



BRIEFING

Inbound Tourism Operators: Decisions and Funding Allocation

Date:	12 August 2020	Priority:	High
Security classification:	In Confidence	Tracking number:	2021-0516

Action sought		
	Action sought	Deadline
Hon Kelvin Davis Minister of Tourism	Agree individual Inbound Tourism Operator (ITO) funding recipients	12 August 2020
Hon Grant Robertson Minister of Finance	Agree to use a tiered funding approach to determine the distribution of funding to ITOs	
Hon Nanaia Mahuta Minister for Māori Development		
Hon Eugenie Sage Minister of Conservation		
Fletcher Tabuteau Under Secretary Regional Economic Development		

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Danielle McKenzie	Acting Manager, Tourism Policy		s 9(2)(a)	✓
s 9(2)(a)	Policy Advisor, Tourism Policy	s 9(2)(a)		

The following departments/agencies have been consulted
Tourism New Zealand (TNZ).

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 Withdrawn |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 paper seeks agreement from the Tourism Recovery Ministers (TRM) on the Inbound Tourism Operators (ITOs) to be offered loans from the Tourism Recovery Fund. It also seeks agreement to the use of a tiered funding approach to determine the distribution of the funds.

Recommended Action

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

- a. **Note** ITO funding recipients need to be individually approved or declined through the list in **Annex One** *Noted*
- b. **Agree** to offer loan funding to the 27 ITOs identified in **Annex One** *Agree / Disagree*
- c. **Agree** to the 4-tiered funding approach to determine the allotment of funding to ITOs *Agree / Disagree*

Danielle McKenzie
Acting Manager, Tourism Policy
Labour, Science and Enterprise, MBIE

12 / 08 / 2020

Hon Kelvin Davis
Minister of Tourism

..... / /

Hon Eugenie Sage
Minister of Conservation

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

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

..... / /

Hon Nanaia Mahuta
Minister for Māori Development

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Background

1. At the Tourism Recovery Ministers (TRM) meeting on Friday 24 July 2020, Ministers agreed that up to \$20 million will be made available for Inbound Tour Operators (ITOs) via loans.
2. Ministers further agreed to ask Tourism New Zealand (TNZ) to recommend which ITOs should be offered loan funding. TNZ in-market representatives have in-depth knowledge and experience of the key ITOs active in our major visitor markets and high value market segments.

Why do ITOs need support?

3. ITOs are a key link between overseas wholesalers and travel sellers. ITOs have strong relationships in our major markets and, in order to be prepared for when borders reopen, ITOs need to maintain some ability to prospect, build and maintain a pipeline of high value visitation to New Zealand. Many of the premium ITOs' customer base is built on years of consistent relationship building and these activities need to continue while borders are still closed. In long haul markets such as Germany and the UK, ITOs have long customer lead times, which can range from 9-18 months from first consideration of New Zealand as a destination through to arrival.
4. Since border restrictions were introduced, ITOs have cut back staffing levels by 80% and are operating at minimum viable levels.

Process for identifying ITOs to be offered loans

5. TNZ has created a list of ITOs, set out in the table in **Annex One**, that identifies the ITOs that are of strategic importance for international market recovery when border settings change to permit the entry of international visitors.
6. TNZ used the following process to create the list of recommended ITOs to be offered financial support:
 - TNZ in-market General Managers (Australia, Asia, Americas & Europe, and Business Events) were asked to identify the ITOs that they consider to be key to market recovery. General Managers were asked to consider ITOs' market penetration, value generation and spill-over benefits.
 - TNZ consulted on a long list of ITOs with the Tourism Export Council (TEC) on specific details e.g. annual dollar value and volume to NZ.
 - TNZ consulted New Zealand Māori Tourism (NZMT) to ensure any ITOs which are particularly important to the Māori tourism economy were considered.
 - TNZ moderated the list in order to cover a range of priority markets and large, medium and small operators and specialist segments e.g. premium, business events or cross sector (such as student exchange).

Recommended list of ITOs

7. TNZ has recommended loans should be offered to 27 ITOs. All 27 ITOs are considered by TNZ as crucial to market recovery. The recommended list of ITOs to be offered loans is attached at **Annex One**.
8. You discussed high level details around a preliminary version of this list at the TRM meeting on 5 August 2020, including how many ITOs should be offered loans, and the total value of the loans that should be offered.

