CONTENTS

EXECUTIVE SUMMARY i
1. INTRODUCTION 1
2. THE TOURISM INDUSTRY IN NEW ZEALAND 2
3. ECONOMIC CONTRIBUTION OF TOURISM 3
3.1 Contribution to the National Economy 3
3.2 Contribution to Regional Economies 3
3.3 Contribution to Maori Economic Development 5
3.4 Contribution of Tourism SMEs to the Economy 6
4. FORECAST TOURISM GROWTH 7
4.1 International Tourism Growth 7
4.2 Domestic Visitor Growth 8
4.3 Tourism Growth Compared to Growth in Other Sectors 9
5. INDUSTRY INITIATIVES TO ENSURE SUSTAINABLE GROWTH 9
6. THE NEED FOR GOVERNMENT INVESTMENT 11
6.1 Seasonality, Enterprise Profitability and Work Force Instability 11
6.2 Small Businesses, Limited Business Capacity and Training Budgets 13
6.3 Industry Growth and Training Needs 14
6.4 Lack of Maori involvement in tourism 15
6.5 Mis-match Between Training Provision and Industry Needs 16
6.6 Regional Economic and Other Benefits of Training 18
7. CONCLUSIONS 20
BIBLIOGRAPHY 22
APPENDIX 1: SKILL NEW ZEALAND FUNDING FOR 2002 INDUSTRY TRAINING 24
APPENDIX 2: TOURISM WORKFORCE QUALIFICATIONS 25

EXECUTIVE SUMMARY

1. Background

This report presents the tourism industry's case for an increased allocation of funding for tourism related education and training.

Investment is required in tourism-related education and training to ensure the benefits of tourism can be fully realised. The seasonality of tourism, coupled with the composition of the industry and the characteristics of individual tourism enterprises, means that it is difficult for the industry alone to make the investment in education and training necessary to take advantage of the potential social and economic benefits.

Tourism currently generates considerable foreign exchange earnings from international visitor arrivals, creates a significant proportion of the country's employment, plays a key part in regional economies and has the potential to become a strong basis for Maori social and economic development.

Strong growth in tourism is forecast to continue, in both visitor numbers and expenditure, with the industry well placed for more yield-based growth.

2. The tourism industry

New Zealand tourism is a service industry that includes all those commercial activities that are directed towards meeting the demands of domestic and international visitors throughout the country. It comprises a small number of publicly listed companies and an estimated 13,500 to 18,000 small and medium enterprises (SMEs).

Most tourism SMEs are in the accommodation sector, followed by food, transport and attractions and activities.

3. Economic Contribution of Tourism

Tourism directly accounts for 4.9% of GDP and, when indirect impacts are included, accounts for **9.7% of GDP**. International and domestic tourism generated $13.2 billion visitor expenditure in the year ended March 2000.

It is one of the largest earners of foreign exchange (**16% of total foreign exchange earnings**) and directly and indirectly accounts for **10.5% of the total New Zealand work force** (an estimated 94,000 full time equivalent positions).

Tourism is one of the strongest potential drivers of **economic growth in the regions**. In 2001, total visitor spending (excluding day trips) in the regions amounted to $9.5 billion (including GST), of which $4.3 billion was generated by domestic visitors. Total visitor days amounted to 100.5 million, of which just under 60% were by domestic visitors and a little over 40% were by international visitors.

Much of the forecast growth in the economy as a whole will depend on forecast growth in tourism. Tourism, especially at a regional level, provides **an important platform for other industry growth** in both the primary and secondary production sectors.

Tourism **helps stabilise local economies** by, for instance, providing opportunities for other economic activities to compensate for fluctuations in seasonally based activities. Tourism also provides opportunities for alternative or complementary use of resources.

Tourism contributes to the **quality of life of local communities** by being the catalyst for the development of local amenities and providing the basis for maintaining population levels and retaining essential services.

4. Contribution to Maori Economic Development

The New Zealand Tourism Strategy 2010 notes the value and unique contribution that Maori make to the tourism sector and recommends that Maori engage in tourism. The need to increase **Maori involvement** in tourism is well accepted. Among the five key barriers and impediments to Maori participation in tourism is their lack of training and education in tourism and tourism related careers. Facilitation of Maori access to more tightly defined business skills and tourism training courses has been identified as essential.

5. Contribution of Tourism SMEs to the Economy

Given their large number, **tourism SMEs make a significant contribution** to the New Zealand economy. It is estimated that small enterprises in general recorded the largest combined profit for 1999/2000 of any enterprise size grouping in New Zealand, accounted for 42% of all full time equivalent jobs, created the majority of new jobs and formed 39% of the economy.

6. Forecast Tourism Growth

Tourism is forecast to grow at a rate that is significantly higher than other industry sectors and the economy as a whole. An average annual growth rate of 6.3% is forecast in tourism for the 2001-2008 period with a **57% increase in total international and domestic visitor expenditure** (excluding day trips) by 2008. General expectations are that the New Zealand economy will continue to grow at around 2.5-3.0% per annum. Thus, tourism growth will underpin growth in other industry sectors.

Growth will increasingly depend on better yield per tourist (more spending per day and more days per person).

International visitors are forecast to generate 65% of the overall projected visitor expenditure. International visitor spending is projected to increase from $5.5 billion for the year ending March 2002 to $9.7 billion by 2008 (2001 prices), an average annual real growth rate of 9.3%.

Although more modest growth is forecast for domestic tourism, the average annual growth rate of 3.4% is still greater than the growth forecasts for the economy as a whole. New Zealanders made 16.4 million trips in 2000 and are forecast to make 20.9 million trips in 2008. The estimated 49.4 million domestic visitor nights of 2001 are forecast to reach 58.9 million by 2008.

7. Industry initiatives to ensure sustainable growth

The tourism industry has embarked on a number of **initiatives to ensure that growth forecasts are achieved.** In addition to Strategy 2010, these include the expansion of Qualmark, the Quality Tourism Standards process, Green Globe and the development of the Small Business Toolkit and the Community Tourism Planning Guide.

