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

Addressing tourism and conservation funding challenges	
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.	**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.
Investing in the future of tourism and conservation for New Zealand	
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.	**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.

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

[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.