9. TNZ's preliminary list of ITOs to be funded included 26 ITOs, while the attached list now includes 27 ITOs. This is due to a further ITO, s 18(d) [REDACTED], making an approach to officials with additional information. TNZ subsequently recommended s 18(d) [REDACTED] for funding, due to the key role it plays in the s 9(2)(b)(ii) [REDACTED] segment, and also to it being a long-established company with a good track record in the industry.
10. Earlier in the process, it was expected that a smaller number of ITOs, perhaps 10 to 12, would be recommended for funding. However, TNZ considers that the identified list of 27 ITOs strikes an appropriate balance between ensuring that loans are offered to enough ITOs across a range of both visitor markets and niche market segments to support a faster, higher value market recovery, while also making sure any funding offered is not spread too thin.

Recommended ITOs for funding include both STAPP and non-STAPP applicants

11. MBIE received 45 applications from ITOs to the STAPP s 9(2)(b)(ii) [REDACTED]. All of the STAPP applications received from ITOs and intellectual property were sent to TNZ for review as an input to TNZ's process.
12. All but five of the ITOs on the recommended list applied for STAPP funding. Four out of these five ITOs are TEC members. The remaining ITO which did not apply for STAPP funding, and is also not a TEC member, is s 18(d) [REDACTED]. s 18(d) [REDACTED] is considered by TNZ as one of New Zealand's top strategic ITOs. They cover the top end of the premium market - it would be a significant loss to the sector if they were to go out of business.
13. Of the 45 ITOs that applied to the STAPP, 22 ITOs are included on the recommended list. This means that TNZ is recommending that 23 ITOs who did apply for the STAPP should not be offered loans.

MBIE comments on the recommended list

14. MBIE officials endorse the TNZ list. Reasons for MBIE's endorsement include that TNZ's recommendations about which ITOs should receive funding cover a wide range of markets and market segments (including premium, high net worth, events and incentives, China Approved Destination Status). Additionally, the recommended list reflect the value, rather than volume, generated by the ITOs.

Tiered Funding Approach

15. Officials recommend that the amount of loan funding to be offered to ITOs should be based on a tiered system that links the recommended quantum of the loans to be offered with the value of the revenue that ITOs generated prior to COVID-19. This recommended tiered approach is outlined in the table below:

Annual Value of ITO to NZ (pre-COVID-19)	Funding to be offered to each ITO	Overall % of funding to annual value of ITO (\$)	No. of ITOs	Total value of loans offered
\$0-\$4,999,999	\$250,000	10%	4	\$1,000,000
\$5,000,000-\$9,999,999	\$500,000	8%	9	\$4,500,000
\$10,000,000-\$19,999,999	\$750,000	5%	4	\$3,000,000
\$20,000,000+	\$1,000,000	4%	10	\$10,000,000
Total:			27	\$18,500,000

16. A 4-tiered funding approach is recommended for simplicity and fairness. As a check and balance, officials have calculated the percent of funding offered to each funding bracket (the third column in the above table).
17. If you agree to this tiered system, the total value of the loans which would be offered to the 27 ITOs is \$18.5 million. This is within the \$20 million funding envelope.
18. Through the tiered approach, the majority of ITOs (17 out of 27) will be offered more, or the exact equivalent, of the amount that they requested through their STAPP applications. As the funding being made available will be loans rather than grants (as were offered through the STAPP), it is expected that this will encourage ITOs to exercise restraint when deciding how much of the loans they should accept.
19. In addition, as STAPP applications were lodged almost two months ago, funding requests are likely to have been put together with a more favourable view of when ITOs could expect to restart business, for example, at the time where community transmission of COVID-19 in Australia was low, and there were expectations that the Trans-Tasman safe travel zone would have been able to commence shortly.
20. The recommended tiered approach will also enable ITOs that did not apply to STAPP to be offered loan amounts that are consistent with other ITOs that were generating similar levels of value prior to COVID-19.
21. The tiered approach will, however, mean that some ITOs that applied for STAPP funding will be offered loans that are for significantly higher or lower amounts than applied for. For example, s 9(2)(b)(ii) [REDACTED]
[REDACTED] This is a risk to be aware of, however officials believe the tiered approach is the most viable option.
22. Both TNZ and MBIE endorse this tiered funding approach, and the values suggested. TNZ particularly appreciates the flexibility of the total value of loans offered to ITOs.

