



COVERSHEET

Minister	Hon Matt Doocey	Portfolio	Tourism and Hospitality
Title of Cabinet paper	International Visitor Conservation and Tourism Levy Review 2024	Date to be published	5 June 2024

List of documents that have been proactively released

Date	Title	Author
April 2024	International Visitor Conservation and Tourism Levy Review 2024	Office of the Minister for Tourism and Hospitality
15 April 2024	International Visitor Conservation and Tourism Levy Review 2024 CBC-24-MIN-0019 Minute	Cabinet Office

Information redacted

YES / NO

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government and International Relations.

MBIE has identified an error with the figures provided in Table Two (pg 5). The figures in the column headed 'Total Revenue' under represent the likely IVL revenue in each scenario. The correct figures are as follows;

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Office of the Minister for Tourism and Hospitality
Cabinet Business Committee

IVL amount	Total Revenue (\$m)
\$50	\$110.95
\$70	\$151.9
\$100	\$212.8

All other figures in this table remain accurate.

International Visitor Conservation and Tourism Levy Review 2024

Proposal

- 1 The Ministry of Business Innovation and Employment (MBIE) is required to review the amount or method of calculation of the International Visitor Conservation and Tourism Levy (IVL) every five years. Following that review, I seek agreement to consult on a potential increase for the IVL. No other changes to the IVL are currently proposed.
- 2 A discussion document will be needed to support public consultation. This paper proposes the Minister for Tourism and Hospitality, Minister of Conservation and Minister of Finance (IVL Ministers) are delegated authority to agree to the content and release of this Discussion Document.

Relation to government priorities

- 3 The Government has indicated its desire to deliver effective and sustainable services. The IVL rate review provides an opportunity for us to revisit the role of the IVL and develop proposals to ensure visitors pay a fair proportion of the costs they generate. This paper reflects Ministerial discussions on the issue to date.

Background

- 4 International tourism generated \$10.8 billion in revenue for the New Zealand economy (Tourism Satellite Account, Year ended March 2023). International Tourism is New Zealand’s second-largest export earner, behind Dairy Products. International visitor arrivals reached 3.02 million for the year ended January 2024 or 77.4% of pre-COVID levels. Visitor numbers are expected to grow beyond these levels.
- 5 Increasing visitor numbers provide a range of benefits not limited to the tourism sector. As an export, Tourism brings additional money into New Zealand’s economy, helps to strengthen our international connections, trade, and partnerships, and gives an opportunity for us to showcase the best our nation has to offer.
- 6 However, increased visitor numbers will also bring a range of external costs to our infrastructure, environment, and communities, and these should not be borne solely by the rate and taxpayer.
- 7 Visitors to New Zealand rely on and use a range of public infrastructure and goods (e.g., water, public toilets, walking and cycling tracks) that are funded by New Zealanders through taxes and rates. These goods are usually free at the point of use.
- 8 More international visitors will increase pressure and costs on local and national infrastructure and can impact our environment. If these costs are not addressed, it could impact on our ability to provide high-quality visitor experiences, and demand for travel to New Zealand may reduce.

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- 9 International visitors provide contributions through GST (\$1.0 billion for Year Ended March 2023) and through the IVL (Around \$80m revenue per annum based on 2019 arrival numbers). However, I believe the current \$35 rate of the IVL is insufficient to meet the costs associated with international tourism.
- 10 To date, the IVL has been used to invest \$86 million in tourism and conservation projects, funding initiatives such as wilding conifer control, kākāpō recovery, Tourism Data, Building the Tourism Workforce and the Milford Opportunities Project.

The IVL is applied through the immigration system and is provided to agencies for investment

- 11 Most international visitors applying for a visa to enter New Zealand are charged the non-refundable IVL¹ of \$35 alongside their visa or New Zealand Electronic Travel Authority (NZeTA).
- 12 When introduced, Cabinet agreed for funding raised through the IVL to be split equally between Tourism, administered by the Ministry of Business Innovation and Employment (MBIE), and Conservation, administered by the Department of Conservation (DOC), to ensure beneficiaries of these services were contributing financially.

Case for change

The IVL helps protect the natural environment that international visitors come to enjoy

- 13 New Zealand's iconic landscapes and unique biodiversity are key drawcards for international visitors. Our international image is built on our pristine natural environment, biodiversity, and our most iconic visitor destinations are on public conservation land managed by DOC. This includes Milford Sound/Piopiotahi and Aoraki/Mt Cook.
- 14 In a survey conducted in 2023, 99 per cent of international visitors rated our natural scenery/wilderness as good or very good and 39 per cent listed landscapes and scenery as a factor in deciding to visit NZ. 48 per cent of international visitors reported visiting a national park during their stay.²
- 15 The IVL has funded initiatives to address visitor impacts at sites such as Milford Sound and the Tongariro Crossing. It has also enabled critical investments in conservation that provide wide benefits to tourism and the broader economy, such as predator and wilding conifer control. Research has shown that visitors are more willing to pay the IVL when they can see it directly benefits and supports the landscapes and iconic sites they come to enjoy.
- 16 IVL revenue is important in ensuring DOC can deliver priority conservation outcomes and a quality visitor experience.

