MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Stuart Nash	**Portfolio**	Tourism
Title of Cabinet Paper	Release of Discussion Document: Proposed changes to the International Visitor Conservation and Tourism Levy	**Date to be published**	10 October 2022

List of documents that have been proactively released		
Date	**Title**	**Author**
August 2022	*Release of Discussion Document: Proposed changes to the International Visitor Conservation and Tourism Levy*	Office of the Minister of Tourism
August 2022	*Appendix One: Proposed changes to the International Visitor Conservation and Tourism Levy*	MBIE
17 August 2022	*Appendix Two: Cost Regulatory Impact Statement*	MBIE
23 August 2022	*Release of Discussion Document: Proposed changes to the International Visitor Conservation and Tourism Levy* *CPC-22-MIN-0026*	Cabinet Office

Information redacted **YES / NO**

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In Confidence

Office of the Minister of Tourism

Cabinet Priorities Committee

Release of Discussion Document: Proposed changes to the International Visitor Conservation and Tourism Levy

Proposal

1 This paper seeks agreement to release for public consultation the attached discussion document, *Proposed changes to the International Visitor Conservation and Tourism Levy.* As the tourism sector recovers from the impacts of COVID-19, my vision is for New Zealand-Aotearoa to be rated one of the top three aspirational tourism destinations in the world by the most discerning travellers. The discussion document sets out proposed changes to the policy settings of the International Visitor Conservation and Tourism Levy (IVL), including increasing the value of the IVL in a graduated manner as visitor numbers increase and revising the investment priorities. This will ensure visitors are paying the full cost of their visit, not burdening the rate or taxpayer, and New Zealand is continuing to deliver exceptional visitor experiences that deliver on our brand promise.

Issue identification

2 Prior to COVID-19, degraded mixed-use infrastructure[1], net costs in the tourism system, environmental impacts and a lower-quality visitor experience negatively impacted on tourism's social licence to operate, leading to wider negative economic and social impacts for New Zealand as a whole and devaluing our international brand over time. Many of these further costs are borne by taxpayers and ratepayers in a way that is perceived to be inherently inequitable.

3 The current funding model for tourism is financially and socially unsustainable. Changes to the funding system via the IVL are required to support the Government's post-COVID-19 goal of establishing a future focused, regenerative and resilient visitor economy. I believe that the tourism system should exceed visitor expectations by ensuring that visitors become our greatest ambassadors for Brand New Zealand and that tourism should provide benefits for all New Zealanders.

Relation to government priorities

4 The proposals support the Government's priorities in the Labour Manifesto 2020 to:

4.1 restart and reimagine a more sustainable tourism industry by working with the industry, both businesses and workers, to support our tourism sector and invest in its transition to a sustainable, low carbon, higher skill and wage industry, focused on attracting high value visitors;

[1] Mixed-use infrastructure is used by both visitors, residents and communities.

4.2 grow the economy sustainably by making the long-term investments necessary to secure New Zealand's economic future;

4.3 partner with communities, iwi and local government; and

4.4 transition to a carbon neutral New Zealand by 2050.

Background

5 Tourism was New Zealand's most significant export earner in 2019, with 3.9 million visitors generating $16.2 billion in GDP for New Zealand. Visitor numbers had been increasing steadily year on year until the impact of COVID-19 forced our borders to close.

6 Tourism allows us to showcase what makes New Zealand special, turning visitors into brand ambassadors and storytellers for our country. These storytellers influence how other nations see and interact with us. This influence not only drives further tourism but may also provide spill-over benefits for trade and international engagement.

7 While international and domestic tourism brings significant benefits to New Zealand and New Zealanders, the ever-increasing volume of arrivals causes significant pressure on our country's natural environment, our shared infrastructure and on our communities. Tourism Industry Aotearoa estimates the cost of visitors to our local councils has risen to $150 million per annum, with these costs borne by ratepayers and/or taxpayers.

8 The introduction of the IVL in 2019 represented a change in the way we invest in tourism and conservation in New Zealand. Requiring visitors to financially contribute to the costs they are in part responsible for means that less of this cost must be borne by the New Zealand taxpayer and ratepayer.

9 Currently, most international visitors applying for a visa to enter New Zealand are charged the non-refundable IVL of $35 alongside their visa or (for most visa waiver travellers) New Zealand Electronic Travel Authority (NZeTA). 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].

10 In March 2021, Cabinet agreed to my direction for tourism based on the following four principles [DEV-MIN-21-0025 refers]:

10.1 elevate Brand New Zealand so that New Zealand is seen as one of the most aspirational global travel destinations;

10.2 the Government has an opportunity to re-set and rebuild tourism on a sustainable model and the industry should not return to 'business as usual';

[2] Including American Samoa, Cook Islands, Fiji, Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Niue, Nauru, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

10.3 the costs and negative impacts associated with tourism must be mitigated or priced into the visitor experience, and not funded by New Zealand ratepayers and taxpayers; and

10.4 Government partnering with the industry, both businesses and workers, is essential to achieve this transformation.

11 Following discussion at the Cabinet Priorities Committee (CPC) on 21 September 2021 [CPC-21-MIN-0016 refers] and Cabinet Business Committee (CBC) on 21 March 2022 [CBC-22-SUB-0014 refers], I paused this work until we had a better understanding of how tourism and flight numbers would return following the opening of New Zealand's borders. As a better picture has now emerged, CPC invited me to present this paper again. This revised paper explores changes to the IVL without amending the eligibility of who is required to pay. I set out here refined options for change in the following areas:

11.1 alteration to the funding arrangements so that more funding can be allocated to local councils to support investment in mixed-use infrastructure (such as car parks, public toilets and free local wi-fi), addressing local funding gaps and allowing regions to invest in future focused infrastructure development;

11.2 options for increasing the rate of the IVL to reduce the burden tourism places on New Zealand taxpayers and to assist in revenue generation to fund essential work which must be undertaken to ensure our tourism sector is regenerative, market leading and delivering on our aspirational brand proposition;

11.3 options for a stepped increase in the IVL, reducing the impact any sudden increase may have on the market.

Case for change

12 Tourism can create inclusive growth by distributing economic, employment and social benefits across our regions, cities and communities. However, the unprecedented growth prior to COVID-19, combined with natural population growth and net migration, placed considerable pressure on our infrastructure, the environment, our communities, public conservation lands and waters and our cultural and historic heritage.

13 This was causing a lower quality experience for international visitors and New Zealanders due to congestion and overcrowding and had the potential to negatively impact our New Zealand brand, the environment and tourism's social licence.

14 The IVL was introduced to help mitigate these costs to ensure they are not unduly borne by New Zealanders. However, the amount raised through the IVL is not sufficient to fully manage these impacts.

15 We have an opportunity to further explore how we can use the IVL to transition to a regenerative tourism system that achieves my aspirational vision, enriches our communities and enables visitors to become champions of Brand New Zealand. Increasing the IVL will provide more sustainable funding solutions for the tourism sector without increasing the burden on New Zealanders via rates and tax.

The cost to our local infrastructure is estimated at $150 million per year

16 The private sector was able to respond to the growth in visitors through strategies such as increasing prices and reinvesting in an expanded tourism product offering. However, government (central and local) funding tools did not evolve in line with visitor growth.

17 Over the last five years, several reports by both government and industry have estimated the infrastructure cost alone from international visitors (largely owned by local government) is in the order of $150 million per year across New Zealand[3].

18 While international visitors do pay GST on goods and services, which produces a significant amount of revenue (estimated at around $1.8 billion in 2019), domestic and international visitors do not pay for local public goods like mixed-use infrastructure. In the current context, local government cannot easily recoup the costs of visitors through rates or user charges.

The environmental cost on public conservation lands is estimated at $96 million per year

19 The Department of Conservation (DOC) estimated that, prior to COVID-19, it spent approximately $96 million per year maintaining its estate from costs attributable to international tourists. This estimate includes a share of the conservation of natural and cultural heritage, recreation opportunities, biodiversity protection and other benefits that international visitors enjoy during their time here[4].

20 The environmental costs of tourism are largely met through taxpayers and ratepayers, or ultimately go unaddressed, leading to the degradation of New Zealand's natural capital. For example, while DOC's Great Walks are partially managed through user charges on huts, there is free access to public conservation lands. There is no link between the cost and revenue required to ensure a regenerative model for conservation land. We currently undervalue the natural landscape that international tourists spend a lot of money, and travel a long way, to experience.

The changing context

21 The tourism sector faced significant challenges under COVID-19. Closing New Zealand's borders reduced the number of visitors in New Zealand to a level not seen since the 1950's[5]. During this period, the Government provided support to ensure the

[3] These reports included *Addressing New Zealand's most pressing local tourism infrastructure needs* (Tourism industry leaders), *Financial Costs and Benefits of International Tourism* (Deloitte/MBIE), *National Tourism Infrastructure Assessment* (Deloitte/TIA). Given the impacts of COVID-19 and uncertainty around future international visitation patterns, it remains to be seen whether this will still provide an accurate indication of cost in future.

[4] This estimate was based on figures from 2018/19 financial year and adjusted to exclude DOC revenue and the contribution of international visitors to conservation via GST and direct tax paid by businesses. While these costs would occur, to some extent, due to purely domestic tourism, DOC's estimate is an upper bound, based on allocating a 'fair share' of cost applied to international visitors, using the number of international visitors to public conservation lands and waters relative to New Zealand visitors to indicate the relative share of expenses that should be met by international visitors.

[5] Stats NZ, 2020a.

sector was ready when borders opened and tourism resumed through the following targeted packages:

21.1 2020 Tourism Recovery Package ($400 million);

21.2 2021 Tourism Communities: Support, Recovery and Re-set Plan ($200 million); and

21.3 2022 Innovation Programme for Tourism Recovery ($54 million of underspend).

22 As travel has resumed around the world the attitude of travellers is beginning to change. Industry experts have informed me that some visitors remain wary of travel for fear of COVID-19, while others have saved discretionary income and are desperate to visit new countries and have new experiences. Travellers are also becoming more conscious of the climate impact of tourism, in particular long-haul travel to countries such as New Zealand.

23 The supply of international travel has also changed. New challenges have emerged such as rising fuel costs (impacting both aviation and land-based travel) and worldwide staffing shortages across many tourism roles. The supply of long-haul flights around the world has reduced, at least in the short term. However, international travel demand is increasing, and reports suggest that appetite for travel remains at similar levels to pre-COVID-19 and the airlines anticipate capacity returning to pre-COVID-19 levels before the end of 2022.

The future of tourism in New Zealand

24 The future challenges of international tourism are clear. The majority of international visitors to New Zealand arrive by air. The Parliamentary Commissioner for the Environment (PCE) estimated that the New Zealand tourism industry produces approximately 12.5 million tonnes of carbon dioxide equivalent (CO_2) per annum. This translates into a cost of **$820 million per annum** (based on the Waka Kotahi price of carbon, $65.58 per tonne of CO_2[6]).

25 Innovation is critical to tourism's future. We must invest in our tourism sector to provide adequate funding to reduce the impact of high-carbon travel, reduce reliance on fossil fuels in the industry and to innovate for growth.

Current funding support is not fit for purpose

26 Local governments have a variety of fundraising tools at their disposal including variable rates and user-pays systems. However, these tools struggle to meet the full cost that visitors place on communities and can also unfairly impose costs on locals and communities.

27 In the absence of sustainable local government funding streams for tourism, central government has provided significant funding for public amenities and the services

[6] This value is sourced from the Waka Kotahi Monetised Cost and Benefit Manual.

needed to support tourism. Since 2017, this has been distributed through three contestable funds:

27.1 the Provincial Growth Fund ($3 billion over three years);

27.2 the Tourism Infrastructure Fund (TIF) ($100m over four years since 2017). A further $16.5 million was provided from the Tourism Communities: Support, Recovery and Reset Plan for a further round of the TIF. Over $90 million has now been allocated from the TIF;

27.3 funding to support Councils to manage responsible camping in their area was provided via the Tourism Facilities Development Grants Fund (TFDG) ($24.5 million over three peak seasons) with a further $10 million to become available for local government implementation future to support future changes to the Freedom Camping Act 2011.

28 While most councils have benefitted from these funds, some have voiced concern about the lack of certainty around time-limited funding, noting that it cannot be relied upon for future investment by local government on an ongoing basis[7]. The IVL can provide a relatively stable source of central funding for local councils that could offset the costs of tourism on infrastructure. I acknowledge that funding of this type can vary as visitor numbers fluctuate. However, as visitor numbers stabilise, we should expect this to remain largely consistent.

29 While the upfront capital costs of tourism infrastructure are funded, ongoing operational and maintenance costs for councils are significant and remain largely funded by local ratepayers. The IVL has a role in providing capital investment to develop self-funding operations.

30 If no change is made, funding for necessary changes will continue to be provided solely by New Zealand ratepayers and taxpayers. New Zealanders face rising costs due to worldwide shortages, international inflation and increasing fuel costs. It is no longer appropriate to place this burden solely on their shoulders.

31 Tourism relies on the provision of infrastructure and natural resources which cannot be provided by the market, for example the DOC estate, New Zealand's cycle trails or our landscapes. This means that the cost for maintaining and developing these things falls solely on taxpayers and ratepayers, who only represent a proportion of those who benefit.

32 Existing funding models also make no provision for essential funding for innovation in the tourism sector, nor for ongoing work necessary to manage the effects of climate change. All local councils are required to develop a Destination Management Plan (DMP) to identify their aspirations for tourism. These aspirations are necessarily limited by how far local charges can support the ambition and how far these plans are able to address the challenges regions face.

The time for change

[7] New Zealand Productivity Commission (2019) *Local Government Funding and Financing.*

33 My aspiration for the tourism sector is for New Zealand to be rated one of the top three aspirational tourism destinations in the world by the most discerning travellers. As borders begin to open and New Zealand starts to welcome visitors we must consider what sort of tourism industry we want for our country now and for the future. We have a unique opportunity to shape the nature of our industry and live up to our huge potential and global competitive advantage as Brand New Zealand.

34 I understand the tourism sector is still under pressure and that many may be concerned that a rise in the rate of the IVL will threaten recovery. I sympathise with these concerns but there may never be a perfect time to make these changes, and there are options to implement these changes gradually. I firmly believe we cannot return to business as usual: a message I have conveyed to the sector many times over the past 18 months. The interruption to tourism caused by COVID-19 provides us an opportunity to reflect on the type of tourism New Zealand wishes to develop and the type of visitor we actively market our country to.

35 The IVL is not just about covering the costs that visitors bring to New Zealand, the additional funding it can bring will be essential for funding the continued development of our tourism industry. Our tourism sector needs to innovate and grow and we must find ways of addressing the challenges brough upon by climate change. Additional funding will assist in our goal of a regenerative and future focused tourism sector.

36 I believe that we must act now to ensure we can respond to the challenges we face in the near and long term. Tourism is a cross-cutting sector and therefore these effects are felt by a range of businesses, including activity operators, accommodation providers, transport, hospitality and retail.

37 This consultation will allow me to hear the views of New Zealanders and consider how we best address them in the policy design. Changes to the IVL must be made with due regard to the views of our tourism firms, communities, and conservation groups. I therefore propose the release of a discussion document to seek views on the proposed alteration to the IVL investment priorities.

