



tourism  
INDUSTRY

ASSOCIATION NEW ZEALAND

**Submission to the  
Finance and Expenditure Select Committee  
on the  
Climate Change (Emissions Trading and Renewable  
Preference) Bill**

**29 February 2008**

## Introduction

1. This submission is from the Tourism Industry Association New Zealand (TIA), located in Wellington. If you wish to contact us regarding this submission, in the first instance, please telephone Simon Wallace, Policy Manager on 04 494 1842 or 0272 489 375 or e-mail him at [simon.wallace@tianza.org.nz](mailto:simon.wallace@tianza.org.nz)
2. In accordance with the conditions of lodging a submission to the Finance and Expenditure Select Committee, TIA has no objection to the contents of the submission being made a matter of public record. We also wish to have the opportunity of appearing in person before the Committee when oral hearings are held in April 2008.
3. In November 2007, our Association made a separate submission to The Treasury's Emissions Trading Group. Prepared for TIA by J H Moriarty Associates, the submission provided a detailed and technical analysis as to the likely impacts of the Emissions Trading Scheme (ETS) on the tourism industry.
4. In this submission, we summarise the key points from the Moriarty report, provide an overview on what the tourism industry in New Zealand is already doing with respect to climate change, energy and sustainability issues and comment on some other issues that have emerged in the past few months with respect to the ETS.
5. The Association has consulted with its Members to seek their views in the preparation of this submission. We recommend that our paper be read alongside those you may have received from other tourism and/or hospitality based trade associations.

## About Us

6. TIA is the umbrella organisation that represents and advocates for the interests of the tourism industry in New Zealand. The businesses we represent generate more than 85% of New Zealand's tourism-related revenue.
7. Tourism is an \$18.6 billion industry (\$8.3b from international and \$10.3b from domestic tourism) with international visitor expenditure accounting for 19.2% of New Zealand's total export earnings and a further \$5.8 billion value-added spend in industries that support tourism.<sup>1</sup> The industry, directly and indirectly, employs one in ten New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises.
8. Not only is tourism important because of its size, representing 8.9% of New Zealand's GDP, it is:

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<sup>1</sup> "Key Tourism Statistics – July 2007", Ministry of Tourism website

- Highly employment intensive
  - Contributing considerable economic benefit to regional New Zealand; and
  - Very diverse - ranging from large stock exchange listed companies to small cottage industries whose activities include visitor accommodation and hospitality (e.g. food and beverages, entertainment), land, sea and air transport, activities (including retail), attractions and related tourism services (e.g. supermarkets, service stations, information centres).
9. In many cases, regional tourism businesses have developed around regional assets divested by other industries and have revitalised those assets and the communities that depend on them. There has also been considerable capital investment by local and central government, local and international investors in assets such as hotels, luxury lodges and built attractions (e.g. museums, thermal pools, heritage buildings, wineries and restaurants).
10. The tourism industry is characterised by a predominance of small to medium sized businesses, currently estimated at 10,000, with most owner operated and employing less than five people.

## **Background**

11. With a rapid growth in the world's population in the twentieth century, the production of greenhouse gases (GHG) has intensified as more and more people engage in activities such as driving cars, burning coal and cutting down trees. With more greenhouse gases in the atmosphere, the world is heating up and this process has come to be known as global warming or, more commonly, climate change.
12. Climate change is now acknowledged as one of the most serious threats to future generations and governments around the world are taking action to reduce their emissions. As a signatory to the Kyoto Protocol, New Zealand has undertaken to address its GHG emission deficit over the first commitment period (CP1) between now and 2012, and while New Zealand is committed to playing its part, until the United States and developing countries make a similar commitment, it is unlikely that much progress on a global level will be made.
13. The government here has advanced two scenarios for addressing its Kyoto commitments, either it funds the emissions deficit from taxation (carbon tax) or it introduces an ETS:
- Funding the emissions deficit from taxation is a broad instrument that is said to diffuse accountability for emission reduction while cross-subsidising those responsible for heavy emissions.

- An ETS is a scheme that protects emission-intensive industries in whole or part for a period of time.

The government has opted for an ETS on the basis that it is easier and more equitable to implement and because it will:

- reduce New Zealand's net emissions below business-as-usual levels; and
- comply with international obligations, including Kyoto commitments.

14. The ETS relies largely on the imposition of broad-spectrum energy increases that will be borne by energy consumers. Those eligible for protection will receive "carbon-credits" and have the opportunity to sell any residual credits if emissions performance exceeds agreed targets, otherwise they must make good any emissions deficit by purchasing carbon units from the market.

