



**Tourism
Industry
Association
New Zealand**

Tourism Industry Association New Zealand

Tourism Industry Briefing to the Incoming Government

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The purpose of this paper is to brief you from an industry perspective on the nature of the tourism industry, some of the pressing issues facing the industry, and the steps that might be taken to resolve these issues.

About Our Association and Industry

The Tourism Industry Association New Zealand (TIANZ) represents the interests of over 3,500 businesses in the tourism industry.

Tourism is a \$14 billion industry and generates 15.8% of New Zealand's exports. The tourism industry employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises. Not only is tourism important because of its size. It is also:

- Highly employment intensive;
- Regionally dispersed;
- Has the flexibility to change its target markets quickly as conditions change;
- Can offer a good return on investment.

The tourism industry in New Zealand consists of approximately 16,500 small and medium sized businesses. Of these businesses, 13,500 employ fewer than five people.

New Zealand welcomes almost two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. TIANZ estimates that over 75 million visitor nights are spent by New Zealanders every year.

This document considers a range of issues that are currently affecting the tourism industry and sets out a series of recommendations that central government (working with the industry) can take to help resolve these issues.

Key Issues

TIANZ was party to the development of the New Zealand 2010 Tourism Strategy. Significant progress has already been achieved in implementing this Strategy. We acknowledge the strong support central government has provided in resourcing initiatives that address the Strategy's recommendations.

Overall, TIANZ is committed to working with other stakeholders to ensure that this progress continues.

Other issues that TIANZ is concerned with include:

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Marketing New Zealand to achieve high yield

In the past, there has been an emphasis on attracting large numbers of overseas visitors to New Zealand. There has recently been a shift in focus away from an emphasis on visitor volume towards promoting higher visitor expenditure. This shift has been necessary to maximise the return that New Zealand gains from each visitor, while taking the steps to prevent the congestion and environmental problems that are caused by the rapid growth in visitor numbers in some popular regions.

Each year, the tourism industry invests approximately \$2 Billion in capital into the industry. Expensed activities such as wages and salaries (\$2B), advertising, sales promotion and customer relationship building complement this capital. Industry does focus on its own objectives of satisfying customers and thereby satisfying shareholder value. At the same time, the degree to which it can amplify the public good investments (such as National Brand building and overseas marketing) is of vital importance to the success of the tourism industry in New Zealand.

TIANZ supports the offshore marketing activities of Tourism New Zealand where they target and preserve the traditional high-value overseas markets such as the United States, Japan, Australia, Germany and the United Kingdom. We also support initiatives that develop new niche high value markets, but not at the expense of promotional efforts in traditional markets. All initiatives should 'dovetail' effectively with the initiatives of local authorities, Regional Tourism Organisations and other organisations involved with tourism.

At the same time, over 60% of tourism in New Zealand is generated by domestic travellers. This particularly involves: sightseeing; camping; the attendance at events and conferences and business travel. Domestic travel provides a solid foundation for the industry and helps sustain the tourism products and services that are enjoyed by international visitors to New Zealand. In many cases, domestic travel is also a valuable import substitution industry as New Zealanders travel at home rather than overseas.

TIANZ advocates:

- An ongoing commitment by central government to Tourism New Zealand and an ongoing budget that reflects the increased sophistication of our offshore marketing. A three year ongoing rolling funding commitment would help match industry's interests
- Initiatives that encourage New Zealanders to choose to travel within New Zealand, to reduce foreign exchange "leakage" out of the country.
- A commitment by central government and its agencies to fully consult TIANZ prior to making any strategic decisions in relation to New Zealand's offshore and domestic promotion strategies.

Environment management of our national assets

The tourism industry has long recognized the importance of the environment to tourism. TIANZ has been involved in a number of key initiatives involving tourism and the environment, and the New Zealand Tourism Strategy 2010.

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TIANZ was instrumental in introducing Green Globe 21, in 2001. This initiative is a world-wide programme that promotes sustainable tourism business practices. We continue to run this programme in association with the Ministry for the Environment / Ministry of Tourism / Zero Waste / Local Government.

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TIANZ has also developed a resource (Community Tourism Planning Guide) for the development and implementation of tourism in small communities. This Guide is based around the triple bottom line (economic, social, environmental) approach to developing tourism. The guide provides a framework for development and a 'toolkit' approach to resolving issues.