38 I also propose consulting on an increase to the rate which responds to increasing volumes of international visitors. This is to support the tourism industry by mitigating some of the potential demand impacts to international travel and allowing a rebuild from the impacts of COVID-19.

39 If the proposals in the discussion document are agreed to the changes to the tourism system will act as a catalyst to reach our goal of establishing a regenerative and resilient visitor economy that brings benefits for all New Zealanders, our environment, and our communities. Strengthening our visitor economy will allow our visitors to share our unique culture and heritage with the world.

Options for public consultation

40 I recommend the Government releases for public consultation the attached discussion document *Proposed changes to the International Visitor Conservation and Tourism Levy*. The discussion document seeks public feedback on the following key changes to the IVL:

40.1 revisiting investment priorities and how the government seeks feedback from stakeholders to help inform IVL investments;

40.2 options to increase the rate from $35 to either $100, $150 or $200;

40.3 options to gradually implement an increase to the IVL rate to respond to the increasing volume of visitors as border restrictions ease.

41 I propose to undertake public consultation for four weeks following release of the discussion document. I will report back to Cabinet on the outcomes of the public consultation and seek policy decisions for proposed regulatory change around November 2022.

Revisiting the IVL investment priorities and stakeholders' involvement

42 We need to ensure that the revenue the IVL generates will enhance visitor experiences, benefit New Zealanders, strengthen conservation and deliver on our brand promise.

43 I believe that the current allocation of funding is no longer appropriate for the challenges the sector faces. I have therefore proposed the following potential new priorities:

43.1 Addressing tourism and conservation funding challenges:

43.1.1 Local government infrastructure (40 percent).

43.1.2 Supporting conservation (30 percent).

43.2 Investing in the future of tourism and conservation in New Zealand:

43.2.1 Mitigating the climate change implications of tourism (20 percent).

43.2.2 Tourism research and innovation (10 percent).

44 These changes do not prejudice the proportion of DOC administered funds which will remain at their current nominal level.

45 By allocating more funding to local government infrastructure I aim to reduce the funding burden which generally falls on local ratepayers and taxpayers, moving closer to a 'user-pays' model where visitors contribute to the sustainability and resilience of the environment they have come to enjoy. It is important that investments in local government infrastructure provide value to local government and visitors, is equitably distributed (including to regions that experience predominantly domestic visitors) and occurs before, or at the same time that, local government experiences the impacts of increased demand in tourism.

46 Providing more funding for the future of the tourism sector allows us to focus on transitioning to a regenerative tourism model which can develop methods for combating the effects of climate change, innovate to lower emissions and support tourism workers to build exceptional careers in the industry.

47 There is an opportunity to revisit the function and authority of the IVL Advisory Group and how stakeholder input is considered (e.g., such as local government and tourism representatives). Currently, the Minister of Finance, Minister of Conservation and I are the key decision makers, with input from the sector through an advisory group. Ministers agree on the IVL investment priorities and make decisions on investments based on advice and input from officials and the IVL Advisory Group.

48 Exploring a more transparent mechanism for the IVL funding will be important to ensure that investment in local government infrastructure is fair, equitable and organised so that councils can rely on, and plan for, the incoming monies. This mechanism could include a funding formula or range of criteria (such as visitor-resident ratios or alignment with DMPs) that can broadly identify what types of projects would be funded in alignment with the identified funding gaps.

49 I propose that monitoring and evaluation of investments funded through the IVL will continue to be reported on through the IVL annual report.

Options to increase the IVL

50 I believe it is no longer viable for us to fund necessary tourism spending solely through taxpayer revenue. The initial level of IVL was predicted to raise around $80 million before the effects of COVID-19 were felt. This amount is not sufficient to meet the need of our communities as well as the need to innovate for a more secure tourism future.

51 I therefore seek Cabinet agreement to confirm public consultation on three proposals for an increase to the IVL rate in the discussion document with no change to eligibility:

51.1 increase to $100;

51.2 increase to $150, and

51.3 increase to $200.

52 While increasing the rate of the IVL will assist in generating more revenue for the tourism sector and conservation, the increased costs to visit New Zealand may impact people’s decisions to travel here, leading to decreased spending in the economy compared to pre-COVID-19 average expenditure.

53 As shown by the table below, officials estimate that the impact of an increase in the IVL has the potential to be significant. It is important to note that the table below isolates the estimated impact on visitor numbers due to an increase in the IVL.

54 The data incorporated in the estimates is derived from pre-COVID-19 international visitor numbers, elasticities and studies. It may not accurately reflect the impact of COVID-19 on visitor preferences, such as attitudes towards travel which remains to be seen. The data has been sourced from various studies, as well as information held by airlines.

Table one: Estimated IVL revenue and impact on additional funding from the IVL based on visitor numbers (based on 2019 international visitor arrivals (3.9 million visitors)).

	Estimated IVL revenue	Estimated decrease in total visitor numbers	Percentage decrease in total visitor numbers
Option One ($100)	$159 – $192 million	(92,000 – 101,000)	2.37 – 2.61%
Option Two ($150)	$215.4 – $278.6 million	(164,000 – 179,000)	4.23 – 4.62%
Option Three ($200)	$336 – $444 million	(234,000 – 257,000)	6.04 – 6.63%

55 However, alongside proposed increases to the IVL, visitors are also facing a range of increased costs at the border. This includes direct government fee increases (such as the recent changes to the Border Clearance Levy and the Immigration Fee and Levy review, which will increase the overall costs to enter New Zealand for some visa holders), global inflationary pressure, constrained air travel and rising fuel costs, and the indirect costs associated with COVID-19 (such as increased travel insurance premiums). These increased charges could slow the recovery in travel demand and need to be considered on a cumulative basis. There is not sufficient data to accurately model the impact of these changes at this time.

56 A reduction in visitors to New Zealand may create pressure on our broader air connectivity at the margins which may in turn have a moderate effect air freight shipping in and out of the country. It is not possible to provide an accurate estimate of what this price change may be, nor how significant. However, at July 2022 with levels of arrivals into the country still recovering, airfreight prices are currently two to three times higher than pre-COVID-19 levels.

57 It is possible, that despite the current increased costs to travel internationally, visitors will be motivated to travel to New Zealand following the opening of our borders regardless of the potential price increase of the IVL. The tourism sector is focused on building back better so the impact of any changes to the IVL on their recovery would need to be explored during public consultation.

58 The model cannot effectively account for the potential deadweight loss (a substitution effect) where visitors do not travel to New Zealand, or who arrive here but have reduced disposable spending money while in the country because of the increased IVL.

59 In addition, the model only considers the impact of raising the levy and does not consider any benefits generated from spending revenue on tourism infrastructure and conservation. New infrastructure spending could generate significant benefits to the economy over time and therefore mitigate some of the negative impacts of the levy. The underlying model does not account for changes to the foreign exchange market, global economic environment, or dynamic pricing, which can have a significant impact on visitor behaviour and demand for tourism.

60 As shown by the table below, officials estimate that the impact of an increase to the IVL could result in significant increases in government revenue that can be spent on tourism and conservation based on the suggested investment priorities.

Estimated IVL revenue for tourism and conservation projects (based on 2019 international visitor arrivals (3.9 million visitors).

	Estimated IVL revenue at $100: $159 – $192m	Estimated IVL revenue at $150: $215.4 – $278.6m	Estimated IVL revenue at $200: $336 – $444m
Local government infrastructure (40%)	$63.6 – $76.8m	$86.1 – $111.4m	$134.4 – $177.6m
Supporting conservation (30%)	$47.7 – $57.6m	$64.6 – $83.5m	$100.8 – $133.2m
Mitigating climate change implications (20%)	$31.8 – $38.4m	$43 – $55.7m	$67.2 – $88.8m
Tourism research and innovation (10%)	$15.9 – $19.2m	$21.5 – $27.8m	$33.6 – $44.4m

Implementing a gradual increase to the new IVL rate

61 CPC invited me to consider options to gradually increase the rate of the IVL to respond to increasing volumes of international visitors. While border restrictions have begun to ease, it is likely to take some time for the numbers of international visitors to increase to the volumes we have seen pre-COVID-19, which could put continued pressure on the recovery of the tourism sector.

62 I propose seeking feedback on three options to implement a gradual increase to the IVL, with changes to the rate occurring no earlier than July 2023. The examples below are based on an IVL rate of $200:

62.1 Option One: a stepped increase that would see the rate increase gradually each year as international visitors return. The trigger for the increase would be if a certain number of short-term visitors arrive in New Zealand (e.g., one million). If the expected number is not met, the rate would stay the same for the following financial year until the point when the trigger is met.

62.1.1 For example, if the new IVL rate was $200, on 1 July 2023 the IVL would increase from $35 to $75. If, over the 2023 calendar year, one million short-term visitors arrive in New Zealand, the IVL would increase the next financial year to $125. If arrivals reach two million in 2025, the IVL would increase to $200.

62.2 Option Two: an automatic annual increase which would begin on 1 July 2023.

62.2.1 For example, the IVL rate would increase gradually every year until the new rate of $200 is reached.

62.3 Option Three: no gradual increase. There would be only one change in rate from $35 to $200 at an agreed date in the future. This could provide greater certainty of the costs to travel to New Zealand for the tourism sector and international visitors once New Zealand's borders reopen.

63 My preference is for Option Three, with Option Two being my second preference.

Communications

64 I propose that the discussion document is released for public consultation for a period of four weeks. It is important that a wide range of views are heard on the potential proposals.

65 I propose releasing a press statement that seeks feedback on the discussion document from stakeholders. Officials will also look to do targeted sessions around city centres with relevant stakeholders or facilitate online webinars.

66 I note that other Discussion Documents relating to tourism are being released at around this time. These include Documents on;

66.1 Freedom Camping Regulations

66.2 Industry Transformation Plan: Draft Better Work Action Plan, and;

66.3 Innovation Programme for Tourism Recovery.

67 I will work with my officials to ensure these papers are released in the most appropriate manner.

Financial Implications

68 There are no direct financial implications with the release of the discussion document. However, the contents of the discussion document will have financial implications if policy changes are agreed by Cabinet. An increase to the IVL will increase government revenue to spend on investment priorities.

Legislative Implications

69 The release of the discussion document does not raise any legislative implications.

70 If changes to the IVL rate are agreed following consultation, changes to the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 will be required.

71 Section 399B of the Immigration Act 2009 requires me to review the IVL amount and method of calculation at intervals of no more than five years. I propose to continue to review the IVL rate at regular intervals, including whether adjustment is required based on inflation.

Impact Analysis

Regulatory Impact Statement

72 MBIE's Regulatory Impact Analysis Review Panel has reviewed the attached Cost Recovery Impact Statement prepared by MBIE. The Panel considers that the information and analysis summarised in the Impact Statement partially meets the criteria necessary for Ministers to make informed decisions on the proposals in this paper. Given the limited consultation undertaken at this stage, the Impact Statement could not meet the full requirements.

73 The Cost Recovery Impact Statement will be updated following consultation and considered at the time policy decisions are taken.

Climate Implications of Policy Assessment

74 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply at this stage as there is no direct emissions impact.

75 If progressed, final options may have emissions implications, which are difficult to accurately quantify at this stage.

76 Emissions impacts will be assessed in more detail and disclosed to Cabinet as appropriate as this work is progressed.

Population Implications

77 This proposal may have an impact on Māori tourism businesses. The 2019 New Zealand Māori Tourism Annual Report outlines that previously, close to 70 percent 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

78 An assessment of the human rights implications was completed as part of drafting the legislation when the IVL was first established in 2019. However, in 2019 the Ministry of Justice's NZBORA team noted that the amount of the levy would impact on the proportionality of the measure. A larger increase to the levy may have more human rights implications.

Consultation

79 The Treasury, Department of Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, Department of Conservation, Department of Internal Affairs, Ministry of Transport, Ministry of Education, MBIE Immigration New Zealand and Tourism New Zealand were consulted on the discussion document.

80 During 2021, I met with the Tourism Industry Leaders' Group on several occasions and officials have also met regularly with representatives. The Group raised concerns about the potential increase to the IVL and the impact that increased charges at the border may have on tourism's recovery. However, they agreed that change is needed

and want to work collaboratively with the Government to design a fair, efficient and resilient funding model for tourism.

Proactive Release

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

Recommendations

The Minister of Tourism recommends that the Cabinet Priorities Committee:

1 **note** that the unprecedented growth in tourism and visitor numbers prior to COVID-19 placed considerable pressure on New Zealand's infrastructure, the environment, our communities and our natural, cultural and historic heritage;

2 **note** that current funding structures do not support sustainable public amenities, tourism infrastructure, and costs to public conservation lands and waters;

3 **note** that there is an opportunity to explore how the costs of tourism could be more effectively priced into the visitor experience so that they are not borne by the ratepayers or taxpayers and support transition to a regenerative tourism system to maintain a high-quality visitor experience;

4 **note** that the tourism sector is focused on recovering from the impacts of COVID-19 so the proposed increase to the IVL may dampen early optimism.

5 **note** that at the Cabinet Priorities Committee (CPC) meeting on Tuesday, 21 September 2021 and 21 March 2022 CPC agreed that:

5.1 the Minister of Tourism will consult on a potential increase to the IVL for all visitors except those from New Zealand, Australia or the Pacific Islands, which involves a graduated system in which the levy would increase as the number of visitors increases; and

5.2 the Minister of Tourism would bring back a proposed consultation document to Cabinet for confirmation.

6 **agree** to the public release of the attached discussion document titled Proposed changes to the International Visitor Conservation and Tourism Levy;

7 **agree** the discussion document seeks feedback on the following proposals:

7.1 revisiting investment priorities and how the government seeks feedback from stakeholders to help inform IVL investments.

7.2 Consult on three proposals for an IVL rate increase:

7.2.1.1 increase to $100;

7.2.1.2 increase to $150; and

7.2.1.3 increase to $200.

7.3 options to gradually increase the IVL to respond to the increasing volume of visitors as border restrictions ease;

8 **note** that any increase in the IVL should be considered as part of the total costs paid by international visitors when travelling to and entering New Zealand. This includes the levies and fees associated with border processing, aviation and immigration services as well as indirect costs caused by high inflation and rising aviation fuel costs;

9 **agree** to a four-week public consultation period on the attached discussion document;

10 **invite** the Minister of Tourism to report back to the Cabinet Priorities Committee in November 2022 with the outcomes of the consultation and final policy proposals;

11 **authorise** the Minister of Tourism to update the discussion document to reflect decisions made by Cabinet, as well as any editorial and technical changes required before releasing the discussion document for public consultation; and

12 **note** that the Ministry of Business, Innovation and Employment will publish a copy of this Cabinet Paper (with appropriate redactions), the Cabinet Committee minute (as soon as is practicable), Cost Recovery Impact Statement, and the discussion document on its website following release of the discussion document.