These and other activities aim to address the seasonal nature of the industry (by extending the shoulder periods), increase international visitor expenditure and refocus the industry on product and service quality rather than visitor volume. More work is needed to further extend the tourism season and improve the visitor yield to volume ratio.

8. The need for government investment

Features of the tourism industry coupled with the rate and type of tourism growth forecast, present the industry with **special problems in meeting its enterprise and workforce development** needs. The seasonality of tourism and associated costs to enterprise profitability and workforce instability is the most pressing problem.

The **seasonal** nature of tourism, with the associated cash flow problems, low profitability and high turnover of staff, makes it difficult for individual enterprises to recruit or train the staff they need. A shortage of skilled labour supply is already a problem pervading the international tourism industry.

Many tourism SMEs lack **business capacity**. Contributing factors include operators' lack of basic business skills and experience and familiarity with service-oriented industry. In addition, their motivation to enter the industry is often for life style as much as commercial success. As a consequence it is difficult for SMEs to access training: costs and time requirements are very "lumpy" and disproportionately high compared with larger enterprises.

Forecasted growth in international and domestic tourism implies significant expansion of current tourism capacity through a mix of new product development, consolidation and expansion of current products and new business start up.

Projected growth will require a **larger number of skilled employees** so that more demanding quality standards can be met. Thus current recruitment problems are likely to be exacerbated as SMEs address ongoing staff turnover and increasing staff needs.

Despite its **high training needs**, given high staff turnover and high levels of growth, the tourism industry's capacity to invest in business and work force capacity building is limited.

There is a case to be made for **Government to make up the shortfall in training investment** needed for the tourism industry to meet its human resource needs. This will allow the industry can continue its substantial investment in extending the tourist seasonal and increasing the quality of visitor products and services.

Tourism training is currently **under-funded** relative to its current and forecast size, economic contribution, skills shortfall and importance in the economy relative to other industries.

Share of income is a useful basis for **share of training funding**, in the absence of information about the relative benefits of investment in different industry sectors. Because tourism is forecast to grow at a rate that is faster than the economy overall and, therefore, most other industry sectors, it will play an increasingly important part in national and regional economic growth.

It makes sound economic sense for Government to invest in tourism training as **benefits go beyond the tourism industry**. As well as providing an important platform for regional development, tourism acts as an entry point for many young people entering the labour force, for people, especially women, returning to the workforce, and for people setting up small businesses for the first time. Thus, tourism provides opportunities for Government to invest in wider labour force and enterprise development.

1. INTRODUCTION

This report presents the tourism industry's case for an increased allocation of funding for tourism related education and training. More government investment is required in tourism-related education and training to ensure the benefits of tourism can be fully realised. Tourism currently generates considerable foreign exchange earnings from international visitor arrivals, creates a significant proportion of the country's employment, plays a key part in regional economies and has the potential to become a strong basis for Maori social and economic development. Strong growth in tourism is forecast to continue, in both visitor numbers and expenditure, with the industry well placed for more yield-based growth. However, the composition of the tourism industry,[1] coupled with the characteristics of individual tourism enterprises, means that it is difficult for the industry alone to make the investment in education and training necessary to take advantage of these potential social and economic benefits. The case will be presented in the following way:

- First, it will briefly describe the tourism industry in New Zealand, including its current size, the range of tourism products and experiences available and its business composition.
- Second, it will describe the current national and regional economic contribution of the tourism industry, including the particular contribution of small and medium enterprises (SMEs) and tourism's potential to contribute to Maori economic development.
- Third, it will outline projected tourism growth over the next 6 years (to 2008), including international and domestic tourism growth, and compare this to projected growth in other sectors.
- Fourth, it will describe current industry initiatives aimed at enterprise and work force capacity building and improving product and service quality.
- Fifth, it will explain why government investment in tourism training is both required and beneficial to the overall economy.

[1] Staff turnover is high, people take skills to other employers or other industry sectors, work is seasonal (staff leave at end of season), business activity fluctuates from intense activity in the high season (when there is little time for training) to little activity in the low season (when staff are often laid off). In addition, most small operators have low profits and can't afford to invest in training.

2. THE TOURISM INDUSTRY IN NEW ZEALAND

New Zealand tourism is a service industry that includes all those commercial activities that are directed towards meeting the demands of domestic and international visitors throughout the country. The industry provides a wide variety of products and services ranging from adventure, to culture and heritage, transport, accommodation, retail and hospitality. As well as these direct visitor services, other industry sectors indirectly support visitor services and infrastructure. These include manufacturing, agriculture and horticulture, construction and financial services.

The industry comprises a small number of publicly listed companies and an estimated 13,500 to 18,000 small and medium enterprises (SMEs), the majority of which employ fewer than 5 people.[2] The comparatively high proportion of SMEs in tourism compared with other industries in New Zealand puts the tourism industry in a special position. Already, New Zealand stands out in the international context because, by international standards, SMEs in general form a significant component of the economy.

Most tourism SMEs in New Zealand are in the accommodation sector, followed by food, transport and attractions and activities. At least 3,000[3] are rurally based (that is, in centres of 1000 or fewer residents) and a majority of the others are in provincial centres, including tourist destinations like Rotorua and Queenstown. Thus, tourism is one of the main drivers of regional economies. City-based tourism products and experiences are also an important part of the industry, although they have often been seen as such because cities act as gateways in and out of New Zealand and to tourist destinations within the country. Cities are now re-positioning themselves in the market as destinations in their own right. With that shift, tourism is becoming a more important driver in city economies as businesses that have not previously perceived themselves as part of the tourism industry are shifting their focus to attract international and domestic visitors. Auckland's fashion precinct is one example of the redevelopment and repackaging of parts of the downtown retail area as a visitor destination. Others include the creative industries and wine and cuisine specialists.

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[2] These figures have been taken from the New Zealand Tourism Strategy 2010, published in 2001.
[3] A 1999 CRESA database of rural tourism operators has over 3,000 entries.