### **The tourism perspective**

15. The tourism industry is strongly committed to sustainability and best practice environmental initiatives. This has been demonstrated in the actions and priorities outlined in the New Zealand Tourism Strategy 2015 (NZTS 2015) that was launched by the Prime Minister in November 2007. Via a detailed strategy, approved by Cabinet, the tourism industry was the first to publicly commit to a sustainable future.

16. Many operators have already adopted sustainable business practices. For example, a number of large hotels have strong environmental policies and are investing in water preservation and solar power. More and more visitor transport firms are changing to fuel efficient vehicles, while many campgrounds and motels are offering waste and recycling facilities.

17. The tourism industry has also been a leader in the area of carbon neutrality with some businesses voluntarily offsetting their emissions. Most recent examples include:

- Christchurch International Airport Limited (CIAL) which has just become the first commercial airport in the southern hemisphere to be carbon neutral certified and Intercity
- Intercity is New Zealand's largest passenger bus company. Their corporate operations have been certified carboNZero and the company is on track to have the rest of their national tourism and transport operation carbon neutral by 2010
- TIA managed events, such as the Tourism Industry Conference and Tourism Rendezvous New Zealand (TRENZ) have also been carbon neutral for a number of years.

## Implications of the ETS for tourism

18. Tourism businesses are increasingly demonstrating their sustainability credentials and the implementation of the New Zealand Tourism Strategy 2015 will speed that uptake. The industry is generally supportive of government policies that enhance New Zealand's reputation as a sustainable destination.
19. However, the cost of doing so cannot be borne entirely by individual businesses and cannot be imposed on business if doing so reduces New Zealand's competitiveness as a visitor destination. Business in general cannot react to short term climate change policy shifts. Instead, what is needed is:
  - a solid framework to work within over a period of time, and.
  - a primary component of that framework is climate change policies that are aligned with those of our competitors so we are able to compete on a level playing field.
20. Principally, the industry has the following concerns with the ETS:
  - a) there has been little consultation and identification of the long-term impacts of emissions trading for industries generally with work to date lacking adequate cost-benefit analyses;
  - b) although the trading component of the ETS does not apply to tourism, its associated energy prices do and will impact on both the many small to medium sized enterprises (SMEs) and larger participants such as hotels and attractions that characterise the industry;
  - c) the ETS will put New Zealand tourism businesses at a competitive disadvantage with the more than sixty other destinations against which we compete for international visitors;
  - d) there are no sound reasons why tourism is subject to immediate implementation of the ETS while other industries such as agriculture are receiving favourable treatment with significantly delayed introduction
  - e) the ETS creates a financial disincentive for SMEs to move towards carbon neutral certification;
  - f) the pledged support from government to help SMEs adjust to the ETS has not been quantified.
21. Taking each of these in turn:

### **a) Lack of Consultation and Cost-Benefit Analyses**

22. The industry believes the introduction of the ETS has been rushed. The government's intention for an ETS was announced on 20 September

2007 and then only two months was allowed for consultation with industry and consumer groups. Given the impact of the ETS on the New Zealand economy, the time-frame for quality consultation was far too short to allow proper consideration as to the effects of the scheme on businesses and households.

23. While TIA reaffirms its support for the economy to be sustainable in the long term, it seems disproportionate for a small country like New Zealand to be attempting to become a global leader on climate change policy if doing so risks internal economic instability. It is coming to light only now from recent research and analysis that the introduction of the ETS threatens the viability of many businesses in the SME sector, with the potential loss of thousands of jobs. Given that the vast majority of tourism businesses have less than five employees, populate New Zealand's regions and operate on very slim margins, this is a matter of considerable concern for both the public and private sectors.
24. When launching the framework document, the Government assured consumers and businesses that the international price for carbon would be in the region of NZ\$15 per tonne making the economic impact of introducing the scheme ahead of our trading partners insignificant. From recent studies it is clear that the cost per tonne is going to be well excess of NZ\$15 which will be at a huge cost to industry. There is also uncertainty where it might move to and how quickly.
25. A recent report by Adolf Stroombergen of Infometrics confirmed that even with a price of NZ\$300 per tonne, the country would not achieve the emissions reductions target proposed by the government for 2025. Alarmingly, Stroombergen's report found that the goal of achieving carbon neutrality for New Zealand may cost a New Zealand household \$19,000 per annum in current dollars by 2025 and leave the country further away from carbon neutrality than it is today. The report also pointed to a major drop in New Zealand exports over the same period.
26. Stroombergen's report and others, including the aforementioned report by J H Moriarty for TIA, indicate just how hasty the introduction of the ETS has been. A more careful cost-benefit analysis of the impacts of the scheme prior to implementation might have resulted in better industry and consumer support and a better scheme.