Hon Stuart Nash

Minister of Tourism

Appendices

Appendix One: Proposed changes to the International Visitors Conservation and Tourism Levy Discussion Document

Appendix Two: Cost Regulatory Impact Statement

Proposed changes to the International Visitor Conservation and Tourism Levy

DISCUSSION DOCUMENT | AUGUST 2022

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Te Kāwanatanga o Aotearoa
New Zealand Government

Ministry of Business, Innovation and Employment (MBIE)
Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders. MBIE combines the former Ministries of Economic Development, Science and Innovation, and the Departments of Labour, and Building and Housing.

MORE INFORMATION

Information, examples and answers to your questions about the topics covered here can be found on our website: www.mbie.govt.nz or by calling us free on: 0800 20 90 20.

DISCLAIMER

This document is a guide only. It should not be used as a substitute for legislation or legal advice. The Ministry of Business, Innovation and Employment is not responsible for the results of any actions taken on the basis of information in this document, or for any errors or omissions.

Print: ISSN 978-1-99-104165-4 Online: ISSN 978-1-99-104164-7

August 2022

Contents

How to have your say 3
Foreword from the Minister of Tourism 5
The issue and why we are consulting 8
The scope of this discussion document 14
The International Visitor Conservation and Tourism Levy 15
What the Government wants to achieve 18
Revisiting the IVL investment priorities 21
Proposal for increasing the rate of the IVL 24
When and how should an increase to the IVL be introduced? 30
Annex One: Explanation of impact analysis 33

How to have your say

You have an opportunity to tell us what you think of the proposals to change the current IVL settings by providing feedback on the matters raised in this discussion document. You are welcome to make submissions on some, or all, of the discussion questions set out in this document, and/or to raise any other relevant points.

HOW TO COMMENT ON THIS DISCUSSION DOCUMENT

The Ministry of Business, Innovation and Employment (MBIE) seeks written submissions on the proposals in this document by XXXX**.** A submission may range from a short letter on one issue, to a detailed response covering multiple issues. Please provide relevant facts, figures, data, examples and documents where possible to support your views. You can:

- Complete your submission on the MBIE website: [insert web link]
- Email a submission to us at: [insert email address]
- Mail your submission to us at:
  Ministry of Business, Innovation & Employment
  15 Stout Street
  PO Box 1473, Wellington 6140
  Attention: International Visitor Levy submissions

If possible, we appreciate receiving submissions electronically. If emailing an attachment, we prefer a Microsoft Word document or searchable PDF format.

MBIE WILL PUBLISH A SUMMARY OF SUBMISSIONS

After the consultation period has closed, MBIE will publish a summary of submissions on our website at www.mbie.govt.nz. Should any part of your submission be included in the summary of submissions, MBIE will seek your permission to publish your information and ensure it does not refer to any individuals by name. When businesses or organisations make a submission, MBIE will consider that you have consented to the content being included in the summary of submissions unless you clearly state otherwise.

The Privacy Act 2020 applies to your submission. Any personal information you supply to MBIE in the course of making a submission will only be used to assist with the development of policy advice relating to this consultation. If you have any concerns about the collection, use and disclosure of your information during this consultation you can raise this with the Office of the Privacy Commissioner

Submissions will also be subject to the Official Information Act 1982 (OIA). This means that other people will be able to request a copy of any submission under the OIA. Parts of submissions may also be summarised or quoted in official documents, which may be subject to public release.

The withholding of submissions, in part or in full, on the grounds of privacy, or commercial sensitivity, or for any other reason will be determined in accordance with the OIA. Please see sections 6, 7 and 9 for the withholding grounds in the OIA.

If submitters consider that any part of their submission should be withheld under the OIA, they should clearly indicate this and what grounds may apply. MBIE will take your views into account when responding to requests under the OIA. If your reason for wanting any part of your submission to be withheld from release does not align with the reasoning outlined in the OIA, it may still be subject to release. MBIE is not obligated to notify you if your submission is going to be released under the OIA. The Office of the Ombudsman can review any decision to withhold information requested under the OIA.

WHAT HAPPENS NEXT?

MBIE will analyse all submissions received and then report back to the Minister of Tourism on the feedback, with recommendations for his consideration. Your submission will help to inform policy decisions on the proposed changes to the IVL.

Photo: Will Patino

Foreword from the Minister of Tourism

My vision for tourism is for New Zealand-Aotearoa to be rated one of the top three aspirational tourism destinations in the world by the most discerning travellers.

New Zealand-Aotearoa is a special place, and we should all be proud of the experiences we can offer to visitors. People travelling here never forget their experience and leave as storytellers and ambassadors to encourage others to visit.

Protecting New Zealand from COVID-19 by closing the borders was the right thing to do, but we know that it wasn't easy for people and firms, especially those in our tourism sector. Fortunately, New Zealand, and the world, is opening for travel and tourism once again.

Visitors contribute significantly to our country and the arrival of international visitors to New Zealand is a cause for celebration. But it is clear we cannot return to business as usual. The huge growth in travel worldwide and subsequent increase in visitors brought significant challenges to New Zealand, our infrastructure, our environment, our communities, and the social licence for tourism to operate in certain locations, at certain times of the day and year.

To achieve my vision for tourism, the system must be regenerative, giving back more to people and places than it takes. Tourism must actively enrich our communities (contribute to the health and wellbeing of all our diverse communities) and help protect and restore our environment. We have an opportunity and capability to become the most innovative and future focused tourism destination in the world. Visitors to our shores will become champions of New Zealand's visitor economy.

This document therefore proposes a new distribution model for IVL funding, with additional funding being diverted to assist in local infrastructure costs and to support our industry develop into one which is fully regenerative. We have the opportunity to prioritise forward-looking investments and to find solutions to the pressing challenges that the sector will face, such as adapting to the post-COVID-19 environment and mitigating the impacts of climate change. Funding will also help to develop mixed-use infrastructure (such as car parks, public toilets and free local wi-fi), and address local funding gaps and allowing regions to invest in future focused infrastructure development.

It is clear we cannot continue to place these costs on New Zealand ratepayers and taxpayers. This vision can only be achieved if international visitors are contributing their fair share to the costs they impose and the benefits they receive from the infrastructure they use, as well as the natural environment that they enjoy while here in New Zealand. This document therefore suggests alternate levels of IVL charge to meet the funding needs. Our visitors want to give back too, we want the type of traveller that is willing to contribute to the communities, and protect the environment, they visit.

Taken together, these changes will allow for greater certainty of investment in our tourism infrastructure, conservation and biodiversity (and give us scope to expand these investment priorities in the future), without placing an undue burden on New Zealanders. It will also provide the support and funding needed to transition to a world-leading regenerative tourism model which continues to exceed the expectations of visitors to New Zealand-Aotearoa.

I am interested in receiving feedback from all stakeholders, including the tourism industry, conservation groups and the wider public. Making changes to the IVL requires input from everyone, and I look forward to understanding your views on the proposed changes, and investment priorities.

HON STUART NASH

Minister of Tourism

Photo: www.tylermielsray.com

The issue and why we are consulting

Photo: Patrick Bodzak

The issue and why we are consulting

Increasing tourism numbers brought benefits and challenges…

Prior to the worldwide COVID-19 pandemic, the tourism sector experienced rapid and significant growth in visitor arrivals and spend in New Zealand. New Zealand welcomed 3.9 million international visitors in 2019, which had grown from 2.6 million in 2012. Tourism was also New Zealand's leading export earner at $16.2 billion in 2019. However, with this growth came challenges around sustainability, infrastructure resilience, overcrowding in key tourist destinations and an erosion of the social licence to operate in several towns and regions.

Figure 1: Total international visitor arrivals to New Zealand[1]

International visitor arrivals generate a range of benefits for New Zealand, such as economic growth, employment opportunities, strengthened communities and international connectivity. It is important that we have sustainable public amenities and infrastructure in place, and a regenerative tourism system to deliver a high-quality visitor experience.

Degraded mixed-use infrastructure[2], net costs in the tourism system, environmental degradation and a lower-quality visitor experience negatively impact the social licence for tourism to operate, leading to wider negative economic and social impacts for New Zealand as a whole, and a general erosion of the quality of our global brand, built on the 100% Pure New Zealand promise.

The Parliamentary Commissioner for the Environment identified a range of environmental impacts of tourism, including biodiversity loss and biosecurity risk, visitor density and loss of natural quiet,

[1] International Tourism Evidence and Insights Centre: The Economy | Demand, February 2022 (mbie.govt.nz)

[2] Mixed-use infrastructure is used by both visitors and residents and communities.

water quality degradation, solid waste generation and management, infrastructure development and landscape modification and greenhouse gas emissions.[3]

… and current funding systems cannot meet requirements

Prior to COVID-19, natural population growth, net migration and unprecedented visitor growth put considerable pressure on infrastructure used by visitors and New Zealanders. The tourism sector faced significant pressure to meet costs in the following areas:

- development and maintenance of mixed-use infrastructure (e.g., public toilets, carparks)
- increasing demands on public conservation lands
- greenhouse gas emissions, particularly from aviation
- innovation and digitalisation.

CURRENT TOURISM INFRASTRUCTURE FUNDING ARRANGEMENTS

Funding to develop and maintain mixed-use tourism infrastructure is provided by local government and paid by communities through rates. Visitors do contribute to this funding indirectly through spending when visiting New Zealand. This is done through GST on their purchases (which raised approximately $1.8 billion in 2019), through user charges attached to services and indirectly through contributions to local rates when purchasing goods and services (where local rates are passed through to consumer cost).

While international tourists pay GST – and both domestic and international tourists pay user fees and indirectly pay rates through purchases – importantly, they do not fully pay for their use of mixed-use infrastructure. This is particularly challenging for smaller regional communities that experience high visitor numbers, requiring greater investment from ratepayers themselves or access to ad-hoc time-limited central government funding. Some communities have sought to develop alternative solutions to limit the burden on ratepayers. For example, Queenstown Lakes District Council consulted on the introduction of a levy applied to short-term accommodation to help fund infrastructure in the popular visitor destination pre-COVID-19.

Ongoing investment in tourism infrastructure is critical to ensure a high-quality visitor experience and the long-term sustainability of the tourism industry. A report authored by tourism sector leaders in late 2016 estimated that an ongoing investment programme for local infrastructure of **$100-$150 million** was required each year (shared between private sector, local and central government) to meet demand[4]. Similar challenges also arose for the Department of Conservation, who face difficulties responding to the increasing demands of tourism on public conservation lands (30 percent of New Zealand's land area) as these costs are largely met through taxpayers and ratepayers. For popular visitor destinations such as Piopiotahi Milford Sound and the Tongariro Crossing, this led to negative environmental impacts, threatening some of the key natural assets that attract visitors to New Zealand.

These costs will continue to accrue if action is not taken, and if no change is made to existing funding arrangements much of the cost will continue to be met by ratepayers in local communities and the New Zealand taxpayer through central government funding. With New Zealanders facing increasing cost pressures resulting from global supply chain issues and rising fuel prices, it is not appropriate to

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[3] Pristine, popular… imperilled? The environmental consequences of projected tourism growth, December 2019 (pce.parliament.nz)

[4] Addressing New Zealand's most pressing local tourism infrastructure needs: Tourism Infrastructure Study Executive Summary, November 2016 (tia.org.nz)

place this burden on them. Increasing the rate of the IVL will mean that tourists and visitors provide a higher contribution to these costs through a move towards a 'user-pays' model.

TOURISM'S FUTURE CHALLENGES

Tourism will be impacted by the challenge of climate change. The Parliamentary Commissioner for the Environment estimated that the New Zealand tourism industry produces approximately 12.5 million tonnes of carbon dioxide equivalent per annum[5]. This translates into a cost of $820 million per annum based on the Waka Kotahi price of carbon. Before COVID-19, most visitors to New Zealand arrived by air and 26 percent of the 12.5 million tonnes of carbon dioxide are attributed to international aviation, which is equivalent to an estimated **$213 million** per year[6]. The effects of climate change will put additional pressure on our natural environment and the conservation work needed to protect it, and could irrevocably damage our environment for future generations.

Given the economic risk faced by many communities in the face of a decrease of their local tourism economy, the costs of climate change mitigation and adaptation will become increasingly important. MBIE has recommended that destinations around the country consider these climate change mitigation and adaptation strategies when undertaking destination management planning[7].

It is important to acknowledge that the tourism industry is already taking steps to work towards a more sustainable future. For example, through the development of Christchurch Airport's Kōwhai Park solar energy farm and Tourism Industry Aotearoa's (TIA) Tourism Sustainability Commitment.

Innovation is also critical to tourism's future. Sustainable investment in the development of new technology and digitalisation is needed to enable businesses to adapt and build resilience in a post-COVID-19 environment, in line with international tourism trends and visitor preferences.

Moving to a regenerative tourism model would provide more benefits for our communities…

Achieving the Government's vision for the industry requires New Zealand's tourism system to transform to one that is regenerative in the long term. A regenerative model will support the preservation of our crucial assets, further enhance our position as an aspirational tourism destination and give visitors a better experience to share when they return home.

What is regenerative tourism?
Regenerative tourism contributes to restoration and creates net benefits across social, cultural, environmental, and economic wellbeing, after all costs have been considered.

The Government has agreed to four key principles for transforming the tourism sector[8]:

1. protecting and enhancing Brand New Zealand
2. re-setting, and rebuilding tourism on a regenerative model

[5] Pristine, popular… imperilled? The environmental consequences of projected tourism growth, December 2019 (pce.parliament.nz)
[6] Based on the Waka Kotahi price of carbon, $65.58 per tonne of CO_2 – Waka Kotahi Monetised Cost and Benefit manual.
[7] Destination Management Guidelines, April 2022 (mbie.govt.nz)
[8] Direction for tourism, March 2021 (mbie.govt.nz)

3. ensuring that the costs and negative impacts of tourism are mitigated or priced into the visitor experience
4. Government to partner with industry, businesses, workers and iwi to achieve change.

As visitor numbers begin to rise following COVID-19 we have an opportunity to address long-term challenges and drive change towards a regenerative tourism system. This will ensure settings are in place that work towards providing a high-quality visitor experience and that we protect our natural environment for future generations of New Zealanders and visitors. It will also enable the tourism system to meet pressing challenges, such as mitigating the impacts of climate change, infrastructure pressures, increasing capability and adapting to a post-COVID-19 environment.

There is an opportunity to progress all four of these priorities through the proposals outlined in this discussion document and deliver our vision for the future.

… and the International Visitor Conservation and Tourism Levy is intended to provide funding to support this move.

In 2019, the Government established the International Visitor Conservation and Tourism Levy (IVL). This was the first step towards establishing a sustainable tourism system where the costs of the visitor experience are not unduly borne by New Zealanders. Most international visitors entering New Zealand are charged a levy of $35. 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[9].

The revenue from the IVL is invested in sustainable tourism and conservation projects that contribute positively to the lives of New Zealanders and improve the experience for international visitors, such as the Milford Opportunities Project and the visitor safety enhancement trial at Tongariro National Park[10].

When the IVL was introduced, it was considered as part of a package of funding tools required for tourism. The IVL was an important component of this package as it offered a centrally sourced funding of scale and contributed to a proportion of infrastructure costs. The IVL provided revenue certainty, even as the revenue fluctuated up and down with visitor numbers.