There are a number of key issues facing tourism and the environment that will need resolution in the short term.

- The development of Limits of Acceptable Change or similar techniques for managing social and environmental use of public conservation lands.
- The acceptance by Central Government (Conservation / Ministry for the Environment) and Local Government of the positive environmental and social benefits of tourism.
- An integrated approach to planning and resource and environmental management by both local and central government. Currently there are many compliance issues that both inhibit and fail to integrate positive initiatives developed by tourism.

TIANZ advocates:

- For targeted research to develop Limits of Acceptable Change for managing social and environmental use of public conservation lands.
- The promotion of a wide-spread acceptance of the positive environmental and social benefits of tourism through its submissions on statutory plans, key resource management issues and continuing advocacy for tourism.
- TIANZ seeks major changes to the Department of Conservation's Standard Operating Procedures for concessionaires. The Department has recently started to accept some of the suggestions but progress has been slow. TIA will continue to lobby for integration of tourism initiatives in these processes where they support benefits to the social and physical environment.

Reducing red tape and regulation as a constraint

The compliance costs of business remains a continuing issue for the tourism industry. We acknowledge that the government responded on 18 December 2001 to the Business Compliance Cost Panel's report and has taken some steps to reduce some areas of 'red tape' for businesses.

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However, based on research undertaken by Business New Zealand, there has been a continued increase in compliance costs (and taxes) over the past three years including:

- Local authority rates increases at twice the rate of inflation during the years 2000 and 2001.
- Fuel tax increases of four cents a litre to pay for further investment in transport infrastructure.
- Increased ACC charges including loss of no-claims discounts, premium increases, and increased ACC levies for company vehicles.
- The introduction of paid parental leave, which will increase recruitment and training costs for businesses.

While we acknowledge that these new costs are associated with the introduction of new policies in the previous term of government, TIANZ is concerned that such costs are being introduced into the economy at a time when government is attempting to reduce the costs of doing business in New Zealand.

We note that further increased costs are in the 'pipeline'. Expected changes to the Holidays Act (to introduce time and a half payments on statutory holidays) and Health and Safety legislation (introducing higher fines and potential higher liability for businesses) will introduce further new compliance costs for businesses.

TIANZ urges the government to reconsider the Panel report and intensify its commitment to reducing, and not increasing compliance costs.

TIANZ advocates:

- A renewed commitment by central government to a reduction in compliance costs (and 'points of contact') for small businesses.
- That the government should not pass any new legislation/amendments to any existing legislation that imposes any new compliance costs on businesses.
- That the government will fund new transport projects through rediverting funding already collected from road users but diverted to the consolidated fund.

Kyoto Protocol and climate change

TIANZ's support for voluntary initiatives that address climate change issues is backed up by our involvement in the development of the 2010 Tourism Strategy

Recommendation Eight of the Strategy states that:

MFE, OTSp and TIA, on behalf of private sector operators, develop and promote resource use efficiency initiatives and environmental management systems to achieve agreed international benchmarks (including carbon neutrality) by 2010.

TIANZ has already been pro-actively involved in introducing new voluntary initiatives to the tourism industry that work towards meeting Recommendation Eight. One initiative is Green Globe 21. Approximately 200 companies and one community (Kaikoura) are now affiliates and this number is still growing. TIANZ has also been involved with the EBEX21 programme led by Landcare Research.

TIANZ has purchased carbon credits to neutralise its unavoidable greenhouse gas emissions for the annual series of member roadshows, and we will be doing so for all of our future events. Overall, TIANZ recognises that it has an important role to play in raising the awareness of environmental issues such as climate change, within the tourism industry, and to take a lead in work that addresses these issues.

Earlier this year TIANZ was very concerned that central government had not undertaken any detailed analysis of the impacts of Kyoto on the tourism industry. Accordingly, TIANZ commissioned Lincoln University and Landcare Research to undertake a full impact analysis on the tourism industry and the sectors within our industry.

Our analysis of this research has found that ratification and the policies required to meet New Zealand's commitments (including the imposition of emission taxes) will cost the industry directly and indirectly an extra \$114M per annum over and above existing expenses. These costs will necessarily come out of profits, reducing profitability in an industry containing many businesses that are already struggling to make a profit. Businesses in the transport, attractions, adventure tourism and accommodation sectors will be most affected by emission taxes.

