicators will also be included.

Visitor experience and local community support

The impact of IVL investments on the visitor experience will be monitored through the International Visitor Survey (IVS). The IVS measures the expenditure, characteristics and behaviours of international visitors to New Zealand, and visitor satisfaction.

The impact on local community support for tourism will be monitored through the Mood of the Nation Survey. The Survey is conducted twice a year and measure New Zealanders' perceptions of tourism.

Visitor demand

MBIE will monitor any impacts on visitor demand through Stats NZ's International Travel and Migration dataset and also through MBIE annual tourism forecasts. MBIE will also monitor impacts on international visitor expenditure through the IVS.

Additional data may also be available at a regional level, should new initiatives in the Data Domain Plan go ahead. MBIE will utilise any additional information to support evaluation of the IVL.

7.2 When and how will the new arrangements be reviewed?

The government will seek to limit the frequency of changes to the IVL rate, so as to provide certainty for travellers. However, to minimise the risk of amassing substantial surpluses (e.g. high growth in visitor numbers, delays in expenditure programme), the IVL rate will be reviewed every four years. This is to ensure the IVL remains fit-for-purpose and that expenditure is aligned with revenue levels.

Appropriate review and evaluation processes will be established for expenditure programmes, as part of final expenditure decisions.