It was agreed that the IVL would initially be set at $35 and that this rate would be reviewed after a five-year period. While this five-year period has not yet been reached, the severe disruption to international tourism caused by the COVID-19 pandemic creates an opportunity to rebuild and drive change towards a more regenerative tourism system. Reviewing the IVL now is one part of this process.

At a rate of $35, the IVL went some way to addressing the challenges outlined above. However, the Government believes that there is an opportunity to address the continued funding deficits and to rebuild the tourism system by increasing this levy. The increase in funding provides a significant benefit for councils.

We now have an opportunity to further explore how we can use the IVL to ensure that the benefits that tourism brings to New Zealanders flow through to the community and the economy, and to achieve a sustainable funding solution for the tourism sector without increasing the burden on New

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[9] Including American Samoa, Cook Islands, Fiji, Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Niue, Nauru, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
[10] Projects funded by the IVL | Ministry of Business, Innovation & Employment (mbie.govt.nz)

Zealanders. Kaitiakitanga (guardianship/sustainability) should be used as the guiding principle for IVL investment, as we want to ensure that it creates a strong legacy for New Zealand’s tourism sector that will benefit visitors and communities for years to come.

KEY QUESTIONS:

1. Do you agree with our description of the problem?
    a. Yes – Partially – No – Not sure
2. Please explain your views, including any additional information that would be useful.

The scope of this discussion document

Photo: Patrick Bodzak

The scope of this discussion document

The Government is interested in hearing your views on:

- How revenue from the IVL should be invested to contribute positively to the lives of New Zealanders, regions and communities, and how we deliver a high-quality visitor experience that enhances New Zealand's brand and creates a legacy of investment for the tourism system.
- Options for increasing the IVL to enable sustainable, ongoing investment that will reflect the benefits that visitors receive from conservation and tourism infrastructure, address funding challenges for communities and the tourism system and enable systemic change.
- How an increase in the IVL could be implemented to ensure that it doesn't impact tourism's recovery.

Photo: Camilla Rutherford

The International Visitor Conservation and Tourism Levy

The introduction of the IVL in 2019 represented a change in the way we invest in tourism and conservation in New Zealand. The IVL was the first step in creating a sustainable funding model to invest in tourism and conservation projects that support the delivery of a productive, sustainable and inclusive tourism sector.
The IVL was required to respond to the significant increases in international visitors that placed pressure on infrastructure and public conservation lands across New Zealand. This pressure impacted the wellbeing of communities and nature and resulted in the deterioration of public support for tourism.

CURRENT IVL SETTINGS

Most international visitors applying for a visa to enter New Zealand are charged the non-refundable IVL of $35. It is collected through the immigration system, with visitors paying the IVL alongside their visa or (for most visa waiver travellers) New Zealand Electronic Travel Authority (NZeTA).

The IVL and the NZeTA are separate but connected government initiatives. An application for an NZeTA currently costs $9 or $12 depending on the method of application (via an app or online), and the current IVL charge of $35 is applied on top of this cost. A NZeTA is valid for two years and is required for visa waiver travellers and Australian permanent residents. Australian citizens, New Zealand citizens and New Zealand visa holders are not required to hold an NZeTA before travelling to New Zealand.

Fees and Levies for many classes of visa are increasing in 2022, including on some classes of visa which also attract an IVL charge. These changes do not impact the NZeTA but will attach to certain others, such as Student Visas and Working Holiday Scheme visas.

WHO NEEDS TO PAY THE IVL?

The IVL is broadly targeted at people entering New Zealand as visitors. As above, it is chargeable on most NZeTAs and on most visitor, working holiday, and student visa applications. 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[11]. These visitor markets have been exempted as they are the most price sensitive and to also acknowledge New Zealand's close relations with these countries.

WHERE THE IVL IS SPENT

The investment priorities for the IVL are guided by the New Zealand-Aotearoa Government Tourism Strategy[12], the Aotearoa New Zealand Biodiversity Strategy Te Mana o te Taiao[13] and the Department of Conservation (DOC) Heritage and Visitor Strategy[14]. The priorities are split between conservation and tourism, with four pillars to help shape and guide the investment plan priorities.

[11] Including American Samoa, Cook Islands, Fiji, Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Niue, Nauru, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
[12] 2019 New Zealand-Aotearoa Government Tourism Strategy (mbie.govt.nz)
[13] Aotearoa New Zealand Biodiversity Strategy Te Mana o te Taiao (doc.govt.nz)
[14] Heritage and Visitor Strategy (doc.govt.nz)

Table 1: Current IVL spending pillars, allocation and priorities

Portfolio	Conservation		Tourism	
Pillar	**Biodiversity**	**Responding to visitor pressures on conservation and the environment**	**Tourism strategic infrastructure**	**Tourism system capability**
Allocation	40-45%	5-10%	40-45%	5-10%
Initial priorities	• Landscape protection • Conservation partnerships • Species and habitat management • Biodiversity conservation on private and Māori land	• Tools for managing visitor impacts on environment • Enhancing and protecting natural and cultural heritage, and improving visitor safety • Destination management • Protecting endangered species from smuggling	• National solutions to infrastructure issues • Destination management planning and investment	• Industry data and insights • Workforce and skills

Ten initial projects were funded in the first year of the IVL programme (1 July 2019 to 30 June 2020), including six in the conservation portfolio and four in the tourism portfolio.

Table 2: Projects funded through the IVL between July 2019 and June 2020

Conservation	Tourism
• Kākāpō Recovery Programme • Maukahuka Pest Free Auckland Island • Regulatory Compliance – Building Capacity and Capability for Conservation Law Enforcement • Ruapekapeka Pā • Te Manahuna Aoraki Landscape Scale Restoration • Visitor Safety System Trial and Pilot	• Milford Opportunities - Stage 2 • Building the Tourism Workforce Programme • Westland Destination Management Stage 1 – Fox Glacier • Arthur's Pass Destination Management Stage 1 **Additional projects (2020/21):** • Tourism data programme and co-governance model • Local Revenue tools

HOW STAKEHOLDERS INFLUENCE IVL INVESTMENT PRIORITIES

An IVL Advisory Group[15] was established in 2019 to help provide strategic advice on IVL project portfolios, identify emerging issues for the sector, and inform the development of the IVL investment plan. Its members have expertise covering conservation, local government, tourism and Māori perspectives. The Advisory Group has been on hold since 2020 due to the impact of COVID-19 on IVL revenue.

The Ministers of Tourism, Conservation and Finance jointly agree to high-level investment priorities and approve IVL expenditure.

[15] IVL Advisory Group, July 2021 (mbie.govt.nz)

What the Government wants to achieve

Achieving the Government's vision for the industry requires collaboration between visitors and New Zealanders. The return of international visitors brings with it a range of significant benefits to communities and operators.

However, returning visitors will also increase pressure on our infrastructure and our environment. If no change is made to the IVL, the fiscal impact of these pressures will be borne by local ratepayers and New Zealand taxpayers who currently face rising costs of living caused by inflation and international supply chain constraints.

Tourism relies on the provision of infrastructure and protection of natural attractions and resources. Many of these resources are not provided by the market because;

- they are public goods and excluding people is impractical and costly, and/or where use by one person does not restrict use by another, making it a poor commercial proposition
- There are negative externally impacts (for example degradation of infrastructure) that make private provision lower than a level socially desirable, and/or
- Public provision is simply more efficient to leverage economies of scale and is more likely to deliver relevant economies of scale

These factors result in many tourism services being provided public, and as a result paid for by ratepayers and taxpayers, who are only a portion of those benefiting. The IVL allows us to pass a proportion of these costs to international visitors, creating a fairer system where costs are borne more equally.

Increasing the IVL charge makes visitors part of the community working to protect New Zealand-Aotearoa's resources and will allow us to provide more adequate funding to reverse the negative impacts of tourism on our shared infrastructure and environment and invest in the future of tourism for New Zealand.

However, this proposal is not just about cost recovery. Our tourism sector needs to innovate and grow, and we must find ways of addressing the challenges brough upon by climate change. Additional funding will assist in our goal of a regenerative, and future focused tourism sector as set out in the New Zealand-Aotearoa Government Tourism Strategy.

The Government acknowledges there have also been increases in other border charges that may impact the demand for travel to New Zealand, such as the recent increase to the Border Clearance Levy, and other reviews planned or underway across Government that could potentially increase the costs of travel to New Zealand for international tourists. There will also be indirect costs associated with COVID-19, such as travel insurance premiums and the previous requirements for pre-departure testing. Worldwide inflationary pressures and fuel cost increases are also likely to have an impact.

While the Government acknowledges these concerns, it has become clear that returning to a status quo tourism sector is not in the long-term interest of New Zealanders, our communities, our visitors or our tourism operators.

The Government wants to ensure that the IVL is a fit-for-purpose levy that is applied fairly and equitably, can meet the costs of tourism, enable systemic change and address future challenges. To achieve these objectives, the Government is considering:

- Reassessing how the IVL revenue is invested. It is important to take a systemic approach, to ensure that tourism delivers benefits to visitors and communities across all four domains of the Treasury's Living Standards Framework (which is a flexible framework that prompts thinking about policy impacts across the different dimensions of wellbeing).
- Increasing the IVL rate to enable sustainable, ongoing investment that will address the funding challenges of the tourism system.
- How an increase to the IVL could be implemented to ensure that it does not impact tourism's recovery.

As part of the Government's responsibilities under Te Tiriti o Waitangi, we need to uphold meaningful partnerships with iwi, hapū and tangata whenua. There are a large range of Māori-led tourism businesses, which vary in size from significant iwi tourism organisations to small and medium Māori organisations, that are often whānau owned and operated. It is important that as we consider potential changes to the IVL to improve our sector, we acknowledge that tourism takes place on whenua where tangata whenua are kaitiaki. However, visitors and New Zealanders have a shared responsibility to protect our land and environment to protect it for future generations. There is an opportunity to assess how the IVL revenue is invested to foster meaningful, positive impacts for Māori and honour Te Tiriti o Waitangi.

We now have an opportunity to explore how we can use the IVL to achieve a sustainable funding solution for the tourism sector, without increasing the burden on New Zealanders. Utilising the IVL to respond to current and future focused investment needs could help to reset tourism and lead to a boost in investment quickly, with impacts likely to be seen over the next few years. Ultimately, we would be transitioning into a regenerative tourism system.

Revisiting the IVL investment priorities

Photo: Paul Abbitt

Revisiting the IVL investment priorities

The IVL was established to enable sustainable, ongoing investment in tourism infrastructure and conservation. When the scheme was first introduced, we designed the allocation of spending around issues which were most appropriate at the time (see page 12).

HOW SHOULD THE IVL REVENUE BE SPENT?

As the context we operate in changes, and our understanding of the issues increases, it is important that we reflect on whether these allocations remain appropriate.

We are therefore considering revisiting these priorities to reflect the need to:

- address tourism-related funding challenges for communities
- improve environmental resilience and manage visitor impacts on the natural environment
- address pressing issues for tourism such as climate change adaptation and mitigation
- enable systemic change, using regenerative tourism as a guiding principle.

These changes will not prejudice the nominal proportion of funding that is currently allocated to the Department of Conservation.

The Government is seeking your views on what types of investment priorities and areas the IVL revenue should be spent on to ensure our conservation and tourism systems work to protect our land and environments for future generations. In line with the intention of the IVL, the levy will continue to focus on funding conservation and tourism investments.

On the following page are a set of indicative priorities consistent with this intention.

Table 3: Proposed investment priorities and areas (projects) for IVL spending

<table>
<tr><th colspan="2">Proposed investment priorities and areas (projects) for IVL spending</th></tr>
<tr><td colspan="2">Addressing tourism and conservation funding challenges</td></tr>
<tr><td>Local government infrastructure (40%)

(proposed new IVL priority)

Funding to address the pressing cost-revenue gap in our communities and enable our regions to invest in and manage much needed infrastructure to support tourism.

For example:
basic local mixed-use infrastructure (used by both visitors and the community) such as toilets, car parks, water supply and rubbish bins
local attractions/amenities such as viewing platforms and walking tracks</td><td>Supporting conservation (30%)

(existing IVL priority)

Funding to protect and enhance biodiversity and cultural heritage and invest in amenities and activities to deliver enhanced visitor experiences, manage visitor impacts and promote visitor safety on public conservation lands and waters.

For example:
conservation and biodiversity activity such as predator eradication, breeding programmes and native planting
new and enhanced experiences that connect visitors with our natural and cultural heritage
conservation visitor infrastructure and facilities such as interpretation, parking solutions and track maintenance/development
water quality improvements and waste minimisation</td></tr>
<tr><td colspan="2">Investing in the future of tourism and conservation for New Zealand</td></tr>
<tr><td>Mitigating the climate change impacts of tourism (20%)

(proposed new IVL priority)

Biodiversity protection and enhancement to provide nature-based solutions to climate change and its effects.

For example:
ecosystem restoration, including the planting and regeneration of permanent native forestry to increase carbon storage and ensure nature is a key contributor to achieving net-zero emissions for Aotearoa New Zealand
implementing Te Mana o te Taiao, the Aotearoa New Zealand Biodiversity Strategy, to increase resilience to the impacts of climate change for our ecosystems and communities</td><td>Tourism research and innovation (10%)

(proposed new IVL priority)

Technological development in line with the needs of the tourism sector.

For example:
research into the impacts of tourism on climate change, plus investment in adaptation or mitigation measures
support for tourism businesses such as digitalisation
test cases for applying technology to a wider range of activities, particularly those identified as needing to be addressed through the Tourism Industry Transformation Plan (ITP)
developing new data sources and research into systemic issues
co-development of innovation with industry to enable systemic change</td></tr>
</table>

HOW SHOULD STAKEHOLDERS HELP TO INFORM IVL INVESTMENTS?

Exploring a more transparent mechanism for the IVL funding will be important to ensure that investment in local government infrastructure is fair, equitable and organised so that councils can rely on, and plan for, the incoming monies. This mechanism could include a funding formula or range of criteria (such as visitor-resident ratios or alignment with DMPs) that can broadly identify what types of projects would be funded in alignment with the identified funding gaps.

It is essential that spending of IVL funding is high quality and high impact. The Government is also seeking input on how it receives guidance from stakeholders related to the IVL's investment priorities. Previously, the IVL Advisory Group helped to guide investment decisions, and there is an opportunity to revisit the function and authority of this group.

Table 4: Current components of the IVL advisory group

	Function	Membership
IVL Advisory Group	Helps to guide investment decisions for the IVL. The group worked with MBIE and the Department of Conservation (DOC) to set out the range of programmes for investment.	Expertise covering conservation, local government, tourism and Māori perspectives.

Alternative methods of funding allocation are also possible. This could include using a funding formula to determine allocation based on visitor numbers, the ratio visitors to residents or alignment to a region's Destination Management Plan (DMP).