Other findings from this research include:

- Transport is responsible for 70% of the energy use of tourism. There will be significant impacts on the sub-sectors of tourism such as transport and some parts of adventure tourism, where the total (direct and indirect) costs could be as high as 4 percent of valued-added.
- Although international air travel is not included as part of the Protocol at this stage, New Zealand could be severely affected by the integration of international air travel into international agreements. TIANZ is concerned that, well before the commencement of the first commitment period, attention will be turned to including international air travel within the Protocol. Our research shows that the average tourist travel distance to New Zealand is 12,900km one-way. This raises concerns that in the longer term New Zealand may be less competitive as airfares become relatively more expensive than airfares to other tourism destinations that are closer to our major sources of visitors.

TIANZ is particularly concerned that:

- Ratification of the Protocol has been rushed through without adequate industry analysis. This means that there is insufficient data to enable industry sectors to develop appropriate strategies to maintain and grow their businesses in a "Kyoto" environment.

- Businesses engaged in voluntary initiatives such as Green Globe 21, which work towards the objectives of Kyoto, will be hit by a ‘double whammy’ of costs: their investment in the initiative, and also the blanket carbon taxes imposed on them by the government. This not only financially penalises businesses, it also provides a disincentive for them to invest in such initiatives. TIANZ believes that this would go against the government’s intentions to encourage businesses to operate in an economically, socially and environmentally sustainable way.

TIANZ advocates:

- Central government, through the Ministry of Tourism (and other central government agencies), undertake a detailed sector-by-sector analysis of the likely impacts of Kyoto on the tourism industry, and develop some strategies that can be used by industries to adapt to the new framework brought in by Kyoto. Such work should be undertaken in close consultation with the tourism industry.
- Central government revisit its current proposals so that industries (or groups of firms, or individual firms) may receive exemption from paying carbon taxes where they are already involved in a voluntary initiative that works towards a defined reduction in carbon initiatives. We suggest that there must be a focus on greenhouse gas emission reduction, not energy reduction. Kyoto is not an energy issue but a climate change issue.

Proposed changes to the Holidays Act

In the previous Parliamentary term, central government proposed amendments to the Holidays Act. These contain major proposals including the requirement that all employees who agree to work on any of the 11 statutory public holidays receive payment at the rate of time and a half for their work, as well as a day in lieu.

While TIANZ welcomes any steps that are taken to simplify this complicated Act, we are concerned at any proposals to reintroduce penal rates. Tourism is a 24 hours a day/ seven days a week industry and the reintroduction of penal rates could have notable consequences for our industry.

TIANZ has surveyed members to gauge the potential impacts of such proposals on tourism businesses. The results from this survey (based on 135 businesses) indicate that:

- If penal rates were introduced, there would be a 11% drop in the number of people employed on statutory holidays.
- 69% of businesses would increase charges for services on statutory holidays. Some businesses referred to the idea of imposing a “holiday surcharge” on their services.
- 40% of businesses would reduce staff hours on statutory holidays.
- 38% of businesses would reduce service levels on statutory holidays.
- 6% of businesses would reduce their opening hours on statutory holidays.

- Only 8% of businesses who responded to our survey said that penal rates would not affect their business.

In summary, the reintroduction of a requirement to pay penal rates could reduce output, reduce the number of positions available in the tourism industry, and would require some businesses to pass increase wage costs onto consumers.

TIANZ advocates:

- That proposals to introduce the mandatory payment of penal rates not proceed any further.
- That employers continue to be encouraged to negotiate mutually acceptable conditions (while respecting minimum wage rates and other minimum employment conditions) with employees and prospective employees that reflect demand, business conditions and the nature of the tasks performed.

Local Government in Tourism

There is a symbiotic relationship between tourism and communities. Supportive communities enable tourism to flourish in local areas, and enable the creation of a supportive environment for tourism. At the same time, tourism provides employment, business activity and enhances the local rating base of local communities. Tourism potential can also be a catalyst for the development (and funding) of amenities and enhanced public spaces in local areas.

Overall, there are wide public benefits that accrue to local areas that support tourism.