3. ECONOMIC CONTRIBUTION OF TOURISM

3.1 Contribution to the National Economy

Tourism plays a very important part in the New Zealand economy. It accounts directly for 4.9% of GDP, and when the indirect[4] impacts of tourism are included, this figure rises to 9.7%. It is also one of the largest earners of foreign exchange (contributing 16% of New Zealand's foreign exchange earnings) and directly and indirectly accounts for 10.5% of the total New Zealand work force. Together, international and domestic tourism generated $13.2 billion visitor expenditure in the year ended March 2000, directly generated $4.8 billion of GDP, supported an estimated 94,000 full time equivalent (FTE) positions and contributed $972 million to government through GST. International tourism is one of the few export industries (international education is another) generating GST revenue for government.

Although most attention is given to the economic impacts of international tourism, domestic tourism is also important, proving a solid base for the industry. In 2000, domestic visitors' total expenditure (estimated at $6.27 billion per year by the Domestic Travel Survey 2000) was greater than that for international tourism. This expenditure was mainly generated by overnight stays, with a little over a third generated by day visits.

3.2 Contribution to Regional Economies

Tourism, along with the primary sectors, is one of the strongest potential drivers of economic growth in the regions. Domestic and international tourism plays a more important part in regional economies than they do in the more diverse economies of the main centres.[5] Regions have the comparative advantage in that they provide the landscape experience that many visitors come to New Zealand to experience. The increasing impact of tourism in regions can also be attributed to development strategies aimed at geographic diversification of tourism in order to prevent over-crowding in a few areas and hence downgrading of the visitor experience.

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[4] A hotel sells its services directly to tourists, and the hotel output is a direct output of tourism. However, the hotel employs a laundry service, and the laundry service uses detergent, and the detergent maker uses electricity etc. etc. This laundry, detergent and electricity production is an "indirect" output of tourism.

The direct and indirect impact of tourism on regional economies should not be underestimated. The direct impact can be measured in the number of visitor arrivals, the number of visitor days, the amount of visitor expenditure and the employment and other economic activity generated both directly and indirectly from this expenditure. In 2001, total visitor spending (excluding day trips) in the regions amounted to $9.5 billion (including GST), of which $4.3 billion was generated by domestic visitors. Total visitor days amounted to 100.5 million, of which just under 60% were by domestic visitors and a little over 40% were by international visitors. The recently completed regional tourism forecasts (Tourism Research Council, 2002) show[6] the highest spending was in Auckland (at $2.4 billion), followed by Canterbury ($1.4 billion) and Otago ($1.1 billion). In terms of visitor days, Auckland also had the highest number (22 million), followed by Canterbury,[7] Waikato, Otago and Wellington. Visitor days in Auckland were more than double the number of those in Wellington.

Indirect impacts can also be estimated. Visitors spent more than $4.9 billion outside the three main urban regions (Auckland, Wellington and Canterbury). If we add day trips to this figure, it is estimated to rise to around $6 billion. If we also take the multiplier effect into account, the impact of tourism on regional economies is considerably larger. In New Zealand, it has been shown that tourism has a 1.75 multiplier effect. That is, every tourist dollar spent generates a further $1.75 in indirect spending. Thus, tourism also plays an important part in the activities of other industry such as retail (including local supermarkets and corner stores), manufacturing, agriculture and horticulture, construction and financial services. Domestic and international tourism are effectively export industries for regional economies, and local industry often finds it easier to grow their business for local visitor demand than develop markets elsewhere.

The relative contribution of domestic and international tourism varies across regions. International tourism, in terms of number of days and expenditure, dominates in Auckland and is relatively important, compared with domestic tourism, in Canterbury, Otago, Wellington and the West Coast. In all the other regions, domestic tourism is clearly dominant. For most of the SMEs

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[5] The Tourism Forecasts (Table 4.3) show that the Auckland region has an estimated 35% of all non-farm employment, but only 26% of tourism spending.
[6] Considerable effort has been put into identifying the current distribution of visitors across the regions but the statistics are not as reliable as national figures.
[7] Auckland and Canterbury tourist days reflect their gateway status as well as their destination appeal.

that provide the diversity of tourism products and experiences, domestic tourism usually provides the primary income, especially in the first few years of operation.

In addition, tourism contributes to the quality of life of local communities. Local people use amenities such as restaurants and cafes that would not be viable in the absence of tourism. They also retain access to services such as health and education that would not otherwise be viable. For instance, local schools remain viable while parents and young adults can find work in the local area and primary health care (especially GPs) remains in areas where tourism operators and visitors create sufficient demand.

Recent research (Taylor Baines and Associates, 2001) shows the positive impact of tourism on small economies traditionally dependent on primary production such as agriculture, fishing, forestry and mining. Populations are stable or increasing in areas where traditional resource based industries have been replaced by tourism and have declined in areas where tourism activity is absent or low. Tourism activities play an important stabilising part in these small economies, for instance providing opportunities for other economic activities to compensate for fluctuations in seasonally based activities. Tourism also provides opportunities for alternative or complementary use of resources. Rural tourism is a good example of opportunities for farmers to expand and diversify the use of their asset base. With investment in business and workforce development, these communities can shift their economic focus away from traditional extractive activities.

3.3 Contribution to Maori Economic Development

The New Zealand Tourism Strategy 2010 notes the value and unique contribution that Maori make to the tourism sector and recommends that Maori engage in tourism. Maori culture is a key point of difference for New Zealand as a destination and Maori images are widely used in Government funded and other tourism marketing campaigns. The increasing international interest in indigenous tourism, coupled with visitors' interest in opportunities for authentic interactions with destination cultures, provides a basis for Maori tourism development. This international interest comes at a time when Iwi with considerable resources, such as Ngai Tahu, Ngati Porou, Tainui and others, are increasingly looking to tourism as a way to achieve social and economic goals.

Current Maori involvement in tourism and, therefore, access to tourism benefits, remains low. A database of Maori tourism operators developed by Te Puni Kokiri in the late 1990s showed that Maori-owned and/or managed tourism enterprises comprised less than 2% of the estimated total number of enterprises.