KEY QUESTIONS:

3. To what extent do you agree that the suggested investment priority areas will support tourism and conservation? Please explain your views below.
   Strongly agree – Agree – Neutral – Disagree – Strongly disagree – Not sure
4. How should input from stakeholders and Treaty partners be sought for the IVL investment areas (projects)?
5. How should funding allocations and decisions about the IVL be made?
   An IVL Advisory Group (current option) – An alternative option (please specify)

Proposal for increasing the rate of the IVL

Photo: Sabine Bernert

Proposal for increasing the rate of the IVL

The estimated tourism infrastructure deficit of $100-$150 million per year from international visitors identified by tourism industry leaders[16] provides a reasonable starting point for determining the additional annual revenue required to deliver a high-quality visitor experience and a sustainable tourism system.

In addition to these costs, it is estimated by the Department of Conservation that prior to COVID-19, $96 million per year in expenditure was attributable to international visitors.

The options presented below are predicted to raise between $79.6 million and $444 million per year (based on a return of 50-100 percent return of pre-COVID-19 visitor arrival levels):

1. increasing the IVL from $35 to **$100, or**
2. increasing the IVL from $35 to **$150, or**
3. increasing the IVL from $35 to **$200**.

OPTIONS ANALYSIS AND MODELLING

Each option has been analysed looking at the impacts of the increase on the financial and physical capital domains, it is also important to consider the impact on other capitals, including natural, social and human. For example:

- revenue generated through the IVL can be used to further support New Zealand's natural capital (public conservation lands and waters) and physical infrastructure (such as toilets and car parks)
- revenue generated through the IVL may be used to support communities and improve the public support for tourism in New Zealand
- a reduction in the number of international visitors may reduce the adverse impacts on New Zealand's natural and built environment, as well as biodiversity
- an increase in the IVL is expected to reduce the number of visitors at the margin, and/or reduce the spend of visitors when they are in New Zealand.

The tables below demonstrate the modelled impacts of this option on additional IVL revenue and visitor numbers. The model is based on 2019 visitor numbers, when 3.9 million international visitors arrived in New Zealand. The model assumes that approximately 2.3 million of the 3.9 million visitors would be required to pay (excluding Australian and Pacific Island visitors who remain exempt). The potential loss in visitor numbers is also illustrated below.

At the time of writing there is not sufficient data to give an estimate of the volume of tourist travel expected over the next year as travel resumes. Worldwide increases in fuel costs and staffing shortages are likely to continue to have an impact on traveller numbers, as will travel hesitancy as tourists continue to be concerned with the risk of exposure to COVID-19. Underlying this analysis is also the uncertainty of the future of international travel, including the cost to travel and changing attitudes to and demand for travel due to COVID-19. Due to this, the model may over-estimate the decrease to visitor numbers resulting from the changes.

[16] Addressing New Zealand's most pressing local tourism infrastructure needs: Tourism Infrastructure Study Executive Summary, November 2016 (tia.org.nz)

The analysis that underpins the estimates associated with the options in this analysis were developed using 2019 data on international arrivals and prices for flights provided at January 2022. Given the impact of COVID-19 on arrivals to New Zealand, it is the only available data at this time. The recovery of international arrival numbers in the near future is uncertain and it is unclear when international arrivals will reach 2019 levels.

Further explanation on the impact analysis is included at **Annex One**.

OPTION 1: INCREASING THE IVL TO $100

This would involve increasing the rate of the IVL from $35 to $100. This change would generate sufficient funding to mitigate a significant proportion of the negative impact from tourists, with some funding remaining for investment projects.

The table below provides a breakdown of the likely change in visitor make up, and the potential funding generated.

Table 5: Scenarios for potential revenue if the Government increases the IVL to $100

Percentage (%) of 2019 visitor numbers	Estimated IVL revenue	Estimated visitor reduction	Percentage decrease in total visitor numbers
50%	$79.6m – $96.5m	(47,000 – 50,000)	1.21% – 1.29%
100%	$159m – $192m	(92,000 – 101,000)	2.37% – 2.61%

OPTION 2: INCREASING THE IVL TO $150

Increasing the rate of the IVL to $150 would provide funding to deliver an increasing level of support to maintain New Zealand's tourism infrastructure and mitigate the environmental impacts of tourists with additional funding available for investment and development opportunities.

A higher IVL charge will likely cause a greater reduction of visitor numbers compared with a lower charge. Those visitors that visit New Zealand may also spend less money while they are in the country.

Table 6: Scenarios for potential revenue if the Government increases the IVL to $150

Percentage (%) of 2019 visitor numbers	Estimated IVL revenue	Estimated visitor reduction	Percentage decrease in total visitor numbers
50%	$108m – $139.2m	(82,000 – 89,000)	2.12% – 2.3%
100%	$215.4m – $278.6m	(164,000 – 179,000)	4.23% – 4.62%

OPTION 3: INCREASING THE IVL TO $200

Increasing the rate of the IVL to $200 will generate the revenue to maintain a high-quality visitor experience and will provide significant additional revenue to support work towards achieving a regenerative tourism system. However, visitor numbers are likely to be more impacted due to the higher cost of the levy.

Table 7: Scenarios for potential revenue if the Government increases the IVL to $200

Percentage (%) of 2019 visitor numbers	Estimated IVL revenue	Estimated visitor reduction	Percentage decrease in total visitor numbers
50%	$168 – $222 million	(118,000 – 129,000)	3.05% – 3.33%
100%	$336 – $444 million	(234,000 – 257,000)	6.04% – 6.63%

KNOWN RISKS

The tables above show that when visitor numbers return to at least 2019 levels, increasing the IVL could result in up to $444 million in additional government revenue to be spent on conservation and tourism related projects. However, it could also lead to a reduction in visitor numbers of up to 234,000 visitors (or roughly 6 percent of 2019 visitors) per year.

The IVL charge may also create a substitution effect where tourists who travel to New Zealand spend less as tourists when in New Zealand (this is known as deadweight loss). At the time of writing, it has not been possible to effectively model the potential deadweight loss which may result from an increase in the IVL charge in the current climate.

In addition, most air cargo is carried on passenger aircraft. If an increase to the IVL does lead to a decrease in passenger flights to New Zealand, then there could be a corresponding reduction of airfreight capacity and could impact on-the-ground operations. This may have an impact in the volume or cost of shipping to New Zealand at the margins. It is not possible to provide an accurate estimate of what this price change may be, nor how significant. However, at July 2022 with levels of arrivals into the country still recovering, airfreight prices are currently two to three times higher than pre-COVID-19 levels.

COMPARISON OF INTERNATIONAL TOURISM AND PASSENGER TAXES

There are numerous types of taxes and levies used by other countries. The table on the following page shows examples of taxes or levies (such as departure or arrival taxes and accommodation levies) that are used to offset the negative impacts of tourism. New Zealand's IVL is unique as it is charged only to short-term visitors, whereas some other country's fees are applied to all people, both foreign visitors and citizens (e.g., departure taxes).

Table 8: Examples of international tourism taxes and levies

Examples of international tourism taxes and levies						
Country	**Fee name**	**Fee type**	**Purpose**	**Amount**	**$NZD[17]**	**Application**
Australia	Passenger Movement Charge	Departure tax	Fiscal revenue on all international departures. Initially introduced to offset costs at the border.	A$60	$65.90	All international departures, including local citizens and residents
United Kingdom	Air Passenger Duty	Departure tax	Offsetting carbon miles. Variable rate based on distance travelled and class of ticket.	£26 standard short haul £185 standard long haul	$50.59 $359.94	All international departures, including local citizens and residents
Schengen Area countries in European Union	Electronic Travel Information and Authorisation System	Arrival tax	Travel authorisation for non-EU nationals to increase security and prevent health threats	€7	$20.22	Visitors from more than 60 visa-waiver countries
Canada	Air Travellers Security Charge	Departure tax	Fee to support air transportation costs, especially security	C$25.91 (flights outside the North American Continent)	$31.92	All international departures, including local citizens and residents
United States	Bed taxes (known by different names in States)	Accommodation charge	Fiscal revenue and reducing tourism pressure on housing/infrastructure applied at a State-level	Varies by State but the median rate is 15%	N/A	All accommodation guests
Japan	International visitor departure tax ("sayonara tax")	Departure tax	Revenue invested in tourism infrastructure	1,000 Yen	$11.71	International visitors (other visas/Citizens exempt)
Bhutan[18]	Tourism fee	Tourist tax	Flat fee to enter country – includes accommodation, transportation, guide, food.	US$200 - US$250 per day (depending on package)	$317.26-$339.65	All foreign nationals (with some exceptions such as diplomats)

[17] Conversion rates as at 28 June 2022.
[18] This is due to change to a $200 levy (paid to the government) when the borders open on 23 September 2022.

KEY QUESTIONS:

6. What are the likely implications of an increase in the rate of the IVL? What are some things that the Government should consider?
7. What factors do you think will inform people's decisions to travel to New Zealand now borders have reopened?
8. Based on your above answers, which option do you think will best support industry recovery and transition? Please explain the reasons for your choice below.
   $100 - $150 - $200
9. What alternative amount, different to the above three options, do you think visitors should pay to contribute to their experience?

Photo: Miles Holden

When and how should an increase to the IVL be introduced?

It is uncertain when the numbers of international visitors will reach volumes we have seen pre-COVID-19, and the Government wants to minimise the impact on the tourism sector's recovery. Therefore, the Government is considering that the IVL be gradually increased so that the new rate is reached over time.

We propose that the first increase from the current rate of $35 would occur no earlier than mid-2023.

Gradually increasing the rate of IVL may reduce the impact of any change on the tourism sector. However, the more changes introduced may create confusion among system users (both visitors and tourism firms), as well as adding to operational complexity. It is not possible to assess these risks at this stage but are issues we are considering.

We are seeking your feedback on three ways that the Government could implement an increase to the IVL. Responders are encouraged to consider how these options would interact with the different IVL rates described on page 19. The options are presented below:

1. a stepped increase based on international visitor numbers**, or**
2. an automatic annual increase**, or**
3. a one-off, singular increase.

Table 9: Options for when an increase to the IVL could be introduced with an indicative example IVL rate of $200

Proposed increase	Gradual increase option	Example – new rate of $200
Option 1: Stepped increase	A stepped increase that would see the rate increase gradually each year as international visitors return. The trigger for the increase would be if a certain number of short-term visitors arrive in New Zealand. If the expected number is not met, the rate would stay the same for the following financial year until the point where the trigger is met.	On 1 July 2023 the IVL would increase from $35 to $75. If over the 2023 calendar year, 1 million short-term visitors arrive in New Zealand, the IVL would increase the next financial year to $125. If arrivals reach 2 million in 2025, the IVL would increase to $200.
Option 2: Annual increase	An automatic annual increase which would begin on 1 July 2023. This would provide the tourism sector and international visitors with certainty about how much they are required to pay depending on their date of arrival.	On 1 July, the IVL would increase every year until the new rate of $200 is reached.

Option 3: One-off increase	No gradual increase. This could provide greater certainty for the tourism sector and international visitors about the costs to enter New Zealand.	There would be only one change in rate from $35 to $200 at an agreed date in the future.

Table 10: Illustrative example of phased IVL increased annually if the preferred option was an increase from $35 to $200

Proposed increase	2022	July 2023	July 2024	July 2025
Option 1: Stepped increase	$35	$75	$125 (If arrivals reach 1 million)	$200 (If arrivals reach 2 million)
Option 2: Annual increase	$35	$75	$125	$200
Option 3: One-off increase	$35	$200	$200	$200

KEY QUESTIONS:

10. What is your preferred option for a gradual increase to the IVL rate? Please explain below.
    Stepped increase – Annual increase – One-off increase – Not sure
11. Do you think it is more important to provide certainty about when IVL increases would happen (annual/one-off increase) or to respond accordingly to tourism's gradual recovery (stepped increase)? Please explain.
    Provide certainty about IVL increases – Respond to tourism's gradual recovery by implementing the IVL increases slowly
12. Are there any other appropriate points that could trigger an increase to the IVL other than the ones listed above? (For example, once international visitation returns to a certain proportion of pre-COVID-19 visitor numbers).
    Yes (if so, please specify) – No – Not sure

Annex One: Explanation of impact analysis

Photo: newzealand.com

Annex One: Explanation of impact analysis

MBIE has undertaken analysis to estimate the additional revenue that could be generated, and the impact on visitor numbers. These options have been calculated in line with several scenarios for tourism's recovery.

Due to the uncertainty of post-COVID-19 international visitor arrivals, the model uses 2019 international visitor arrivals as a baseline (3.9 million visitors).

DATA LIMITATIONS

The model only considers the impact of raising the levy and does not consider the benefits generated from spending revenue on tourism infrastructure and conservation. Pending the level of spending, these could generate significant benefits to the economy over time and therefore mitigate some of the negative impacts of the levy. The underlying model does not account for changes to the foreign exchange market, global economic environment or dynamic pricing, which can have a significant impact on visitor behaviour and demand for tourism.

Underlying this analysis is also the uncertainty of the future of international travel, including the cost to travel and changing attitudes to and demand for travel due to COVID-19. Due to this, the model may over-estimate the decrease to visitor numbers resulting from the changes.

The analysis that underpins the estimates associated with the options in this analysis were developed using 2019 data on international arrivals. Given the impact of COVID-19 on arrivals to New Zealand, it is the only available data at this time. The recovery of international arrival numbers in the near future is uncertain and it could be some time before international arrivals reach 2019 levels.

The demand elasticities incorporated in the estimates are derived from studies based on pre-pandemic data and the impact COVID-19 will have on demand preferences remains to be seen. The elasticities have been sourced from various studies, as well as data held by airlines. Due to the uncertainties, MBIE has shown the estimated impact as a range to indicate some uncertainties around the potential impact on revenue and visitor numbers.

METHODOLOGY

The model was created by MBIE and has been independently reviewed by an economic consultancy and stress tested. It was found that the model was fit for purpose and can be used for comparing different increases to the IVL rate and noted it was subject to its limitations due to the uncertainties around COVID-19, as noted below.

An overview of the model and the assumptions that sit beneath the analysis are listed below.

- The model uses 2019 international arrival data broken down by market (e.g., country of origin) as the baseline to understand the total quantum of visitors and those that pay the IVL currently.
- Each market has its own elasticity[19], that is, how responsive to changes in price travellers may be.
- The model then uses projected post-COVID-19 flight prices for each destination (based on information provided in-confidence by airlines) as the status quo cost to travel. It then applies

[19] Price elasticity, in this context, is the measure of how sensitive a holiday goer is to the change in price. A higher price could impact a visitor's amount of spending in New Zealand or even might stop them from coming to New Zealand altogether (e.g., in this case, an elasticity of 1 means a 10 percent increase in price will result in a 10 percent decrease in visitors to New Zealand).

the additional projected costs to travel (such as other border charge increases and COVID-19 testing costs), and finally applies the different options to increase the IVL. This gives an output of the total cost to travel with the proposed changes to the IVL.

- The model uses the elasticities of each market to understand how the marginal increase in cost would affect visitor numbers, using 2019 passenger volumes as the base. The model splits out the changes to show the impact of the IVL increase on its own.
- This provides an estimate of total visitor numbers following the increase to the IVL, from which the projected IVL revenue can be forecast.