¹ Some classes of people are exempt from the requirement to pay the IVL, including Australian citizens and permanent residents, diplomats, and people from many Pacific Island countries.

² International Visitor Survey, Q4 2023.

- 17 The IVL currently represents approximately 7 per cent of DOC's total baseline (providing approximately 50 million a year, depending on visitor numbers). At its current rate, the IVL does not cover the costs international visitors impose on public conservation land, estimated at \$96 million a year.
- 18 Growing non-Crown funding for conservation is a key priority for the Minister of Conservation. DOC's current funding levels are leading to deteriorating outcomes. Despite all the work that DOC does to protect and restore habitats and assist species, nearly 4000 native species are either at risk or threatened with extinction. This biodiversity is a key drawcard for international visitors.

Confidential advice to Government

- 20 Growing the IVL will support priority conservation outcomes and help maintain quality visitor experiences.

For Government to achieve its growth goals in international tourism, it needs revenue to invest at place and investment in international marketing

- 21 Growing the IVL will allow us to keep pace with the growing investment need caused by increasing visitor numbers, but also allow us to look forward and invest in the future of tourism.
- 22 The IVL plays an important role in supporting the Government's economic goals for tourism and the economy in general.
- 23 We have set an ambitious objective to double export earnings by 2030. For tourism to achieve this goal, we must grow our capacity to absorb these visitors. While the private sector is ready to meet these needs, the IVL is needed to support critical public investment to increase our carrying capacity.
- 24 This means investment not only into the conservation estate to preserve our outstanding natural beauty but also investment into wastewater, local roads, community walking and cycling tracks.
- 25 Visitors rely on a range of publicly provided goods and services that are paid for and used by local ratepayers and/or taxpayers. These are usually free at the point of consumption. Because there is no direct revenue link between users and the use of public goods and services, if there is increased demand from tourism, you will tend to see both under-investment in and over-consumption of public goods and services. The IVL is our only tool at this time to generate revenue to contribute to these costs.

- 26 Like most countries, New Zealand's Government invests money into international tourism marketing to promote the country and support the industry. This investment is made into Tourism New Zealand (TNZ) as our international tourism marketing agency.
- 27 At present, New Zealand's taxpayers are responsible for this investment. I believe that we should consider whether the sector should contribute further to these costs via international visitors as the main beneficiaries of investment into international tourism marketing. This could involve utilising funding generated by the IVL to part fund TNZ.
- 28 There are a range of other Government funded services which support the tourism sector in New Zealand. I believe it is appropriate that we consider whether and how IVL investment could reduce these costs for the New Zealand taxpayer.

The IVL is the government's only tool to support critical investment in the tourism sector

- 29 In some cases, market forces provide no incentive for a single payer to address the investment gap in public goods. The IVL gives us the ability to intervene as an investor of last (or best) resort to address these shared challenges.
- 30 At the height of the COVID-19 pandemic, the IVL was used to address urgent tourism sector priorities, such as support for Business Events Industry Aotearoa to host MEETINGS, New Zealand's annual business events conference, and investment into TRENZ Connect, an online platform that connects domestic buyers with international sellers. These events helped to sell New Zealand as a visitor destination and maintained interest in our market while the border was closed.
- 31 It also provided investment into tourism recruitment through Go with Tourism to ensure an ongoing pathway for young people to enter the sector. The IVL has been used to invest \$5m into Tourism Data and Insights to provide an accessible source of information for firms, industry bodies and Government.
- 32 Now we look to the future, we can revisit the strategic investment choices of the IVL to address tourism challenges such as tourism infrastructure gaps.

Options to increase the IVL

- 33 At the current rate of \$35, the IVL is forecast to raise around \$80 million per annum³. I believe this is insufficient to cover the costs visitors bring to New Zealand.
- 34 I seek Cabinet agreement to consult on three proposed increases to the IVL rate:
- 34.1 Increase by \$15 to \$50 per person.
 - 34.2 Increase by \$35 to \$70 per person.
 - 34.3 Increase by \$65 to \$100 per person.
- 35 At this stage, I am not proposing any changes to other IVL settings, such as who pays.
- 36 In our identification of the options, I am considering:

³ Based on Immigration New Zealand forecasts for 2024-2026.