Several factors contribute to the marginal position that Maori still have in the tourism industry. Some of that marginality can be explained by the reluctance of Maori to enter the industry before resolving some of the conflicts between tikanga and business. Some can be explained by the inexperience of Maori in business generally and tourism business specifically. Some can be explained by the attitudes of tourism related organisations to Maori tourism products. There is insufficient information about the potential demand for Maori tourism and its potential is often overlooked by organisations facilitating tourism development or promoting products and destinations (Warren and Taylor, 1999, 2001). Current research commissioned by Tourism New Zealand will provide much needed information about demand for Maori tourism products and opportunities for product development.

3.4 Contribution of Tourism SMEs to the Economy

Although there is no comprehensive data about the contribution that tourism SMEs make to the economy, recent research shows it is likely to be significant. The Ministry of Economic Development's research (2002) quantifies the contribution that SMEs in general make to the economy. Although individual profitability is generally low, at an estimated $48,000 per enterprise, the collective impact of SMEs is significant because of their high number. For example, small enterprises with five or fewer FTEs recorded the largest combined profit for 1999/2000 of any enterprise size grouping in New Zealand. SMEs in general accounted for a significant proportion of total employment (42% of all FTEs), created the majority of new jobs and formed 39% of the economy.

The tourism industry is dominated by SMEs.[8] At an individual level, tourism SMEs share similarly low profitability to SMEs in general, but their high number (especially of small enterprises with five or fewer FTEs) means their collective impact on the economy is also

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[8] See the New Zealand Tourism Strategy 2010 for more details.

important. An additional benefit from tourism SMEs is their location in areas where other economic activity has declined.

4. FORECAST TOURISM GROWTH

Recent statistics and forecasts show tourism maturing into an industry with an improved visitor yield (expenditure per person). Forecasts show that the economic impact of tourism will increasingly depend on better yield per tourist (more spending per day and more days per person) rather than solely increasing the number of visitor arrivals. Visitor expenditure (in constant 2001 prices) is forecast to grow at a faster rate than visitor arrivals. Total international and domestic visitor expenditure (excluding day trips) is forecast to increase from $9.5 billion in the year ended March 2001 to $15 billion (at 2001 prices) by 2008, or by 57%. An average annual growth rate of 6.3% is forecast for the 2001- 2008 period.

The relative importance of international and domestic tourism to the economy is expected to shift over the forecast period, to 2008. In 2001, international visitors accounted for 40% of total visitor days, but generated 54% of visitor expenditure. Domestic visitors, on the other hand, accounted for 60% of visitor days but generated 46% of total expenditure. By 2008, international visitors are forecast to generate 65% of the overall projected visitor expenditure, with arrivals forecast to increase from an estimated 2.02 million in 2002, to 2.41 million by 2005 and 2.86 million by 2008[9]. This represents an expected average yearly growth rate of more than 6% over the forecast period. In addition, the average length of stay in 2001, at 21.3 days, is expected to increase to 22.3 days by 2008.

4.1 International Tourism Growth

Much of tourism's higher yield is expected to come from international tourism. The rapid recovery of international arrivals to New Zealand in 2002, after the sharp drop following the 11 September terrorist attacks and the demise of Australian airline, Ansett, provide us with some confidence that these forecasts are credible. However, subsequent terrorist activities closer to home, in Bali (in October 2002), demonstrate the uncertainty of tourism development. While the growth in international visitor arrivals in 2001 did not match the extreme (11.2%) increase of 2000, the increase was still a healthy 6.9%, despite these unanticipated crises. 2002 arrivals to date show the markets recovering more quickly than expected. And it may be that future tourism growth is even greater than anticipated if international visitors look for safe destinations and New Zealanders choose to stay at home.

There are already signs of improved earnings from international tourism. International visitor expenditure, which more than doubled in the 10 years to 2001, is increasing at a faster rate than visitor arrivals. At the same time, the average length of stay trend is also increasing. In the forecast period (2001-08) the number of international visitor days is expected to increase by 56% overall, with Auckland benefiting the most. International visitor spending is projected to increase from $5.5 billion for the year ending March 2002 to $9.7 billion by 2008 (2001 prices), an average annual real growth rate of 9.3% (compared with a 6.3% annual increase in visitor numbers).

The importance of international tourism varies across the regions. The current domination of international visitors amongst the total visitors to Auckland is forecast to continue to 2008. The relative importance of international visitors to the total visitors in Canterbury, Otago, Wellington and the West Coast is also forecast to increase, to comprise up to half the total visitor numbers. In all the other regions, domestic visitors are forecast to remain dominant.

4.2 Domestic Visitor Growth

Although future growth projections for domestic tourism are lower than for international visitors, visitor expenditure is still expected to increase steadily. The projected domestic growth is primarily attributed to expected increases in the number of trips New Zealanders will make, rather than their length of stay. New Zealanders made 16.4 million trips in 2000 and are estimated to have taken 16.5 million trips in 2001. The number is forecast to increase to 20.9 million by 2008. That represents an average annual growth rate of 3.4%.

Slight increases in domestic visitor nights are also forecast. New Zealanders generated an estimated 49.4 million domestic visitor nights in 2001, slightly down from the 49.9 million of

[9] Tourism Research Council, 2002. New Zealand Tourism Forecasts 2002-2008.

2000. Visitor nights are expected to reach 51.7 million in 2002, increasing to 58.9 million by 2008. This growth, which will be fairly evenly spread across the regions, represents an average annual increase of 2.3%.

The length of stay for domestic visitors is forecast to fall slightly, from 3.04 days in 2001 to 2.81 days in 2008. This fall is consistent with overseas trends of people making more frequent, but shorter, short-haul trips.