OTHER FACTORS THAT MAY IMPACT TOURISM'S RECOVERY

The Government acknowledges there are planned increases for other border charges, such as the recently consulted increase to the Border Clearance Levy. There are also other reviews planned or underway across government that could further increase the costs of travel. While the options outlined in this document only measure the impact of changes to the IVL rate, the model that underpins this analysis also includes some of the known and estimated additional costs faced by travellers (for example, the Border Clearance Levy and travel insurance premiums). Proposed increases to rates of certain classes of visa, including those classes required to pay the IVL, will also have an impact on the sector.

There are also broader structural challenges for the tourism sector, such as air connectivity to New Zealand once international border restrictions are eased and the inflation of fuel prices. Given New Zealand's distance from major markets, effort will be required to maintain and rebuild international air connectivity to New Zealand during the COVID-19 recovery period.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Te Kāwanatanga o Aotearoa
New Zealand Government

LSE8557

Stage 2 Cost Recovery Impact Statement

Proposed changes to the International Visitor Conservation and Tourism Levy

Agency Disclosure Statement

This Cost Recovery Impact Statement (CRIS) has been prepared by the Ministry of Business, Innovation & Employment.

It provides an analysis of options to increase the value of an existing funding mechanism, the International Visitor Conservation and Tourism Levy (IVL), to address some of the challenges of tourism, particularly tourism infrastructure and conservation, and make long-term improvements to New Zealand's tourism system.

There are some limitations and gaps in the analysis presented in this CRIS. These are:

- Many of the levers to impose charges on international visitors sit outside the tourism portfolio (such as within the Conservation, Immigration, or Local Government portfolios) so a coordinated approach is critical. However, as directed by the Minister of Tourism, other pricing tools are currently out of scope and this CRIS focuses on one tool – increasing the IVL.
- The analysis that underpins the estimates associated with the options were developed using 2019 data. Given the impact of COVID-19 on arrivals to New Zealand, it is the only available data at this time.
- Underlying this analysis is also the uncertainty of the future of international travel, including the cost to travel and changing attitudes to, and demand for, travel given the ongoing impact of COVID-19. Due to this, the model may over-estimate the decrease to visitor numbers resulting from the changes and the impact to on-the-ground expenditure. The model uses flight prices from 2019, which may differ from prices in mid-2022.
- The model only considers the impact of raising the levy and does not consider the benefits generated from spending revenue on tourism infrastructure and conservation. Pending the level of spending, these could generate benefits to the economy over time and therefore mitigate some of the negative impacts of the levy (particularly to on-the-ground expenditure impact). The underlying model does not account for changes to the foreign exchange market, global economic environment or dynamic pricing, which can have a significant impact on visitor behaviour and demand for tourism.
- Estimates of the cost of international visitors on tourism infrastructure are drawn from several studies produced through 2017-2019. These studies are, variously, based on selective surveys of local government, include estimates of historic underspending, and consider the views of tourism sector leaders and stakeholders. In addition, there are definitional challenges and issues of estimating costs when investment occurs over long periods of time. As a result, they are not comprehensive in their scope and the total estimated cost of international visitors should be interpreted as indicative only.
- Public consultation is still to occur on the proposed changes to the IVL and therefore there are limitations to the impact analysis, particularly the impact to aviation and tourism businesses. The impact analysis will be updated following public consultation. This includes consulting on implementation options, as outlined in this CRIS, to ensure that

any proposed changes mitigate potential negative impacts to tourism's recovery following periods of border closures due to COVID-19.

- In commissioning this work, the Minister of Tourism asked for the development of options that generated a specific range of estimated revenue. The Minister's intent is to address not only the identified costs associated with tourism and conservation infrastructure, but also future challenges associated with tourism including climate change, however, there are currently no identified and costed deficits or proposals related to climate change at this time.

Danielle McKenzie 17 August 2022

Executive summary

- The International Visitor Conservation and Tourism Levy (IVL) was introduced in 2019 to support investment in tourism infrastructure and conservation and provide a mechanism for international visitors to contribute to the cost of visitor infrastructure and conservation they enjoy while in New Zealand. The levy was set at $35 and was not intended to fully recover costs. Instead, it was the starting point for the development of a broader range of funding tools.
- Collection of the IVL began on 1 July 2019 through the immigration system, with travellers paying the $35 levy alongside visa or New Zealand Electronic Travel Authority (NZeTA) fees. The IVL was initially estimated to generate approximately $80 million per annum. The revenue raised through the IVL was designed to change the way the Government invests in tourism in New Zealand. Its aim is to support long-term, significant change to the way the tourism system works and is divided equally between tourism infrastructure and conservation, with 5-10 per cent of funding directed towards increasing system capability.
- The costs imposed by international visitors (in 2019) are estimated to be in the order of $250 million per year (this includes tourism infrastructure and conservation related cost). While this is not an exact figure, it provides an idea of the magnitude of this issue. The figure is around three times the amount the current IVL was intended to raise.
- For tourism to be financially sustainable, MBIE, the Productivity Commission and others have identified the need for revenue streams for asset owners/service providers (for example local government and Department of Conservation) to fully manage the externalities (financial, environmental and social) associated with tourism. This includes supporting the whole of life costs (build, maintenance and operating, and replacement costs) of mixed-use and visitor-specific infrastructure and amenities and managing visitor flows/dispersal and behaviour.
- While a range of tools are available to raise the revenue necessary to contribute to the costs of tourism, this CRIS focuses on options for generating this revenue through changes to the IVL alone which is the Minister of Tourism's requested mechanism for achieving the revenue.

- Three options have been identified to generate revenue that responds to this policy problem. Each option applies a different level of cost to the IVL. Eligibility of who is required to pay the IVL remains unchanged:

    a. **Option One:** The IVL is increased to $100

    b. **Option Two:** The IVL is increased to $150

    c. **Option Three:** The IVL is increased to $200.

- The options have been assessed against the criteria: efficiency, equity, coherency, administration/compliance and sustainability of revenue.

- Following this assessment, Option One, increasing the IVL to $100, is MBIE's preferred option in combination with the development and implementation of other pricing tools (such as departure tax, accommodation levy or user-charges) to meet the remaining costs of international visitors. MBIE also note that while Option Three, increasing the IVL to $200, represents the greatest potential revenue for central government, it also has the greatest cost in terms of reduced visitor numbers and likely on-the-ground impacts for the tourism industry.

- MBIE considers that the most efficient and effective spend through the IVL is on tourism infrastructure and tourism system improvements, as well as spending on conservation costs of tourism that go beyond the Department of Conservation's baseline spend. MBIE considers that addressing climate change through the IVL fund would likely not be efficient, and is better addressed through other tools, such as a departure tax (as this could be targeted toward carbon emissions and charged to all passengers), and through broader government-wide initiatives (such as the National Adaption Plan). MBIE continues to advise that a combination of tools is required to address the funding challenges of the tourism system. MBIE recommends ensuring that a variety of tools are available in the tourism, conservation and local government toolboxes. This could include user charges, taxes or levies and targeted rates. There is no single solution that will enable sustainable pricing and funding in the tourism system.

Status quo

Visitors to New Zealand

1. Travellers come to New Zealand from all over the world. However, the most significant markets are Australia, the UK, the USA, Japan, the Republic of Korea (South Korea), China and Germany. Table One shows visitor numbers in 2019 from these markets as well as their purpose for visiting.

2. Prior to COVID-19, New Zealand was experiencing significant visitor growth, with international visitor numbers increasing from 2.6 million in 2012 to 3.9 million in 2019.

Table 1: Visitor numbers from 2019 from key international markets

	Australia	UK	USA	Japan	South Korea	China	Germany	Total
Holiday	607,145	100,530	239,290	64,347	61,820	304,664	73,098	**1,450,894**
Visiting Friends or Relatives	573,733	105,624	64,118	10,755	10,455	48,765	13,010	**826,460**
Business	252,708	14,574	31,966	8,681	5,032	17,361	4,669	**334,991**
Education	8,641	1,436	9,145	7,364	3,133	12,402	2,377	**44,498**
Sea Holiday (Cruise)	133,908	15,711	54,738	1,046	425	4,485	5,514	**215,827**
Total	**1,576,135**	**237,875**	**399,257**	**92,193**	**80,865**	**387,677**	**98,668**	**2,872,670**

3. With this tourism growth came challenges around sustainability, environmental impacts, infrastructure resilience, overcrowding in key tourist destinations and an erosion of tourism's social licence to operate in a number of towns and regions across the country. New Zealand's point of difference is our clean and green image (i.e., the 100% Pure New Zealand brand). This image is our selling point in the global tourism market, and there are reputational risks with delivering poor quality visitor experiences that tarnish this image.

4. Tourism, as a system, is heavily reliant on the provision of infrastructure and protection of our natural attractions. The infrastructure and attractions are used by both residents and visitors (domestic and international). Many goods and services that make up the tourism system are not provided by the market, because:

    a. they are a public good (excluding people from its benefits is difficult or costly, and its use by one person does not detract from its use by another) i.e., there is no commercial proposition because businesses cannot charge for it, and/or

    b. there are negative impacts (externalities), such as degradation of infrastructure and conservation, that make private provision lower than the level that is socially desirable, and/or

    c. providing it publicly (through government) may be more efficient as it is likely to have more relevant subject matter knowledge and is better placed to leverage economies of scale (when increased size of production capacity results in lower costs).

5. These three factors result in public provision. However, this means that taxpayers and ratepayers pay for provision but are only a portion of the beneficiaries. As a result, those who benefit are not the same group as those who pay (presenting a freeloader problem). Local government with high visitor-to-resident ratios are also struggling to fund the infrastructure investment required via ratepayers alone.

Introduction of the IVL

6. In September 2018, Cabinet agreed to introduce an International Visitor Conservation and Tourism Levy (IVL) to fund investment in conservation and tourism [DEV-18-MIN-0194 refers]. Section 399A(2) of the Immigration Act 2009 states that the purpose of the levy is to fund, or contribute to the funding of:

   a. conservation

   b. infrastructure used for tourism (including the cost of operating the infrastructure)

   c. other initiatives related to tourism.

7. It was agreed that the IVL would be collected by Immigration New Zealand, alongside visa and electronic travel authority application fees, and would be paid by visa waiver travellers and all people applying for visitor visas or short-term entry visas (12 months or less), with exemptions in place for certain traveller categories and visitor markets.

8. The IVL was introduced through the Immigration (International Visitor Conservation and Tourism Levy) Amendment Bill 2019. Changes were implemented through regulations 26AAD and 26AAE of the Immigration (Visa, Entry Permission, and Related Matters) Amendment Regulations 2019 and sections 399A and 399B of the Immigration Act 2019.

9. It was agreed that the IVL would be charged at a rate of $35 per person, with a five-year review period. The IVL was estimated to increase revenue by around $80 million per annum. The introduction of the IVL represented a shift towards a ‘user-pays’ system for tourism infrastructure and conservation, while not pursuing full cost recovery.

10. The aims of the IVL (as previously agreed by Cabinet) are to:

    a. contribute to government objectives for tourism and conservation

    b. contribute to broader system change across tourism and biodiversity

    c. have flexibility to respond to change over time

    d. complement existing funding mechanisms, rather than duplicate them

    e. contribute to government’s overall economic strategy of productive, sustainable and inclusive growth.

11. Collection of the IVL began on 1 July 2019 through the immigration system, with visitors paying the $35 levy alongside visa or New Zealand Electronic Travel Authority (NZeTA) fees. However, the impact of COVID-19 and absence of international visitors has significantly impacted the collection of IVL revenue.

12. Visitors from Australia and the Pacific Islands have been exempted from paying the IVL due to their price sensitivity, which results from factors such as their relative proximity to New Zealand, the number of visitors that come for the purpose of visiting friends and relatives, and to acknowledge New Zealand’s unique agreements and international relations with these countries. There are currently no plans to change these exemptions.

Spending priorities for the IVL

13. When the IVL was established, Cabinet agreed that half of the funds collected will contribute towards conservation and be administered by the Department of Conservation (DOC), and the other half will contribute towards tourism infrastructure and system capability and be administered by the Ministry of Business, Innovation & Employment (MBIE).

14. The IVL was not designed to be a full cost recovery policy. The rate was set at $35 to minimise the potential impact to visitor behaviour and at the time, MBIE estimated the rate would lead to a 1 per cent one-off drop in the growth of visitor volumes. At the $35 rate, it was also considered that competitive dynamics (pricing), exchange rate movements, and global economics all affect demand to a greater degree, as $35 is less than 1 per cent of visitors' average spend. It was intended that the IVL be the first tool of a broader funding package.

15. The investment priorities for the IVL are guided by the New Zealand-Aotearoa Government Tourism Strategy, the Aotearoa New Zealand Biodiversity Strategy Te Mana o te Taiao and the Department of Conservation's Heritage and Visitor Strategy. The priorities are split between conservation and tourism, with four pillars to help shape and guide the investment plan priorities – these are set out below. The investment priorities are not set out in legislation and are at the discretion of Ministers.

Table 2: Current IVL investment priorities

Portfolio	**Conservation**		**Tourism**	
Pillar	Biodiversity	Responding to visitor pressures on conservation and the environment	Tourism strategic infrastructure	Tourism system capability
Allocation	40-45%	5-10%	40-45%	5-10%
Initial priorities	Landscape protection Conservation partnerships Species and habitat management Biodiversity conservation on private and Māori land	Tools for managing visitor impacts on the environment Enhancing and protecting natural and cultural heritage, and improving visitor safety Destination management Protecting endangered species from smuggling	National solutions to infrastructure issues Destination management planning and investment	Industry data and insights Workforce and skills

Problem with carrying on the status quo

The rising cost of tourism

16. From 2017-2019, a range of research on the costs imposed by tourism was commissioned. While the techniques and criteria applied by these reports were based on different assumptions and methodologies, the overall picture suggested that the cost that

international visitors impose on local government infrastructure was in the order of $100-$150 million per year across New Zealand.

17. A further estimate of close to $100 million per year has been identified by the Department of Conservation as the conservation-related cost that can be attributed to international visitors. This includes recreation infrastructure and scaling booking services to accommodate overseas visitors, among other expenses. It also includes a share of conservation expenditure, consistent with the intention that international visitors contribute to protecting and enhancing our biodiversity via the IVL.

18. This suggests that a total of $250 million per year is required to entirely offset the costs imposed by international visitors on conservation and local government infrastructure. Note that this amount does not account for changes in inflation/the Consumer Price Index over the past 3-5 years. While this is not an exact figure, it provides an idea of the magnitude of the issue. This leaves a potential shortfall in annual revenue to support investment in tourism infrastructure and conservation of up to $170 million.

19. Estimates of the cost of international visitors on tourism infrastructure are drawn from several studies produced through 2017-2019. These studies are, variously, based on selective surveys of local government, include estimates of historic underspending, and consider the views of tourism sector leaders and stakeholders. In addition, there are definitional challenges and issues of estimating costs when investment occurs over long periods of time. As a result, they are not comprehensive in their scope and the total estimated cost of international visitors should be interpreted as indicative only.

To an alternative funding model

20. For tourism to be financially sustainable, MBIE, the Productivity Commission and others have identified the need for revenue streams for asset owners/service providers (for example local government and the Department of Conservation) to fully manage the externalities (financial, environmental and social) associated with tourism. This includes supporting the whole of life costs (build, maintenance and operating, and replacement costs) of mixed-use and visitor-specific infrastructure and amenities and managing visitor flows/dispersal and behaviour.