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- 36.1 The effects of inflation; the IVL would cost \$42.41 in Quarter Four 2023 had it tracked with inflation.
 - 36.2 The cumulative costs for visitors (border levies and visa costs).
 - 36.3 The rate of similar charges in overseas jurisdictions.
 - 36.4 Costs arising from tourism and whether the current IVL revenue is sufficient to address these.
- 37 I considered options for larger rates increases. However, at present, I do not wish to consult on any greater increase as I do not want to impact demand for travel to New Zealand, and I want to support the sector’s recovery from the impact of COVID-19. Increasing the rate does not preclude us from revisiting the rate again in the future.

Table One: Estimated IVL revenue based on forecast international visitor arrivals, 2024-26⁴

IVL Options	Total estimated IVL revenue (per annum)	Estimated additional annual IVL revenue	Estimated additional annual revenue +/- 10%
Status quo IVL remains \$35	~ \$80 million	n/a	~ (-\$8 million) to ~ \$8 million
Option One IVL is increased by \$15 to \$50	~ \$115 million	~ \$35 million	~ \$24 million to ~ \$47 million
Option Two IVL is increased by \$35 to \$70	~ \$161 million	~ \$81 million	~ \$65 million to ~ \$97 million
Option Three IVL is increased by \$65 to \$100	~ \$230 million	~ \$150 million	~ \$127 million to ~ \$173 million

Impacts on international visitors

- 38 There is no up-to-date modelling available to assess the elasticity of travel intention post-COVID. Officials have developed a model using available data from prior to COVID-19. Under all scenarios, Australians, our largest and likely our most price-sensitive market, would not pay the IVL. Most Pacific Islanders also remain exempt.

Table Two: Estimated Visitor Impact from IVL Rates rise⁵

IVL rate	Passenger volumes at new rate	Visitor numbers who pay the IVL	Comparison to 2019 (3.87m total visitors)	Total revenue
\$50	~3.85m	~2.2m	-0.5%	~\$100.0m
\$70	~3.82m	~2.17m	-1.3%	~\$137.8m
\$100	~3.78m	~2.12m	-2.4%	~\$192.6m

⁴ Forecast is based on actuals up until 30 June 2023.

⁵ This model is based on airfares from just after the reopening of New Zealand’s international border and travel and traffic data from 2019.

- 39 This model does not take account of other price changes which may have occurred (for example, increasing airfares or other countries' border charges). As it is based on out-of-date data and airline prices, it should be taken as a very broad indication only.
- 40 However, this model does suggest that, when taken in isolation, an increase to the IVL would have only a minor impact on visitor numbers. A recent study⁶ suggests that the responsiveness of demand to travel is relatively low for moderate increases in rates.
- 41 An increase in the cost of the IVL is not the only relevant price point consumers will consider. For example, fluctuating costs of air travel, increases in fuel costs, other border and airport charges and customer preference will also be considered.
- 42 There is a risk that the cumulative impact of increasing tourism costs could slow growth in travel demand for more price-sensitive markets (such as Asia) or lead to visitors spending less while in New Zealand.
- 43 An increase in the rate of the IVL would mean a rise in cost for 94 visa types, plus the NZeTA (see Table Two).

Table Three: Impact of potential IVL rises on current Visa and NZeTA costs⁷

	NZeTA (\$17-\$23)	Student Visa (fee paying) (\$395)	Visitor Visa (\$211)	Working Holiday Visa (\$420)
Status quo IVL is \$35	\$52 - \$57	\$430	\$246	\$455
Option One IVL increases by \$15 to \$50	\$67 - \$73 28-29% increase	\$445 3% increase	\$261 6% increase	\$470 3% increase
Option Two IVL increases by \$35 to \$70	\$87 - \$93 63-67% increase	\$465 8% increase	\$281 14% increase	\$490 8% increase
Option Three IVL is increased by \$65 to \$100	\$117 - \$123 116-125% increase	\$495 15% increase	\$311 26% increase	\$520 14% increase

- 44 I note that Cabinet Economic Policy Committee agreed on 27 March to MBIE undertaking targeted consultation with key immigration system stakeholders on proposed increases to immigration and fee and levy rates [ECO-24-MIN-0040]. Cabinet will make decisions on final changes to immigration rates in mid-2024.

Options for consultation

- 45 The Immigration Act 2009 requires the Minister for Tourism and Hospitality to consult the persons and organisations they consider appropriate prior to recommending changes to the rate of the levy.
- 46 I seek Cabinet agreement for my officials to engage in public consultation using a discussion document. I seek agreement from Cabinet for delegated authority to be given to myself, the Minister of Finance and the Minister of Conservation, as IVL Ministers, to agree to the content and release of this discussion document.