4.3 Tourism Growth Compared to Growth in Other Sectors

Tourism forecasts suggest that the industry's contribution to GDP will grow at a rate that exceeds the economy in general and other industry sectors in particular. General expectations are that the New Zealand economy will continue to grow at around 2.5-3.0% per annum, compared with forecast tourism growth of around 6.3% per annum. These forecasts imply that other industry activities that make up the balance of the economy will grow at significantly slower rates. Also, given the indirect impacts of tourism activity and, therefore, its contribution to other industries such as manufacturing, agriculture and horticulture, construction and financial services, the forecast tourism growth is required to underpin the broader economic growth.

5. INDUSTRY INITIATIVES TO ENSURE SUSTAINABLE GROWTH

In addition to Strategy 2010, the tourism industry has embarked on a number of initiatives to ensure that growth forecasts are achieved. These include the expansion of Qualmark, the Quality Tourism Standards process, Green Globe and the development of the Small Business Toolkit and the Community Tourism Planning Guide. The initiatives are consistent with the Ministry of Tourism's recent Briefing to Incoming Ministers (August 2002), which reiterates the industry's need to focus on quality. These initiatives aim to address the entrenched seasonality of the industry as well as improving the quality of visitor experiences and are already having a positive impact. The industry has been successful in extending the shoulder periods beyond the traditional October to April visitor season, increasing international visitor expenditure, and refocusing the industry on quality rather than quantity. However, there is further need to extend the tourism season and improve the visitor yield to volume ratio, particularly through focusing on increasing the quality of tourist products and services. Two of these strategies, the Quality Tourism Standards process and the expansion of Qualmark, specifically aim to improve product quality and visitor safety. These are described below.

The Quality Tourism Standards process has largely been driven and funded by tourism operators. The process began in 1993 when operators first met to discuss the development of an assurance programme for the adventure sector. The strategic and operational development of the programme was led by the former Adventure Tourism Council and is now led by the Tourism Industry Association (TIA). Most of the initial funding for developing the concept (1993-98) came from operators supporting the role of the Adventure Tourism Council, and funding has come more recently from TIA. From 1998 to 2001 the Adventure Tourism Council invested between $10,000 and $15,000 per year of operators' money to further develop the programme and, over the past two years, TIA has allocated approximately 30% of a full time equivalent position to further development.

The development of each Quality Tourism Standard (QTS) varies according to the complexity of the sector needs. For example the Trekking QTS has taken less development time than the Flight Seeing QTS. On average, operators commit at least 100-200 hours each, with each sector's involvement ranging from 4-10 operators in core reference groups. Operational costs (attendance at meetings, loss of revenue opportunities) have been largely borne by operators. As well as direct input into the development of Quality Tourism Standards, operators also spend considerable time on related issues such as the development of training standards, (with ATTTO) and ongoing discussions with regulatory authorities such as the Department of Conservation.

The expansion of the Qualmark brand beyond the accommodation sector is another important step towards developing a tourism industry focused on higher quality and meeting visitor expectations. Government has recognised the importance of expanding this scheme in its recent investment of $2.4 million over three years. The scheme will provide visitors with information about visitor products and services against recognisable standards. At the same time, the scheme will encourage and provide guidelines to operators so that they can improve product and service quality to satisfy Qualmark endorsement criteria. The scheme's success will depend on a significant proportion of tourism operators, particularly SMEs, having the capacity to fulfil the requirements to gain Qualmark endorsement.

6. THE NEED FOR GOVERNMENT INVESTMENT

The industry's capacity to achieve the growth forecast and generate the economic benefits anticipated depends on the success of initiatives like those described above. Their success will depend on building capacity both at the enterprise level (particularly in SMEs) and at individual employee level. However, features of the tourism industry, coupled with the rate and type of tourism growth forecast, present the industry with special problems in meeting its enterprise and workforce development needs. This final section of the case for more training funding outlines both the special features of the industry that require it to seek greater government contribution to training and the wider benefits to New Zealand of such strategic government intervention. This section will discuss:

- the seasonal nature of tourism and associated costs to enterprise profitability and workforce instability;
- the large number of small operators (SMEs) and their limited business capacity;
- the predicted rapid growth of the industry;
- the need for more Maori involvement in tourism;
- mismatch between current levels and types of industry training funding and industry needs;
- the wider economic benefits of investing in tourism training.

6.1 Seasonality, Enterprise Profitability and Work Force Instability

The highly seasonal nature of visitor demand works against the industry's need for more skilled staff to meet agreed quality standards. Meeting the criteria for Qualmark endorsement is just one example of the general product and service quality standards that operators will have to meet. The seasonal nature of tourism, with the associated cash flow problems, low profitability and high turnover of staff, makes it difficult for individual enterprises to recruit or train the staff they need. In the high season, operators lack time and in-house skills to provide training or release employees for training (which also incurs opportunity costs). In the low season, many operators lack the cash and no longer have the staff. In addition, it is likely that they are engaged in other employment or business activities to compensate for lower or zero tourism earnings.

The high staff turnover, coupled with lack of time and money, acts as a disincentive for businesses to provide staff training beyond that needed for the immediate season. Labour supply, particularly skilled labour supply in the hospitality industry, is a problem pervading the international tourism industry. Other tourism destinations forecasting growth rates similar to those of New Zealand, including the US, Ireland, the UK, South Africa and some Asian countries, are already experiencing staff recruitment and retention problems. Operators find it difficult to recruit appropriate staff with the required competencies, skills and attitudes and face high staff turnover, with many employees leaving the industry altogether.

Other factors related to tourism add to staff recruitment and retention problems. These factors include the unsociable work hours, poor pay and conditions, poor career structure, casualisation of the workforce, a shortage of affordable housing, a cultural paradigm that equates customer service with servitude and lack of recognition of transferable and generic skills within the tourism industry and in relation to other industries.

The seasonality of the industry also means that staff have little incentive to invest in their own skill enhancement. Employment is often short term, the hours of work and the work location often preclude them from participating in training away from the workplace and low wage levels and high accommodation costs make training costs prohibitively high.

The problem of staff receiving training and leaving for employment elsewhere exists in all industries, and is one reason for government support of education. However, the problem is likely to be particularly severe in an industry like tourism, where there are high numbers of small businesses, low profitability, high growth and high staff turnover. The high probability that benefits of staff development will be captured by subsequent employers acts as a disincentive for small businesses to fund training.

