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Submission on review of the International Visitor Conservation and Tourism Levy

Thank you for the opportunity to comment on the future of the International Visitor Conservation and Tourism Levy (IVL). Five years after the introduction of this border charge, the review is timely.

This submission focuses on some key principles that need to be observed in the review of the IVL.

Myth busting - Visitors are paying their way

The underlying premise of the review – *“the current amount of the International Visitor Conservation and Tourism Levy (IVL) is insufficient to address the costs associated with international tourism”* - is misleading.

The data is very clear: international visitors more than pay their way. However, they do not do this solely through the IVL.

The Government collects revenue from international visitors in a variety of ways: GST, motor vehicle and fuel taxes, company tax, border fees and levies, excise duties and the IVL.

In 2018, prior to the IVL's introduction, Deloitte Access Economics was commissioned by MBIE to examine the costs and benefits of international tourism.¹

That report found that the Crown collected \$3.27 billion in revenue pa and incurred \$638 million pa in expenditure, attributable to international tourists. The expenditure calculation included Tourism NZ and a proportion of costs for NZTA, DOC, Immigration, Customs, MBIE and ACC.

The Crown is far and away the single biggest benefactor from the visitor economy. It returns some of the revenue accrued back to the industry (through Tourism NZ and occasional grant schemes administered by MBIE) and in the past to local government (through mechanisms like the Tourism Infrastructure Fund). However the Crown retains the overwhelming majority for core spending on health, education, social welfare etc. If it wished, it could cover all of the visitor costs incurred around the country, but has chosen not to.

The role of the IVL

When it was proposed, the IVL was never intended to cover all of the costs of hosting international visitors in Aotearoa.

The intention was to provide an additional mechanism for international visitors to make a direct contribution to tourism and conservation projects that contribute to broad impactful change. **The IVL was designed to complement existing funding mechanisms, rather than duplicate or replace them.**

The IVL was supported by the tourism industry on the understanding that it would be additional funding that would support significant initiatives that might not otherwise happen, bringing measurable benefits to communities, our environment and the visitor experience.

Design of the IVL

The IVL is almost unique in the world. The only other country that has a border tax only paid by international visitors, is Mexico. However, the New Zealand's IVL has multiple exemptions, most notable Australians and most Pacific Islanders. This means that almost half of international arrivals are not paying the IVL – even though their cost burden is essentially no different.

¹ Financial Costs and Benefits of International Tourism, MBIE Report 13 April 2018.

While there is no intention in the current review to change who pays the IVL, the inbuilt inequity of the border tax should be recognised.

Impact of an increase

Previous assessments of potential changes to border fees have included specific modelling to determine the impact on visitor demand. It is disappointing that this has not been done on this occasion.

What we do know is that the Tasman is already the most heavily taxed air route in the world. Using figures from the consultation document, a visitor from Europe or Asia flying return between Melbourne and Auckland pays \$364.70 in border fees in Australia and \$318.86 in New Zealand (plus any visa costs).

Any increase in the IVL will add to this substantial cost burden and could dampen demand.

Investment Approach

As noted in the consultation document, the IVL revenue is currently split evenly between tourism and conservation, but this is not mandated by the legislation and can be changed.

The senior industry and government officials who worked on the design of the IVL back in 2018/19 believed that significant projects that could make the biggest positive difference should be funded, rather than an artificial 50/50 division between those deemed to be tourism or conservation initiatives. In reality, many deserving projects address both tourism and conservation needs.

The current Investment Plan needs to be reviewed. The Tourism Investment Statement in the Plan is fine:

The IVL will invest in tourism projects that are or have the potential to be nationally significant or provide a co-ordinated approach to addressing shared tourism system challenges.

The Conservation Investment Statement is problematic:

The IVL will invest in projects that support the two conservation pillars of: protecting and restoring indigenous biodiversity; and responding to visitor pressures on conservation and the environment.

Protecting and restoring indigenous biodiversity is receiving between 70 and 90 per cent of the IVL conservation funding, while responding to visitor pressures is only receiving between 10 and 30 per cent. And some of the biodiversity spending has had no relevance at all to visitor pressures. For example, \$1.5m for pest management on the sub-Antarctic Auckland Islands, where visitors cannot go; and \$13.7m to investigate wildlife crime.

Essentially DOC is treating the IVL as baseline funding and is allocating it to projects that often have tenuous links to the objectives of the IVL. While DOC has calculated that \$96m of its annual spending is attributable to the impact of international visitors² it has not been directing the IVL funding it has received to date to address these visitor impacts – and the Investment Statement currently does not require it to do so.

² This calculation has not been made public.

Independent Assessment

When it was introduced, the IVL had an independent advisory panel to assess funding options. The group met a few times and was then quietly disbanded. Over the past 5 years the funding decisions have been made by MBIE and DOC, with approval from their respective ministers.

An Independent Expert Assessment Panel must be re-introduced, to ensure the funding is directed to where it can make the biggest difference and deliver the greatest benefits. The Panel's authority and duties must be detailed in the Investment Statement.