⁶ Home Office (United Kingdom). (2020). A review of evidence relating to the elasticity of demand for visas in the UK.

⁷ Immigration New Zealand costs as at January 2024.

Investment Options

- 47 Funding derived from the IVL can provide support to a range of different areas across the tourism and conservation portfolios. These include, but are not limited to, investment which will;
- 47.1 Address visitor pressure on mixed-use tourism infrastructure and wider tourism assets
 - 47.2 Address visitor pressure on the DOC estate
 - 47.3 Provide strategic investment into tourism and conservation futures
 - 47.4 Address ongoing DOC cost pressures
 - 47.5 Contribute to international tourism marketing costs (investment into Tourism New Zealand) and;
 - 47.6 Support ongoing or future Crown investment into tourism and conservation baselines, including the mix of funding.
- 48 I think it is important that we are clear with stakeholders what our investment priorities are. I have agreed with the Ministers of Finance and Conservation that we want feedback from stakeholders on the investment choices for the IVL, and we will outline those choices in the discussion document.
- 49 The IVL Ministers will discuss how we wish to amend the IVL Investment Plan to better reflect the Government's priorities in the near future.

Implementation timing choices

- 50 Increasing the rate of the IVL is achieved by a regulatory change to the amount specified in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010. Should a decision be made to increase the IVL, the government could announce the new IVL rate will take effect on a specific date, such as by October this year.
- 51 The responsible agency for this proposal is the MBIE. They will work closely with the Treasury and Department of Conservation.

Cost-of-living Implications

- 52 The proposal will have no impact on New Zealanders and international visitors who are not required to pay the IVL on entry to New Zealand.
- 53 All costs associated with an increase to the IVL are passed on to eligible international visitors. No costs will be passed on to New Zealanders or businesses.

Financial Implications

- 54 Any increase to the IVL's rate could generate revenue by an additional ~\$35 million for a rate of \$50 / ~\$81 million for a rate of \$70 / ~\$150 million for a rate of \$100.

- 55 Treasury will include a placeholder value at the midpoint of this range in Budget 2024. However, as no decision has been made, this reflects assumptions on the most likely outcome and will be revised in subsequent forecasts to reflect the outcome.

Legislative Implications

- 56 Changes to the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 will be required should IVL rates change following consultation.

Impact Analysis

Regulatory Impact Statement

- 57 Cabinet's impact analysis requirements apply to the decision to consult on increasing the IVL, but there is no accompanying Discussion Document which can function as an interim Regulatory Impact Statement and the Treasury has not exempted the proposal from the impact analysis requirements. Therefore, it does not meet Cabinet's requirements for regulatory proposals.
- 58 The Regulatory Impact Analysis Team at the Treasury and the Ministry for Business, Innovation and Employment have agreed that a Regulatory Impact Statement needs to be produced to support Cabinet's final decisions on the IVL following public consultation.

Population Implications

- 59 This proposal may have an impact on Māori tourism businesses. The 2019 New Zealand Māori Tourism Annual Report outlines that previously, close to 70 per cent of visitors to Māori tourism businesses were from international visitor markets. While this impact is difficult to quantify, if there is an increase in the IVL, the potential demand-side impacts may lead to reduced visitation and revenue for these businesses.

Human Rights

- 60 When established in 2019, an assessment of the human rights implications was completed as part of drafting IVL legislation. There are no human rights implications, given that this proposal relates to a change in the rate of an existing levy.

Use of External Resources

- 61 There has been no use of external resource.

Consultation

- 62 The Treasury, Department of Conservation, Ministry of Foreign Affairs and Trade, MBIE Immigration Policy, Department of Prime Minister and Cabinet, and Tourism New Zealand were consulted.

International relations

Communications

64 Officials will prepare communication plan based on Cabinet’s decisions.

Proactive Release

65 The contents of this paper will be proactively released as soon as practicable with appropriate redactions.

Recommendations

The Minister for Tourism and Hospitality recommends that the Committee:

- 1 **Note** that there is an opportunity to explore how the costs of tourism could be more effectively priced into the visitor experience.
- 2 **Agree** to a four-week consultation on the IVL Rate Review, seeking feedback on four options of the amount for the IVL (\$35 – status quo, an increase to \$50, \$70 or \$100), and IVL investment choices for tourism and conservation.
- 3 **Agree** to delegate authority to the Minister of Finance, Minister of Conservation and Minister for Tourism and Hospitality to agree content and release of a Discussion Document on these issues.
- 4 **Note** that I will return to Cabinet to share any recommendations and outcomes by June 2024.

Authorised for lodgement

Hon Matt Doocey

Minister for Tourism and Hospitality