Strategies to address these problems include creating a culture in the industry that is attractive to young people, as well as providing career structures underpinned by structured tourism-related education and training opportunities. The Ministry of Tourism, in its Briefing to Incoming Ministers (August 2002), stresses the importance of the “soft” infrastructure of skilled people and resources to the achievement of the goals set out in the Strategy 2010.

6.2 Small Businesses, Limited Business Capacity and Training Budgets

In service sectors like tourism, one of the factors that distinguish successful business (i.e. those that grow) is their capacity to develop competencies in a wide range of different areas. However, many tourism SMEs are owned and/or managed by first time business operators who often lack basic business skills and experience, are unfamiliar with service-oriented industry and/or are motivated to enter the industry for life style as much as commercial success. Surveys of rural, heritage and urban tourism enterprises show SMEs' turnover is generally low and many businesses are not profitable or only marginally profitable. One indication of this lack of profitability is owner-operators taking of personal drawings. If they take any, they are likely to be low and, more often than not, are supplemented by other income sources. This need for other income also undermines operators' ability to focus on quality.

It is difficult for SMEs to access training because costs and time requirements are very "lumpy" and disproportionately high compared with larger enterprises. Further, costs of training are even less affordable when businesses are not profitable. Profitability is difficult to achieve in an industry shaped by the seasonality of tourist demand. As such, the tourism SMEs seldom have dedicated training budgets, which means that Government strategies to share costs of work force and enterprise development with business are less relevant. The training cost barrier is borne out by the Ministry of Economic Development (2002) and BERL-NRB-Massey Consortium (2001) research, which found that most people running SMEs value the "freeness" of courses, particularly for those in small businesses, those at entry level and those few Maori and Pacific Island people in business.

Providing in-house training is also difficult for small businesses because owner/operators often do not have the skills or time (or skills to manage their time) available.

The Ministry of Economic Development (2002) and the BERL-NRB-Massey Consortium (2001) point out the implications of low business capacity in SMEs for business development. Managers and staff need to be multi-skilled but businesses are constrained in the way they respond to these needs. Small businesses have limited time and money to invest in seeking assistance. However, in New Zealand the lack of business capacity is coupled with a pervasive culture of self-help and independence amongst SMEs, which compounds the barriers to business development. One manifestation of this is the number of tourism SMEs who do not recognise the need for or benefits of skills and training targeted to the enhancement of product and service quality. A majority of small heritage and urban tourism operators were generally dismissive of the need for training, particularly in service management, in recent surveys.[10]

6.3 Industry Growth and Training Needs

Forecasted growth in international and domestic tourism implies significant expansion of current tourism capacity through a mix of new product development, consolidation and expansion of current products and new business start up. Although business turnover will continue during the current forecast period (to 2008), there is likely to be a net gain in the number of businesses, of which the majority are likely to be SMEs. Tourism growth will also lead to significant expansion in the size of the tourism work force, which is currently estimated at 94,000, most of whom currently hold a mix of low and medium level occupational skills. The tourism work force is forecast to increase, commensurate with the overall growth of the tourism industry. Visitor expenditure is forecast to increase 57% by 2008. Up to 90% of new jobs are expected to require occupational skills. The implications of these estimated increases and skill needs for enterprise and work force development are considerable.

As discussed in the previous section, the industry has made considerable investment in initiatives designed to improve visitor experiences and extend the tourist season. However, projected growth will also require a larger number of skilled employees so that more demanding quality standards can be met. There are already signs of recruitment problems in the industry, particularly with regard to staff with occupational skills, and high staff turnover is an ongoing feature of the industry. Training requirements will depend on the ratio of staff turnover to business growth. If, for example, an industry has 5% staff exit from the industry and 2% growth, then it needs to train 7% of staff each year, but if it has 20% staff exit from the industry and 7% growth, then it has to train 27% of staff every year.

The above scenarios for training needs in tourism show that the industry is at the very high end of the training needs continuum. It has very high training needs because of high staff turnover rates and high levels of growth. However, its capacity to invest in business and work force capacity

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[10] These surveys were carried out by the Centre for Research, Evaluation and Social Assessment in 1999 and 2001.

building is limited in the short term. Timely government intervention, through investment in training, would enable the industry to maintain forecast growth. That tourism growth is forecast to eclipse other slower-growing industries with lower rates of turnover means that re-allocating training funding in favour of the tourism industry makes economic sense.

6.4 Lack of Maori involvement in tourism

The need to increase Maori involvement in tourism is well accepted. Research that focuses on Maori tourism highlights the barriers Maori face in pursuing tourism opportunities and the things that need to happen to better enable their participation in the industry, particularly as owners, operators and managers. Amongst the five key barriers and impediments to Maori participation in tourism identified in the *He Matai Tapoi Maori* study (Stafford Group, 2001) was the lack of training and education of Maori in tourism and tourism related careers. Maori who participated in the research identified this lack as they most important barrier, followed by their lack of understanding of the industry.

Amongst the recommendations that the "He Matai Tapoi Maori" report made was facilitation of Maori access to more tightly defined business skills and tourism training courses, in environments conducive to learning for Maori. The report stressed the need to ensure that courses are relevant to industry and Maori needs, that Maori are made aware of them, that provision is made for continual up-skilling of graduates, that courses are linked to mentoring and networking programmes and that emphasis on quality rather than quantity.[11] Other research also highlights Maori operators' need for training, but also shows the potential for high take up, given their greater appreciation of the need for and benefits of training compared with other operators (Warren and Taylor, 1999 and 2001). The NZTS 2010 also stresses the need for development strategies that address the lack of targeted training and education and the need for business development support for new and existing businesses. Courses need to be accessible, in terms of cost, content and provider, and need to be relevant to Maori needs.

[11] The "He Matai Tapoi Maori" report provides more detailed advice on the training needs for Maori tourism (p.79-82).