#### **b) Energy Price Increases**

27. As the government itself has stated, there will be increased energy costs associated with the introduction of the ETS. Although the trading component of the scheme will not apply to tourism, the energy price increases are expected to reduce the yield of businesses in the tourism industry. For example, in the accommodation sector it is anticipated that financial yields for individual tourism businesses could drop by between 3% and 14% in a sector that is already characterised by relatively low margins.

28. The impact of the ETS combined with other factors, such as the fluctuating exchange rate and rising labour costs, could force many SMEs out of business. The table below shows the anticipated impact on selected accommodation divisions. The change column at the far right shows the expected drop in annual yield as a result of the ETS.

Related and Characteristic Division	Sample Size (Enterprises)	Avg Annual Material Costs (\$ (1999 ?))	Energy % of Material Costs	ETS Projected New Energy Costs (\$)/year	Old FY	New FY	Change
Hotels (Accommodation)	321	\$1,620,800	15.3%	\$36,032	3.8%	3.3%	-14%
Motels and Motor Inns	1376	\$202,913	6.1%	\$1,798	5.3%	5.2%	-3%
Hosted Accommodation	803	\$59,383	8.3%	\$714	2.7%	2.6%	-4%
Backpacker and Youth Hostels	223	\$141,348	12.4%	\$2,533	6.7%	6.4%	-4%
Caravan Parks and Camping Grounds	353	\$137,188	10.7%	\$2,120	3.7%	3.5%	-5%
Short Distance Bus Transport (including Tramway)	1227	\$111,735	30.0%	\$4,855	9.8%	8.6%	-12%

**Table 1: Estimated impact of ETS-based energy pricing within selected tourism divisions. Source: J H Moriarty and Associates, November 2007.**

29. Hotels are particularly affected as their energy per bed is significantly higher than other forms of accommodation due to infrastructure overheads and quality standards. To reduce energy consumption in the hotel sector, sizeable investment is often required in new technologies which are often unaffordable in a business where yields are marginal. While investment in such technologies adds to the asset base of a hotel, it does so without any obvious stimulation in revenue.

30. The tourism industry is in a difficult position because while operators are being encouraged to be more energy efficient, at the same time they are being measured on the quality of the product and visitor experience they offer. For instance, they can't just reduce heating in cold winter months or reduce air-conditioning in hot summer months to compensate for energy increases. To do so compromises the visitor experience, may mean losing repeat visitation and risking the medium-term viability of their businesses.

31. Many tourism businesses may simply increase prices or opt to accept a reduction in profit. Given the low levels of financial yield in the sector generally, increasing prices or reducing profits is hardly a credible path to the overall sustainability of an enterprise.

### **c) Competitive Disadvantage**

32. The introduction of the ETS into New Zealand in advance of our major trading partners risks placing many businesses in this country at a competitive disadvantage. The price of carbon is likely to undermine New Zealand's international competitiveness in areas that have previously demonstrated competitive advantage.

33. Where companies are unable to pass on the increased costs to the consumer resulting from obligations under the ETS, they will be exposed to unfair competition from similar businesses located in countries with no Kyoto obligation or internalised price for carbon. This Bill proposes to provide protection for these businesses by allocating carbon credits equivalent to 90% of their 2005 emissions over a yet to be determined threshold level. In the tourism industry this level of protection will be largely inadequate since most tourism enterprises are small in size and will not be part of the ETS trading component.

34. From a tourism viewpoint, New Zealand is now in an increasingly competitive position, not only with traditional markets like Australia (Australia will not introduce its ETS until 2011), but also with emerging markets, especially in Asia and South America. A number of these countries have no obligations under the Kyoto Protocol.

35. As a signatory to Kyoto, New Zealand could find itself at a competitive disadvantage because although it positions itself as a top end destination, price remains a key driver for destination decisions. It will simply not be feasible to pass on increased costs to customers and expect to grow the business and attract visitors.

36. The fact that no allowance in the current Bill is being made to protect businesses entering the scheme and no provision is being made to protect growth will be detrimental to the economy as a whole. Other emissions trading schemes, in particular the European Union's ETS is making provision to accommodate growth in existing businesses. New Zealand lawmakers should be looking at the design of the European ETS to see what could be replicated here.

### **d) Immediate Implementation for Tourism**

37. There are no sound reasons why tourism is subject to immediate implementation of the ETS while other industries such as agriculture are receiving favourable treatment with significantly delayed introduction. In fact there are many sound reasons for deferring its application to tourism.