21. In addition to the direct current costs of tourism, in his 2019 report, the Parliamentary Commissioner for the Environment (PCE) estimated that New Zealand's tourism industry generated 12.5 million tonnes of carbon dioxide equivalent in 2017. Other negative environmental impacts outlined in that report include biodiversity loss, solid waste and water quality degradation.

22. Therefore, additional revenue sources, either from new pricing tools or existing ones such as the IVL, are also required to meet these costs. The Minister of Tourism has directed MBIE to consider changes to the IVL to increase the revenue and re-examine the investment priorities available to support tourism infrastructure, conservation costs and the future challenges of tourism.

23. There are constraints with current funding arrangements, and while the IVL was not designed as a tool to achieve full cost recovery for the tourism system, it may not currently generate sufficient revenue to address enough of these costs. In the absence of sustainable local government funding streams for tourism, central government has provided significant funding for public amenities and the services needed to support tourism, for example, $100 million over four years for the Tourism Infrastructure Fund. If

the status quo continues, additional local and central government funding will be required to continue to support these services, putting more burden on taxpayers and ratepayers. Without additional funding this could lead to infrastructure degrading, leading to a low-quality visitor experience.

Cost Recovery Principles and Objectives

24. Based on the Minister's priorities, the primary objectives for a change to the IVL are to:

    a. Support efforts to address other issues associated with large volumes of international visitors, particularly their environmental impact.

    b. Begin to address future challenges associated with tourism including climate change.

    c. Create a more proportionate revenue source that can contribute more effectively to the costs of tourism.

25. The criteria that options will be assessed against are:

    1. Efficiency: the charge should find an optimal balance between maximising revenue to spend on the costs of tourism and mitigating distortions to the economy through deadweight costs (see Risks section) and loss to the economy.

    2. Equity: the burden of the charge should largely be borne by international visitors as users of the tourism infrastructure and environment they benefit from rather than domestic visitors who already pay through rates and taxes.

    3. Administration/Compliance: the new charge and settings of the levy should be able to be implemented without significant administrative and compliance obligations for both Immigration New Zealand and payers of the levy.

    4. Coherency: the settings of the levy should be coherent with systems, charges and policy settings, such as the tourism, immigration systems and bilateral relationships with other countries.

    5. Sustainability of revenue: the level of revenue over a period of time should provide certainty to enable future planning, be able to respond to volume and address the identified negative externalities.

26. Transparency has not been included in the criteria for this assessment as spending through the IVL fund is presented yearly through the Annual Performance Report of the International Visitor Conservation and Tourism Levy (IVL).

Initial assessment of proposed changes against objectives

27. The IVL alone will not fully address all the issues identified with funding for the tourism system, instead MBIE believes that it is a first step in a wider funding package. It should fill the gaps that other funding tools cannot address and MBIE notes that other tools may better address the primary objectives.

28. A fulsome assessment of the proposed changes to the IVL against the objectives will occur once the changes have been in place for some time. However, based on the

current investment priorities, MBIE's initial assessment of the potential outcomes against the objectives is shown below.

Table 3: Assessment of proposed changes against objectives

Objectives	Expected outcome
a) Create a more proportionate revenue source that can contribute more effectively to the costs of tourism.	As New Zealand's borders reopen to international visitors, the IVL could provide a sustainable source of revenue that is scalable and will adjust with growth to support investment in tourism infrastructure and conservation.
b) Support efforts to address other issues associated with large volumes of international visitors, particularly their environmental impact.	There could be some scope to address these issues through the current investment priorities (i.e., national solutions to infrastructure issues, protecting biodiversity through improved destination management, etc). It is expected that other tools such as user charges, where revenue is raised close to the point at which the negative externality occurs (for example entry into national parks, or public amenities) may be more appropriate to fund this priority than the IVL (broadly targeted).
c) Begin to address future challenges associated with tourism, including climate change.	MBIE expects there is limited scope to address future challenges through the current IVL investment priorities. MBIE considers this objective would be better addressed through other more targeted tools such as a departure tax, as recommended by the Parliamentary Commissioner for the Environment, but this would also impose a charge on New Zealanders travelling abroad. The new Innovation Programme for Tourism Recovery is also a short-term solution that has prioritised climate, sustainability and technology.

The level of the proposed fee and its cost components (cost recovery model)

Investment priorities

29. Currently, the expenditure priorities are split evenly between tourism infrastructure and supporting conservation. The Minister of Tourism has indicated preference to also include priorities that address future challenges of tourism, such as climate change.

30. The Minister's proposed priorities and split are shown below.

Table 4: Proposed investment priorities and split for the IVL

<table>
<tr><th colspan="2">Addressing tourism and conservation funding challenges</th></tr>
<tr><td>Local government infrastructure (40%) (proposed new IVL priority)

Funding to address the pressing cost-revenue gap in our communities and enable our regions to invest in and manage much needed infrastructure to support tourism.

For example:
• basic local mixed-use infrastructure (used by both visitors and the community) such as toilets, car parks, free local wi-fi, water supply and rubbish bins
• local attractions/amenities such as viewing platforms and walking tracks.</td><td>Supporting conservation[1] (30%) (existing IVL priority)

Funding to protect and enhance biodiversity and cultural heritage and invest in amenities and activities to deliver enhanced visitor experiences, manage visitor impacts and promote visitor safety on public conservation lands and waters.

For example:
• conservation and biodiversity activity such as predator eradication, breeding programmes and native planting
• conservation visitor infrastructure and facilities such as interpretation, parking solutions and track maintenance/development.</td></tr>
<tr><th colspan="2">Investing in the future of tourism and conservation for New Zealand</th></tr>
<tr><td>Mitigating the climate change impacts of tourism (20%) (proposed new IVL priority)

Biodiversity protection and enhancement to provide nature-based solutions to climate change and its effects.

For example:
• ecosystem restoration
• implementing Te Mana o te Taiao, the Aotearoa New Zealand Biodiversity Strategy, to increase resilience to the impacts of climate change for our ecosystems and communities.</td><td>Tourism research and innovation (10%) (proposed new IVL priority)

Technological development in line with the needs of the tourism sector.

For example:
• research into the impacts of tourism on climate change, plus investment in adaptation or mitigation measures
• support for tourism businesses such as digitalisation.</td></tr>
</table>

31. MBIE considers that the most efficient and effective spend through the IVL is on tourism infrastructure and tourism system improvements, as well as spending on conservation costs of tourism that go beyond DOC's baseline spend. MBIE considers that addressing climate change through the IVL fund would likely not be efficient and better addressed through other tools, such as a departure tax. A departure tax would allow more consistent charging on all travellers leaving New Zealand via air, including New Zealanders, which more accurately reflects the impact of air travel on the climate.

32. Feedback on the impact of these proposed priorities will be sought through public consultation and further advice and analysis will be provided in future.

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[1] A key principle for the Government is that DOC administered funds for conservation will not be reduced as a result of any changes to the IVL.

Options within the IVL regulation

33. While a range of tools are available to raise the revenue necessary to contribute to the costs of tourism, this CRIS focuses on options for generating this revenue through changes to the IVL alone which is the Minister of Tourism's requested mechanism for achieving the revenue.

34. Most international visitors applying for a visa to enter New Zealand are charged the non-refundable IVL of $35. It is collected through the immigration system, with visitors paying the IVL alongside their visa or (for most visa waiver travellers) New Zealand Electronic Travel Authority (NZeTA).

35. Three options have been identified to generate revenue that responds to the policy problem. Each option applies a different level of cost to the IVL:

    a. **Option One:** The IVL is increased to $100

    b. **Option Two:** The IVL is increased to $150

    c. **Option Three:** The IVL is increased to $200.

Impact analysis

Nature of analysis

36. For all options, MBIE has undertaken analysis to estimate the additional revenue that could be generated, and the impact on visitor numbers and on-the-ground expenditure (presented in the impacts analysis table below). The model was created by MBIE; however it has been independently reviewed and stress tested by an economics consultancy. The independent review found that the model was fit for purpose and can be used for comparing different increases to the IVL rate and noted it was subject to its limitations due to the uncertainties around COVID-19, noted below.

37. An overview of the model and the assumptions that sit beneath the analysis are:

    a. The model uses 2019 international arrival data broken down by market (e.g., country of origin) as the baseline to understand total quantum of visitors and those that pay the IVL currently.

    b. Each market has its own elasticity[2], that is, how responsive to changes in price travellers may be.

    c. The model uses the elasticities of each market to understand how the marginal increase in cost would affect the visitor numbers, using 2019 passenger volumes as the base. The model splits out the changes to show the impact of the IVL increase on its own.

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[2] Price elasticity, in this context, is the measure of how sensitive a holiday goer is to the change in price. A higher price could impact a visitor's amount of spending in New Zealand or even might stop them from coming to New Zealand altogether (e.g., in this case, an elasticity of 1 means a 10 per cent increase in price will result in a 10 per cent decrease in visitors to New Zealand)

d. This provides an estimate of total visitor numbers following the increase to the IVL, from which the projected IVL revenue can be forecast.

e. Using the new visitor numbers, the impact of on-the-ground (OTG) expenditure can be established. Two assumptions were used to estimate the OTG expenditure impact:

   i. the loss of spending due to the number of visitors that would not travel to New Zealand due to increase in cost, and

   ii. that each visitor has a 'fixed bucket' of spending in New Zealand and that an increase in charges at the border will lead to the same reduction in spending in the economy (e.g., a $50 increase in the IVL will result in $50 less spending in the economy).

Limitations of the model

38. These options have been calculated in line with different scenarios for tourism's recovery based on alternate visitor arrival estimates. Due to the uncertainty of post-COVID-19 international visitor arrivals, the model uses 2019 international visitor arrivals as a baseline. There are significant unknowns that could substantially alter these estimates.

39. As an example, since reopening borders to Australian travellers on 12 April 2022, arrivals of Australian citizens have steadily increased but remain 38 percent lower than a comparable period in 2019[3]. It is not yet clear how other markets will respond and how far global events (such as rising inflation, increasing fuel costs and conflict in Ukraine) will impact travel planning.

40. The price elasticities in this model are taken from pre-COVID-19 data, and airlines have commented to the media that costs may increase by more than 20 percent[4] as the impact of rising fuel cost is felt across the industry. However, it is not clear to what extent this will impact on visitors' desire to travel in a post-COVID-19 world. There is not sufficient data to model price elasticities in response to these changes currently.

41. It is expected that attitudes towards travel may change now COVID-19 border restrictions have been eased, which would impact price elasticities. The price elasticities also do not account for the different purposes of travel (i.e., leisure, business, visiting family and friends) which impact price sensitivity.

42. The model has also considered the impact of various COVID-19 related checks and tests which are currently being phased out in most international jurisdictions. This may cause the model to estimate higher impacts than would be faced in the current climate.

43. The model is also unable to adjust for distributional effects within a population where price sensitivity may vary based on household income or wealth. This means the impact on OTG expenditure is likely to be lower than estimated, as price elasticities are not constant across market segments. Those who are put off by a higher IVL could be at the lower spending end of the market, meaning that those who still choose to visit are likely

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[3] As at 8 July 2022 Tourism Recovery Dashboard - Tourism Evidence and Insights Centre (mbie.govt.nz)

[4] https://www.nzherald.co.nz/travel/expect-fares-to-jump-by-20-per-cent-says-air-new-zealand-as-fuel-soars/5ZGF7JXKYX6XABKWFUYADXZHP4/

to be higher spenders. In addition, the assumption that visitors have a 'fixed bucket' of spending and an increase in cost results in a direct loss in spending elsewhere in the economy is likely an over-estimation. It is likely that the increase in IVL will reduce spending from some travellers, but it is unlikely to be exactly a dollar-for-dollar transfer. The limitations of data mean this assumption is unable to be built into the model.

44. The model only considers the impact of raising the levy and does not consider the benefits generated from spending revenue on tourism infrastructure and conservation. Pending the level of spending, these could generate significant benefits to the economy over time and therefore mitigate some of the negative impacts of the levy (particularly to OTG expenditure impact).

45. However, efficiency impacts are likely to be worse at a higher price point, such as Options Two and Three, as the behavioural response of visitors is likely to be higher, which could minimise the revenue gained and significantly impact spending in the economy. MBIE therefore recommends a price point of $100 where there will be some efficiency impact, however not as severe.

46. The underlying model does not account for changes to the foreign exchange market, global economic environment and dynamic pricing, which can have significant impacts on visitor behaviour and demand for tourism.

47. The outputs of the model should be considered indicative only and represent a snapshot in time based on information currently available. A range of possible outcomes is presented based on alternative price elasticity assumptions for New Zealand's key tourism markets. The ranges provided are also calculated based on varying elasticity effects which create different outcomes for each scenario.

Risks

48. There are planned increases for other border charges, such as the recent increase to the Border Clearance Levy and recently announced increases to certain visas as a result of the Immigration Fee and Levy review. The visa fee increases will not impact all visitor visas but will impact some where the IVL is chargeable. Other reviews planned across government could further increase the costs of travel, such as recent changes to the Border Processing Levy or the potential for the reinstatement of public health requirements (e.g., COVID-19 testing and any ongoing isolation requirements).

49. There are also broader structural challenges for the tourism sector, such as inflation and air connectivity to New Zealand as international border restrictions are eased. At present, it is not possible to accurately predict the impact of these changes on visitor numbers.

50. As stated in paragraph 43 it has not been possible to adequately assess the impact of lower OTG spend compared with the benefit of the additional public money raised through higher IVL charges. There is a risk that reduction of OTG spending is sufficient to cause significant fiscal difficulty to some providers which cannot be mitigated by public expenditure (an effect known as deadweight loss). It is not possible to accurately model the size or impact of deadweight loss.

The impact of each option against the chosen criteria and status quo is shown in the table below:

Table 5: Impact of each option against chosen criteria for the IVL

Principle	Status quo	Option 1: $100	Option 2: $150	Option 3: $200
Efficiency	Impact on visitor number and on-the-ground expenditure are minimal due to low rate of levy. No economic inefficiencies due to low rate of the levy.	- Impact on visitor numbers[5]: decrease by **92,000-101,000** (representing a 2.37-2.61% decrease compared to 2019 visitor numbers). Impact on on-the-ground expenditure[6]: **$144 – $597 million.** Some economic inefficiencies as greater cost borne at the border rather than in the economy (e.g., local levies or user charges). Risk of deadweight costs if spending in the economy drops more than the revenue gained, and benefits gained through spending on infrastructure and conservation.	-- Impact on visitor numbers: decrease by **164,000-179,000** (representing a 4.23-4.62% decrease compared to 2019 visitor numbers). Impact on on-the-ground expenditure: **$310 million – $1.0 billion.** Some economic inefficiencies as greater cost borne at the border rather than in the economy (e.g., local levies or user charges). Risk of deadweight costs if spending in the economy drops more than the revenue gained, and benefits gained through spending on infrastructure and conservation.	--- Impact on visitor numbers: decrease by **234,000-257,000** (representing a 6.04-6.63% decrease compared to 2019 visitor numbers). Impact on on-the-ground expenditure: **$366 million – $1.46 billion.** Greater economic inefficiencies as greater cost borne at the border rather than in the economy (e.g., local levies or user charges). Higher risk of deadweight costs if spending in the economy drops more so than the revenue gained, and benefits gained through spending on infrastructure and conservation.
Equity	Levy rate is not high enough to cover the costs to infrastructure and conservation caused by international visitors and therefore burden of these costs fall more heavily on tax and ratepayers.	+ International visitors contribute more towards the costs, taking the burden off tax and rate payers.	+ International visitors contribute more towards the costs, taking the burden off tax and rate payers. Higher rate of increase potentially prices lower-income travellers out of visiting New Zealand.	+ International visitors contribute more towards the costs, taking the burden off tax and rate payers. Higher rate of increase potentially prices lower-income travellers out of visiting New Zealand.