6.5 Mis-match Between Training Provision and Industry Needs

It would be efficient to focus Government investment in training where it will achieve the most benefit. However, there is currently no analysis available as to relative benefits of training in tourism as opposed to other sectors. In the absence of such analysis, it seems reasonable to use share of income as an initial basis for share of training funding, with subsequent adjustment for other factors. Tourism already makes a significant contribution to GDP and regional economies, and is forecast to grow at a rate that is faster than the economy overall and, therefore, most other industry sectors. As such, the industry will play an increasingly important part in national and regional economic growth. While the industry is making substantial investment in extending the tourist seasonal and increasing the quality of visitor products and services, it cannot make the training investment necessary to meets its human resource needs. There is a case to be made for Government to make up this shortfall, in recognition of tourism's economic benefits and its special needs, given the composition of the industry and the workforce.

An examination of the allocation of current industry training funds, administered by Skills New Zealand, shows that tourism training is under-funded. It is under-funded relative to its current and forecast size, economic contribution, skills shortfall and importance in the economy relative to other industries. It is difficult to be exact about the proportion of current funding that is going to tourism because tourism includes not only the Aviation, Tourism and Travel Training Organisation (ATTTO), but also part of hospitality, transport, retail and recreation Industry Training Organisations (ITOs). The industry appears to get only about 4.4% of current training funding, including portions of retail, hospitality, road transport and recreation (see the table in Appendix 1). However, it currently directly and indirectly generates around 9.7% of national GDP, and this proportion is rising.

The ATTTO is the ITO that represents three interrelated sectors. Since its inception in 1994, ATTTO has focused on facilitating workplace training but, since 1999, the organisation has placed increasing attention on increasing the uptake of industry training, particularly in tourism and travel. The ATTTO works with industry, training providers and workplaces to develop qualifications for ensuring people are effective and efficient in the industry, that training quality standards are maintained and that work based training is supported. ATTTO operates across the full range of workplaces included in its industry coverage statement.[12] These include:

Adventure Tourism	Museums
Attraction Guiding	Rental Vehicle Operators
Casinos	Tour Leadership
Conventions and Incentives	Visitor Information Centres.
Excursion Guiding	

ATTO has grown considerably, but its training allocation still falls short of industry needs. In 1998, it had 230 workplace trainees of whom 46% were in tourism and the balance in aviation. In October 2002, the number of trainees had grown more than ten times (to 2,693), with a greater proportion (55%) in tourism. As well, 13% are in aviation and 32% are in travel. The growth in trainee numbers has not been matched by commensurate growth in funding. The 2002 funding allocation from Skill New Zealand (at funding for 1325 trainees) funds only half the number of ATTTO's actual workplace trainees. As a consequence, ATTTO is limited in the support that it can provide to workplaces, of which most are SMEs.

[12] The industry coverage currently approved by the Board of Skill New Zealand and Gazetted is as follows:

Aviation – aeronautical engineering, aircrew operations, aircrew training, control of aircraft operation, commercial operations, airport operations and aviation ground support services.

Tourism – tourism elements in the operation of museums, attractions, adventure providers, event and conference organisers, retailers, rental car operators, campervan operators, railways and ferries (tourism related activities), regional tourism offices, promotion Boards, visitor information centres, local bodies and casinos.

Travel – travel agents, reservation services, tour wholesalers, inbound and outbound operators principal and booking offices.

The current shortfall in tourism training funding, relative to the industry's economic contribution and work force development needs, is exacerbated by training provision that can be misdirected. Some of SMEs' general disaffection with formal training arises from government funding of courses that do not necessarily meet the needs of the tourism industry. For example, the Ministry of Education funds pre-employment education through courses offered by polytechnics, PTEs and universities. Because the industry has little input into the planning and approval of these courses, the skills gained often do not meet the needs of employers and the funding allocated precludes funding going to more relevant tourism industry training.

While current funding arrangements allow the flexibility needed to meet the industry's training needs, the funding level precludes ATTTO from reaching sufficient numbers of SMEs. It also limits the direct funding available to enable the level of on-the-job and other less formal training required by SMEs. Such on-the-job training is usually based around specific job performance that contributes to the day to day running of the business. The Modern Apprenticeship Scheme, at a broader level, is an initiative that recognises the realities of small business operation in New Zealand. In addition, the value of formal training that assumes SMEs are profit and growth oriented is also not immediately obvious to owner/operators who are as likely to value job satisfaction and other life style qualities as commercial imperatives.

Research shows benefits to regional economies as well as to the tourism industry from training programmes that are relevant to industry needs. Benefits are not restricted to productivity and profit, but also to higher levels of value-added activities, increased flexibility amongst employees and greater ability to innovate. The greater the focus of the training on the needs of the business, the higher the returns, because the training acts as a support mechanism for other change, particularly technological change and new ways of working.

6.6 Regional Economic and Other Benefits of Training

Investment in tourism training will contribute to Government's objective to strengthen regional economies. The experience of the Australian tourism industry is that the benefits of training strategies are widely dispersed. The tourism industry benefits because the collective improvement of individual products enhances the overall image of the industry, thus attracting investment. Employees benefit because they perform their role better, are more motivated, get more work satisfaction, and have more opportunities for advancement in the industry and elsewhere.

Customers benefit from higher quality service, having their needs and expectations met and, given tourism operators increased capacity to meet safety and other compliance systems, being in a safer environment. And importantly, local and regional economies benefit because other businesses are typically attracted to areas where hospitality and tourism facilities develop, thus further diversifying and strengthening the economic base (Burgess, 1997).

There is a demonstrated value in targeting training in a particular industry to promote training in SMEs in general. Section 3.4 outlined the significant contribution that SMEs make to economies in general and the significant contribution they make to the New Zealand economy in particular given that they comprise a comparatively larger proportion of the economy. Therefore, even limited growth and improved profitability will have major economic impacts. Research has shown the benefits of targeting industries where competitive advantage comes from product quality and customer service. The New Zealand tourism industry is a logical industry to target, because of its current focus on high yield growth based on product quality and customer services.
Features of the tourism industry strengthen its capacity to contribute to work force and business development in other industry sectors. Research (Warren and Taylor, 1999 and 2000) shows that people 'cut their teeth' as SME operators in the tourism industry and may go on to other business opportunities or employment in other industry sectors. Because there are few entry-level barriers, people entering the tourism industry are often first-time business operators who combine their tourism business with other business activities and/or employment in other industry sectors.