38. Growth in the tourism sector has slowed in the past few years and with dropping business confidence, this pattern of growth could be expected to continue, particularly with less airline capacity to New Zealand and unfavourable exchange rates. This combined with increased fuel, electricity, food, interest rates are further depressing growth in the tourism sector.
39. Taking the above to account, providing the tourism industry with some leeway in terms of implementation of the ETS would give tourism operators throughout the country time to get on the front foot in relation to sustainability and climate change. They could strengthen their commercial and competitive position before having to deal with the immediate effects of the ETS.

#### **e) No Financial Incentive for Carbon Neutrality**

40. Perhaps one of the greatest ironies of New Zealand's ETS is the perverse incentive the scheme creates for businesses to be carbon neutral. Tourism enterprises will be effectively paying for the carbon neutrality of the major companies trading in the scheme because of the trickle-down effect of increased energy prices.
41. Apart from a marketing or brand advantage, the financial incentive of being carbon neutral disappears for tourism businesses. Effectively, to be carbon neutral means paying twice, once through the energy price increases to offset the carbon emissions of the large traders and again if their own business is carbon neutral.
42. Numerous tourism enterprises and TIA itself (refer paragraph 17) have invested in carbon neutrality, but the introduction of the ETS will cause many to rethink the advantages of doing so. Other than providing moral leadership and a benchmark for the industry, it is unclear if those tourism businesses that have achieved carbon neutrality have actually generated any additional economic returns.
43. As long as the ETS is in place there is no financial justification for any tourism business from now on to achieve carbon neutrality unless there is a guaranteed prospect of a definitive return. Importantly, the ETS fails to acknowledge the many years of leadership taken by the tourism industry to invest in carbon emission reduction.

#### **f) Government Support**

44. When announcing the ETS in September 2007, the government said it would consider assistance for households and businesses to adjust to the introduction of the scheme. When presenting our submission to the Emissions Trading Group at The Treasury in November 2007, TIA was told by officials that industry assistance programmes were being developed and would eventually be offered to industry groups. To date, the extent of this government assistance has not been quantified.

45. Because of the haste with which the ETS has been introduced, the Association believes the government assistance programme should consider efficiency and emission reduction incentives. Specifically, the following suggestions, would, if implemented, reduce tourism businesses' exposure to the ETS and acknowledge the public good efforts associated with the voluntary carbon neutrality positions adopted by many tourism businesses:
- a. provide cash grants, subsidies or tax breaks to encourage tourism businesses to take up new energy efficient technologies
  - b. recognise businesses committed to reducing carbon emissions through an accelerated depreciation scheme, such as writing off depreciation charges on older more energy intensive plant, fleet and equipment; and
  - c. recognise the historical investment in emission reductions undertaken by TIA and the tourism industry through an annual grant to undertake research and development. This might be on, for instance, climate change impacts and ways of mitigation and adaptation for different types of tourism business; or the changing expectations of international visitors and the products, behaviours and messages that would enable them to visit NZ with a clean conscience.
46. With regard to 34a above, the industry is especially concerned at the cost of new technologies and the timeframe needed to get a return. For example, it is known that new vehicles, solar power, heat pumps and wind power installations require between five and ten years to get a return on investment. The offer of a tax break to those businesses prepared to make long term investments in new technology would be the right incentive.

## **Conclusion**

47. The tourism industry is a strong supporter of the government's intent to move to a sustainable New Zealand economy and that commitment is demonstrated in the NZTS2015 which places a high emphasis on sustainability. Furthermore, the extent to which tourism businesses are already engaged in sustainable practices is testimony to the commitment the industry is already making to adapt to the challenges posed by climate change.
48. The development of climate change policies, however, must be cognisant of business reality. In the long-term, knee-jerk climate change policies or ones that are rushed to implementation, such as the ETS, will only be detrimental to New Zealand's economic well-being and will surely compromise on our ability to deliver fully sustainable practices.
49. In sum, tourism is New Zealand's largest export earner and a showcase industry for New Zealand. Given that the tourism sector is characterised

by a predominance of SMEs, work to date shows that the ETS threatens the viability of many of these small and medium sized businesses. While increased energy prices may be seen as a trade off for sustainability, a scheme that is hastily implemented could very well wipe out the coal-face businesses that keep tourism in New Zealand's regions ticking over.

50. TIA believes the introduction of the ETS has been too rushed, there has been limited consultation and there has been a lack of quality engagement with industries such as tourism which is in the scheme from the outset. New Zealand's early participation in the ETS ahead of our competitors offshore further places both destination New Zealand and many businesses at a competitive disadvantage.

51. The ETS is a disincentive to move towards carbon neutrality and it will place increased energy costs on all tourism businesses to offset the emissions of those large companies in the trading scheme.

52. Finally, the promised government assistance to industry to help it adapt to an ETS that is already being implemented will be critical to its success.

Simon Wallace

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