[5] As noted in paragraph 37(b), each market (country of origin) has its own elasticity and therefore impact on visitor numbers if not linear for each option.

[6] For all options, these figures imply that reduction of spending in the economy will be greater than the revenue generated, there are significant limitations to the data that may result in these numbers being over-estimated (refer to limitations of analysis in paragraph 38-47).

Coherency	Rate allows for other tourism targeted charges to be used within the economy (e.g., user-pays).	- Moderate cumulative impact of IVL rate with other border charges (e.g., immigration fee review, border clearance levy). Rate supports other tourism targeted charges to be used within the economy (e.g., user-pays).	-- Moderate cumulative impact of IVL rate with other border charges. Rate supports other tourism targeted charges to be used within the economy (e.g., user-pays).	--- Cumulative impact of levy with other border charges (e.g., immigration fee review, border clearance levy) could be significant. Significantly higher rate compared to international jurisdictions. Rate significantly high and ability to implement other charges within the economy (e.g., user charges) is reduced.
Administration and Compliance	Low administration for Immigration New Zealand and low compliance for levy payers through the NZeTA which they may already use for visa payments.	+ Minor system changes required to increase rate.	+ Minor system changes required to increase rate.	+ Minor system changes required to increase rate.
Sustainability of Revenue (at pre-COVID-19 visitor numbers)	Approximately $80 million per year in IVL revenue which is less than half the revenue required to sustain the tourism system.	+ IVL revenue: **$159 – $192 million**[7]**.** Provides slightly more revenue to enable planning to partly address the identified problem. Total revenue will be dependent on behavioural response to the increase, as well as levels of travel post-COVID-19.	++ IVL revenue: **$215.4 – $278.6 million.** Estimated to provide sufficient revenue to enable planning to address the identified problem. Total revenue will be dependent on behavioural response to the increase, as well as levels of travel post-COVID-19.	++ IVL revenue: **$336 – $444 million.** Estimated to provide sufficient revenue to enable planning to address the identified problem. Total revenue will be dependent on behavioural response to the increase, as well as levels of travel post-COVID-19.
Overall	The status quo does not address the shortfall between infrastructure cost and visitor revenue meaning there will need to be significant use of alternative funding tools to meet these costs.	+ This option goes some way to address the negative externalities and of the three options, minimises the economic impact the most, however generates the least amount of revenue. Risk of some deadweight loss caused by visitors choosing to not visit or spending less when they arrive.	- This provides greater additional revenue to support publicly funded action in the tourism industry. However, the increased cost placed on visitors at the border may discourage some visitors and increases the risk of deadweight loss.	- While this option would increase revenue, there is potential that the steep increase will have a greater negative impact to visitor numbers and on-the-ground expenditure. It is also out of step with competitor tourism markets (see internal comparisons section on page 18).

[7] For all options, revenue is the total revenue expected to generate from the rate (i.e., includes the $80 million that the current rate expects to generate).

Who will be impacted?

51. The groups that will be impacted by the proposed changes are set out in the table below. MBIE will test these impacts with these groups through public consultation and expect to have more detailed information to update the table.

Table 6: Impacted Groups

Affected groups *(identify)*	**Nature of cost or benefit** *(e.g., ongoing, one-off) evidence and assumption (e.g., compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Who bears costs compared to taking no action			
Regulated groups	Ongoing, the total cost of travel to New Zealand will increase by NZD $65 – 165. There are considerable uncertainties about how closely future tourism will resemble that of 2019.	An estimated 92,000 – 257,000 visitors would not travel to New Zealand.	Low-Medium.
Regulators	One-off - any increase to the IVL rate can be implemented through existing Immigration New Zealand (INZ) and ETA systems.	Minimal.	High.
Local Government	Regions and communities may be impacted if there is a loss of visitor numbers.	Low – Medium.	Medium.
Tourism businesses	May be negatively impacted by the loss of travellers and spending on tourism.	Medium – High, depending on option.	Medium, behavioural response of travel due to COVID-19 is unknown.
Border agencies	Border agencies costs and revenue may be affected by any drop in visitor numbers.	The net effects are currently unknown.	Low.
Who receives benefits compared to taking no action			
Regulated groups	Travellers may feel positive about making an appropriate contribution to their costs in New Zealand.	Low.	Medium, there is research supporting the positive benefits to travellers of ethical travel.
Local government and DOC	Local government will receive a substantial share of the IVL to support tourism infrastructure, improving social licence for tourism. DOC will have additional funds to invest for conservation needs.	Medium.	Medium.
Tourism businesses	Improved infrastructure and conservation will support domestic social licence for tourism.	Low.	Medium.

International comparisons

52. When compared with other jurisdictions, New Zealand generally has lower charges for access to tourism-related services within the economy (for example, national parks and public toilets are free to access).

53. At the border, as outlined in the table below, many countries apply charges to international travellers relating to the costs of maintaining border integrity and services, rather than to support the costs of tourism (with the exception of Japan). With an increase to the IVL of between $100 - $200, plus the current border charges (such as border clearance levy and immigration costs), New Zealand would be at the more expensive end of the scale for border charges.

Table 7: Charges for international travellers in other countries

Country	Fee name	Fee type	Purpose	Amount	$NZD[8]	Application
Australia	Passenger Movement Charge	Departure tax	Fiscal revenue on all international departures. Initially introduced to offset costs at the border.	A$60	$65.90	All international departures, including local citizens and residents
United Kingdom	Air Passenger Duty	Departure tax	Offsetting carbon miles. Variable rate based on distance travelled and class of ticket.	£26 standard short haul £185 standard long haul	$50.59 $359.94	All international departures, including local citizens and residents
Schengen Area countries in European Union	Electronic Travel Information and Authorisation System	Arrival tax	Travel authorisation for non-EU nationals to increase security and prevent health threats.	€7	$20.22	Visitors from more than 60 visa-waiver countries
Canada	Air Travellers Security Charge	Departure tax	Fee to support air transportation costs, especially security.	C$25.91 (flights outside the North American Continent)	$31.92	All international departures
United States	Bed taxes (known by different names in States)	Accommodation charge	Fiscal revenue and reducing tourism pressure on housing/infrastructure applied at a State-level.	Varies by State but the median rate is 15%	N/A	All accommodation guests
Japan	International visitor departure tax ("sayonara tax")	Departure tax	Revenue invested in tourism infrastructure.	1,000 Yen	$11.71	International visitors (other visas/citizens exempt)
Bhutan[9]	Tourism fee	Tourist tax	Flat fee to enter country – includes	US$200 - US$250 per day	$317.26 –	All foreign nationals (with

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[8] Current exchange rates as of 28 June 2022.

			accommodation, transportation, guide, food.	(depending on package)	$396.57	some exceptions such as diplomats)

Consultation

54. Some high-level targeted consultation with the tourism industry has been undertaken (not on specific proposals), however full public consultation will occur following the release of the discussion document in 2022.

55. The tourism industry acknowledges the issues and is supportive of collaborative attempts between central government, local government and industry to address underinvestment and related issues of congestion and eroded social licence. However, many industry players favour funding by central and local governments (taxpayers and ratepayers), rather than directly from visitors or tourism businesses. A group of tourism industry leaders did present an alternative 'National Visitor Levy' proposal, but Ministers considered it was too administratively complex and did not want to explore funding tools/new taxes that could be potentially applied to New Zealanders.

56. The tourism industry is particularly concerned about the cumulative impact of charges at the border and the impact it will have on the industry's recovery from COVID-19 due to the effect it may have on visitor behaviour and demand for New Zealand as a tourism destination.

57. MBIE has engaged with relevant government agencies, including:

    a. Ministry of Foreign Affairs and Trade (MFAT)
    b. Department of Conservation (DOC)
    c. The Treasury
    d. Tourism New Zealand (TNZ)
    e. Department of the Prime Minister and Cabinet (DPMC)
    f. Ministry of Transport (MOT)
    g. Ministry of Education (MoE)
    h. Immigration Policy – Ministry of Business, Innovation and Employment (MBIE)
    i. Department of Internal Affairs (DIA)

58. The proposals to amend the IVL to address current and future needs have been tested with the above government agencies. Overall:

    a. There is general support for the overall aims of the change (to amend the IVL to better address the costs of international visitors, in particular as a sustainable funding mechanism to fund infrastructure deficits).

    b. There are concerns about the impact of a significant increase of the IVL and how this could impact international visitor behaviour, along with the wider economic impacts.

    c. There are concerns that an increase to the IVL, as well as the impact of cumulative charges at the border will negatively impact tourism's recovery from COVID-19, as well as the recovery of the aviation sector and New Zealand's air connectivity to the rest of the world.

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[9] This is due to change to a $200 levy (paid to the government) when the borders open on 23 September 2022.

Conclusions and recommendations

59. There are opportunities to improve cost recovery to meet the full costs generated by tourism and these could be achieved by any option other than the status quo, although each also has a cost to the wider economy in terms of forgone spending by visitors. Option Three represents the greatest potential revenue for central government, but also the greatest cost in terms of reduced visitor numbers and likely on-the-ground impacts for the tourism industry.

60. Option One at $100 is at a price point that enables a sufficient increase in revenue to be collected, however would also support the introduction of additional tools, such as targeted user charges at-place to allow visitors to be charged at the point that the costs are generated. Charging at-place links directly to demand and enables accountability and oversight at the local level, thereby improving the social licence for tourism and better directing investment.

MBIE's preferred option

61. MBIE's preferred option is Option One, an increase of the IVL to $100, in combination with the development and implementation of other pricing tools at-place to meet the remaining costs of international visitors.

62. Given the significant uncertainty about the future volume of international visitors and their associated costs, MBIE believe that a smaller increase to $100 is advisable so as not to significantly offset demand (this option would result in up to a 2.6 per cent decrease compared to 2019 visitor numbers). Note, this still represents roughly a threefold increase to the current rate of the IVL.

63. This option would balance meeting the unmet need for investment in infrastructure and conservation, with the economic impact through reduced visitor numbers and a loss in on-the-ground expenditure. While the modelling shows that the on-the-ground expenditure impact could outweigh the revenue generated by the levy, MBIE notes that this is likely overestimated due to the limitations to the model (outlined in the impact analysis section above) – particularly that it does not account for spending within the economy.

64. MBIE considers that the most efficient and effective spend through the IVL is on tourism infrastructure and tourism system improvements, as well as spending on conservation costs of tourism that go beyond DOC’s baseline spend. MBIE considers that addressing climate change through the IVL fund would likely not be efficient and better addressed through other tools, such as a departure tax. More analysis on spending priorities will be provided following public consultation.

65. MBIE has continued to advise that a combination of tools is required to address the funding challenges of the tourism system. MBIE recommends ensuring that a variety of tools are available in the tourism, conservation and local government toolboxes. This could include user charges, taxes or levies, and targeted rates.

66. There may be other options and mixes of changes to price and eligibility that could produce similar or the same revenue to MBIE’s preferred option (such as $50 and including charging Australians), however these have been discarded due to the implications and complexities of charging Australians.

Implementation plan

67. Any change to the amount of the levy will be achieved by amending the current levy amount set in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010. Any increase to the IVL rate is a regulatory change and can be implemented through existing Immigration New Zealand (INZ) Visa and NZeTA systems.

68. It is expected that the earliest an increase will occur is 1 July 2023, following public consultation, policy decisions by Cabinet and drafting of regulations. To mitigate the potential impact to tourism's recovery due to the increase to the IVL, MBIE plans to test the following options during public consultation to understand the impacts of each option, and any findings will be included in the final Regulatory Impact Statement.

69. The options for implementation are set out in the table below:

Table 86: Proposed options for implementation of an increased IVL

	Gradual increase option	Example – new rate of $100
Option One	A **stepped increase** that would see the rate increase gradually each year as international visitors return. The trigger for the increase would be if a certain number of total short-term visitors arrive in New Zealand. If the expected number is not met, the rate would stay the same for the following financial year until the point where the trigger is met.	On 1 July 2023 the IVL would increase from $35 to $50. If over the 2023 calendar year, in total 1 million short-term visitors arrive in New Zealand, the IVL would increase the next financial year to $75. If arrivals reach 2 million in 2025, the IVL would increase to $100.
Option Two	An **automatic annual increase** which would begin on 1 July 2023.	Increase the IVL rate every year until the new rate of $100 is reached.
Option Three	A **single, one-off increase** (no gradual increase). This could provide greater certainty for the tourism sector and international visitors when New Zealand's borders re-open and pricing and timing is clear in market.	There would be only one change in rate from $35 to $100 at an agreed date in the future.

Monitoring and evaluation

70. An annual investment statement is compiled and published that sets out the revenue generated through the IVL and how it has been spent. This will continue and regular reporting will be made to the Minister of Tourism to inform decision making.

71. MBIE will also monitor the impacts of the IVL (both expenditure and impact on visitor numbers) through regular collection of data, such as the International Visitor Survey, Mood of the Nation (a perceptions of tourism survey) and the Tourism Satellite Account.

Expenditure monitoring and reporting

72. To ensure transparency and accountability with regards to IVL revenue, the Government will continue to use memorandum accounts to manage fluctuations in revenue and expenditure.

73. The Government will continue to undertake regular reporting on the IVL revenue and expenditure. This is currently done through the IVL annual performance reports (1 July-30 June), which are co-owned by MBIE and DOC. These reports record how the revenue generated by the IVL is allocated, and measures the yearly progress made by the projects that are funded.

Visitor demand

74. If the decision is made to increase the IVL rate, MBIE will continue to monitor any impacts on visitor demand through Statistics New Zealand's International Travel and Migration dataset and through MBIE's annual tourism forecasts.

75. MBIE will also monitor impacts on international visitor expenditure through methods such as the International Visitor Survey (IVS) and Tourism Electronic Card Transactions (TECTs).

Review

76. As was decided previously during the establishment phase of the IVL, the rate will continue to be reviewed on a regular basis. This is to ensure that the IVL remains fit-for-purpose, and that expenditure is aligned with revenue levels. As other charging tools are considered and introduced relating to tourism there are options to reduce the level of IVL to balance the impact of all charges.

77. Section 399B of the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 also sets out that at intervals of no more than five years, the Department must review the amount or method of calculation of any International Visitor Conservation and Tourism Levy.