In addition, tourism is often the entry point for people entering or re-entering the workforce. There is anecdotal evidence that young people use tourism as a stepping stone to other employment and older people, particularly women, come back into the workforce through low level jobs in the industry. This evidence is backed up with statistics that show that people with no or low qualifications are getting jobs in the industry (See Tables 1 and 2 in Appendix 2). In addition, these employment opportunities are often located in provincial areas in which other employment is difficult to access. Tourism based training provision provides the opportunity to give people who have fewer employment opportunities the broad skill sets that could be used to move on to other work settings inside and outside of tourism. Many of these people require more training funding to bring their skill levels closer to the national average.

7. CONCLUSIONS

Growth forecasts for tourism means the industry will play an even greater part in national and regional economies. That tourism is forecast to grow at a substantially higher rate than the economy as a whole (6.3% increase in tourism compared with a 2.5-3% growth in the economy as a whole) means that its relative importance will increase. Already, tourism contributes 9.7% of GDP, through direct visitor expenditure and tourism related activities in other industry sectors.

Tourism will underpin wider economic growth. The industry has shown itself to be robust and resilient, as evidenced by sustained and steady growth over a long period and rapid recovery after the worldwide fall off of tourism activity in the wake of the September 11 terrorist attacks. Much of the forecast growth in the economy as a whole will depend on forecast tourism growth. Tourism, especially at a regional level, provides an important platform for other industry growth in both the primary and secondary production sectors.

Much of tourism's future growth is predicated on higher visitor yield, based on higher quality products and services. Key elements to achieving such yield-based tourism growth are appropriate product and infrastructural development as well as capacity building at enterprise and employee levels. The tourism industry has made substantial investment in Strategy 2010, the expansion of Qualmark and other initiatives that support tourism's progress towards becoming an added value industry. However, it is unable to make sufficient investment in capacity building to ensure that the industry can perform as required to achieve forecast growth.

Investment in tourism training is needed to both prepare the industry for the yield based growth forecast and to ensure that the industry provides the stable economic base, especially at a regional level, which enables growth in other industry sectors. However, the characteristics of the industry, comprising a majority of micro enterprises and seasonal fluctuations in activity, and the workforce, typified by high turnover, low skills and wages, mean that the industry is not well placed to recruit staff with the required skills or provide the necessary work place training. Both owner operators and individual employees are unskilled and share difficulties in accessing appropriate work place training.

It makes sound economic sense for Government to invest in tourism training as benefits go beyond the tourism industry. As well as providing an important platform for regional development, tourism acts as an entry point for many young people entering the labour force, for people, especially women, returning to the workforce, and for people setting up small businesses for the first time. Thus tourism provides opportunities for government to invest in labour force and enterprise development that can also be captured by subsequent employers in tourism and other industries.

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APPENDIX 1: SKILL NEW ZEALAND FUNDING FOR 2002 INDUSTRY TRAINING

STMS CONTRACTED

ITO	Total Contracted 2002	% allocation
Agriculture	3,054	13.19%
Ambulance	93	0.40%
Apparel	221	0.95%
ATTTO **(93% Tourism)**	500	**2.0** 2.16%
Boating	130	0.56%
Builders	1,545	6.67%
Building Service Contractors	110	0.47%
Community Support	674	2.91%
Competenz (NZEFMITO)	3,016	13.02%
Contracting	674	2.91%
DCCITO	70	0.30%
Electricity Supply	1,218	5.26%
Electrotechnology	1,924	8.31%
Equine	87	0.38%
Extractives	603	2.60%
Fire & Rescue	285	1.23%
Flooring	115	0.50%
Forestry	2,788	12.04%
Furniture	140	0.60%
Gas & Petrochemical	284	1.23%
Hairdressing	890	3.84%
Horticulture	318	1.37%
Hospitality (**37% tourism)**	860	**1.3** 3.71%
Joinery	159	0.69%
Leather	56	0.24%
Local Government	64	0.28%
Motor	1,766	7.62%
NZITO (Dairy)	1,000	4.32%
Painting	143	0.62%
Plastics	184	0.79%
Plumbers	940	4.06%
Power Crane	60	0.26%
Printing	208	0.90%
PSTO	550	2.37%
Retail Meat	200	0.86%
Retail Training (**8% tourism)**	600	**0.20** 2.59%
Road Transport (**18% tourism)**	1,198	**0.93** 5.17%
Seafood	480	2.07%
SFRITO **(say 30% tourism)**	1,482	6.40%
Sports Turf	152	0.66%
Te Kaiawhina	382	1.65%
Total	**29,223**	
Tourism		**4.4%**

Note: The Tourism percentages are drawn from the "industry ratios" given in the tourism satellite account. In the case of road transport, 74% of passenger transport is tourism but only 20% of road transport is passenger transport.

APPENDIX 2: TOURISM WORKFORCE QUALIFICATIONS

Table 1: Educational skills in tourism and other sectors 1996

	Less than 6th form qualification	Other School Qualification	Low-medium tertiary Qualification	High-level tertiary Qualification
Retail trade	51	21	20	8
Accommodation	49	18	21	13
Cafes, bars etc.	45	26	19	11
Road passenger Transport	64	10	19	7
Sorts and Recreation	39	22	22	18
Total New Zealand	**44**	**15**	**20**	**20**

Table 2. Educational skills in tourism related industry sectors 2001

	Less than 6th form qualification	Other School Qualification	Low-medium tertiary Qualification	High-level tertiary Qualification
Retail trade	42	29	7	9
Accommodation, cafes, bars etc.	37	32	9	11
Culture and Recreation	26	30	7	9
Total New Zealand	**35**	**22**	**9**	**23**