Transparency

The decision-making process for the IVL has been completely opaque. There is no application process. This leads to concerns that 'those in the know' have been able to talk to the right people to get funding for their ideas. Annual Reports detailing the projects funded have been issued up to a year after the period in question.

By the end of June 2024, almost \$170m will have been collected through the IVL over 5 years. Only \$81m has been allocated to projects. The unspent funds are doing no good sitting in the bank.

There is an urgent need to shed light on the process, make quicker funding decisions and introduce much greater transparency and reporting.

What should the IVL be spent on?

There needs to be a concentrated focus back on the original intention of the IVL – to support tourism and conservation projects that contribute to broad impactful change in Aotearoa, while avoiding duplicating or replacing existing funding mechanisms.

Areas falling under that definition include:

Better Data and Insight

The \$5m allocated in 2022 to the Tourism Data Leadership Group to begin filling the gaping holes in the existing tourism data was a good start, but an annual allocation of at least \$4m is needed for new tourism data and insight initiatives (alongside retention of sufficient MBIE and StatsNZ budgets to provide and manage core tourism data sets).

Improved tourism data will stimulate innovation and investment by providing much-needed evidence bases for decisions on new business development, new product development, and marketing, as examples. It will also increase productivity by enabling organisations across the industry to better target their expenditure, evaluate return on investment, and refocus spending if needed.

Sustainability

The tourism industry in New Zealand has embraced sustainability but needs to be assisted with building more sustainable businesses. A small helping hand can have major payoff well beyond the business itself. TIA's Tourism Sustainability Commitment programme is a tried and proven approach and is ready to scale up. It needs an annual allocation of at least \$2m per year.

Destination Management

There are now 31 Destination Management Plans across New Zealand, but little or no funding to implement these plans. These plans have a critical role in ensuring tourism retains its social licence and that the environment is protected. The plans have identified investments which need to be made to meet community expectations, but local government rarely has the funding available to make these investments. Until there is a sustainable funding solution for local government, an annual allocation of at least \$10m a year the IVL should go to support implementation of investments identified in Destination Management Plans.

Placemaking

Tourism happens at place. A few popular destinations around Aotearoa have suffered in the past from congestion and overcrowding, and will likely face the same issues again. We need the right infrastructure and the right mechanisms to prevent overcrowding, to avoid degrading the environment and degrading the visitor experience. An annual allocation of at least \$30m a year should be available for significant projects (\$5m plus) that will alleviate visitor pressure.

Areas that should **NOT** be funded from the IVL include anything that constitutes providing a replacement source of funding for something that has already been funded. This includes:

Marketing

Tourism New Zealand and its predecessors as the national tourism marketing agency have existed since 1901. It has long been accepted internationally that governments need to fund a National Tourism Organisation (NTO) to address a clear market failure. Every destination has an NTO. No player other than government is sufficiently incentivised to market a country.

The Government gets a significant and measurable return on its investment in Tourism New Zealand. It should continue to make that investment. Allocating some of the IVL to Tourism New Zealand's marketing programme breaches the principle that the IVL should not replicate or replace existing funding.

It was disappointing to see the May 2024 Budget direct some existing IVL money to Tourism NZ. This must be treated as a one-off, not to be repeated.

MBIE

MBIE provides the government with essential support services for tourism policy, advice, data and insight. This includes a small secretariat cost to support the Tourism Data Leadership Group. And MBIE manages a budget of less than \$3m a year to provide the current tourism data sets. None of these Crown-funded activities should be replaced by IVL funding.

NZCT

Ngā Herenga NZ Cycle Trails supports the 23 Great Rides. These rides have been an incredible success and a driver of regional development across the country. NZCT has always received direct government funding support for maintenance, marketing and management through MBIE. It is wrong to switch this funding over from MBIE to the IVL, which was intended for new initiatives.

How much should the Levy be?

This is the first question in the consultation document but should be the last.

Firstly, we should be clearly establishing the why – **why is a IVL required?** Is the need correctly defined and understood?

Secondly, the what – **what could be funded by the IVL** that otherwise would not happen?

Thirdly, the how - **how should the funding decisions be made** and the funds allocated?

With the why, what and how agreed, the quantum can then be established – what is the optimal amount for the IVL to collect each year, to allow carefully reviewed and targeted funding to go to projects that will make a discernible difference, bringing measurable benefits to communities, our environment and the visitor experience.

That assessment needs to be made **before** a levy amount per visitor can be determined. To do otherwise would risk either under collection or over collection of monies from those international visitors required to pay the IVL.

Good faith consultation

The May 2025 budget has presumed a significant increase in the IVL. It also revealed that all support for Ngā Haerenga NZ Cycle Trails will now come from the IVL, and Tourism NZ is to receive funding from the IVL.

It appears decisions have already been taken that were supposed to be part of the consultation. The per visitor charge for the IVL and what the funds are to be used for, are central to the review. If the consultation outcomes have already in part been determined, then that should be made clear.

We would be happy to clarify or speak to any part of this submission.

Ngā mihi



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