Funding delivery

23. As previously agreed, the funding delivery for ITOs will be via loans. TNZ recommended that generous loan terms are offered to acknowledge the extremely limited ability for ITOs to pivot to domestic tourism.
24. Further advice and specifics around the terms and conditions of the loans to be offered to ITOs will be provided within the paper: "2021-0526 STAPP – delivery mechanism and terms and conditions for loans". Loan terms and conditions advised within this paper will be the same for STAPP funding recipients and ITO funding recipients.

Timeline and Communications

25. Once Ministers have made decisions about which ITOs to fund and the level of loans to be offered, the ITO funding recipients will be able to be notified without delay.
26. MBIE will engage with experts to ensure due diligence and probity checks are undertaken. The loan offers to ITOs will be subject to these probity checks, and this will be outlined when notifying ITO funding recipients.
27. Officials recommend that any announcements of the ITO loan recipients occur after due diligence and probity checks have been completed.

Annexes

Annex One – Recommended list of ITOs to receive funding

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Annex One – Recommended list of ITOs to receive funding

Name of company	Market	Segment (e.g. premium, business events, Free Independent Travellers (FIT), group tour etc)	Tourism Export Council member? Yes/No	Number of years operating	Key points to consider and other benefits to NZ e.g. cultural, environment contribution, regional dispersal, longer stays	Annual \$\$ value to NZ pre-COVID (estimated by TNZ)	Applied to STAPP YES/NO?	STAPP amount sought or estimate	Funding recommendation (up to \$)	Approve/Decline
s 18(d)	Global	s 9(2)(b)(ii)					No	s 9(2)(b)(ii)	\$250,000	Approve/Decline
	China						Yes		\$250,000	Approve/Decline
	North America						No		\$250,000	Approve/Decline
	Global but working particularly well in India						Yes		\$250,000	Approve/Decline
	Global						Yes		\$500,000	Approve/Decline
	UK, All Europe						Yes		\$500,000	Approve/Decline

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¹ Famil is a special programme held each year by Tourism New Zealand to bring international travel sellers to New Zealand to familiarise themselves with what New Zealand has to offer.

s 18(d)		s 9(2)(b)(ii)		s 9(2)(b)(ii)		
	The Netherlands, Germany, Belgium		Yes		\$500,000	Approve/Decline
	Global		No		\$500,000	Approve/Decline
	North America, UK & Europe		Yes		\$500,000	Approve/Decline
	North America, UK & Europe		Yes		\$500,000	Approve/Decline
	UK/EU		No		\$500,000	Approve/Decline
	Japan and Korea		No		\$500,000	Approve/Decline
	China		Yes		\$500,000	Approve/Decline

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s 18(d)	s 9(2)(b)(ii)		s 9(2)(b)(ii)		
	All Europe, UK		Yes	\$750,000	Approve/Decline
	North America, South America, UK & Europe, Asia		Yes	\$750,000	Approve/Decline
	North America		Yes	\$750,000	Approve/Decline
	North America		Yes	\$750,000	Approve/Decline
	China, Rest of Asia, Europe		Yes	\$1,000,000	Approve/Decline
	China, range of segments		Yes	\$1,000,000	Approve/Decline
	North America, South America, UK & Europe		Yes	\$1,000,000	Approve/Decline

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s 18(d)		s 9(2)(b)(ii)		s 9(2)(b)(ii)		
	North America, UK & Europe		Yes		\$1,000,000	Approve/Decline
	Global		Yes		\$1,000,000	Approve/Decline
	North America, South America, UK & Europe, Asia		Yes		\$1,000,000	Approve/Decline

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s 18(d)		s 9(2)(b)(ii)						s 9(2)(b)(ii)				
	Asia,									Yes	\$1,000,000	Approve/Decline
	Germany									Yes	\$1,000,000	Approve/Decline
	South America, UK & Europe, Asia									Yes	\$1,000,000	Approve/Decline
	North America									Yes	\$1,000,000	Approve/Decline
Total:									\$18,500,000			

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* This ITO did not apply to the STAPP - TNZ has provided a funding estimate in place of a STAPP request figure
 ** Varying reasons why someone may or not be a member of TEC e.g. specialised market segment etc.