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TIANZ believes that local government has a definite role to play in promoting tourism activity in local areas. In particular, this role should extend to:

- Providing and funding (but not necessarily managing) core infrastructural services that are the building blocks for economic development. Such services include: water/wastewater (funded through pay-for-use charges); local roads; public amenities and community beautification. TIANZ strongly rejects the notion that any particular section of the community (including tourism operators) should be targeted for rates to pay for facilities that other sections of the community also use.
- Engaging in regulatory practices that ensure sustainable communities while facilitating tourism activity that is consistent with the principles of sustainability.
- Raising community awareness of the many benefits that can be gained from a vibrant tourism industry.

Although the provision of core infrastructure has historically been seen as the domain of local government, TIANZ is aware that some local areas do not have sufficiently robust rating bases to generate the funding to provide adequate infrastructure to support economic development (including tourism) in their areas. This led to the concept of enabling (through Rating legislation) the imposition of a specific local authority rate on the accommodation sector being raised earlier this year.

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The concept of a 'room rate' has been considered and has been 'put to rest' by central government. On the basis of fairness and logic, the Labour Party as a coalition partner in the previous government rejected proposals by the Local Government and Environment Select Committee to introduce a 'visitor stay unit' rate in the then Rating Bill. Accordingly, a Supplementary Order Paper was prepared containing recommendations to remove this proposal. These recommendations were passed by Parliament and that is the end of the matter.

At the same time, there are many popular areas where congestion, water quality, public amenities, waste water and roading require improvements that exceed the rating base of local communities. Such areas include: Abel Tasman National Park, Milford Sound, Queenstown and parts of the West Coast. TIANZ believes that fresh thinking is needed to develop acceptable ways to fund the infrastructure needed to support our national and regional economic development through tourism.

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Central government collects approximately \$1 Billion in GST receipts from tourism per annum, of which approximately \$600 million is from export income. We question why some of this tax on 'exports' is not used to invest in local public infrastructure that supports tourism.

TIANZ believes that central government, as a major tax benefactor from tourism, has a responsibility to invest judiciously in local infrastructural assets that support tourism. This view is supported by Recommendation 40 of the New Zealand Tourism Strategy which states that: *Central and local government and the private sector develop a model and agree on roles and responsibilities in relation to tourism infrastructure needs.* Central government funding can be used to ensure that quality infrastructure can be provided in areas where poor rating bases limit the extent and quality of infrastructure provided. Such expenditure would complement the \$2 Billion a year capital expenditure being made by the private sector (based on figures obtained from the Tourism Satellite Accounts).

TIANZ advocates:

- That central government urgently begins a work programme to explore how central government tax revenues raised from tourism can be used to fund local public infrastructure that supports tourism.

Local Government Bill

TIANZ is concerned at proposals (the Local Government Bill) made by central government in its previous term to introduce new legislation that enhances the general powers of local government, through a "power of General Competence". These proposals, viewed in parallel with the Rating Act passed earlier this year, raise the spectre of higher rating demands with fewer constraints on local authorities than there have been in the past.

We are also concerned that:

- This Bill creates opportunities for local government to intrude in private sector markets using compulsory funding obtained from its ratepayers. We do not accept that this Bill currently provides sufficient strictures on local authorities to prevent this situation from occurring. In particular, we do not accept that the three-year election cycle is an adequate foil for our concerns.

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- Consultation processes proposed in the Bill are vulnerable to capture by special interest groups within communities leading to decisions that may not reflect the views of the majority of electors. TIANZ also believes that the consultation procedures require further strengthening to require councils to more actively seek the views and input from those in their community that they know will be affected by any of their plans or proposals.
- There is the absence of an appeal authority for residents and ratepayers, to enable those aggrieved by council rating decisions to lodge a formal appeal.

TIANZ advocates:

- The establishment of a Local Government Ombudsman that would investigate complaints by residents on the process councils used to make any decision. Such complaints would need to be made on the basis that a local authority had not followed a reasonable process to ensure that any resident being affected by a council decision had been given a fair opportunity to comment on proposals in advance of the final decision being made; or
- The Local Government Commission being given these powers.
- Stronger consultation procedures that require the sectors of the community that stand to be most affected by particular local authority decisions to be consulted on those proposals, well in advance of any final decisions being made.

Biosecurity

The level of biosecurity in New Zealand is important to the on-going sustainability of our tourism industry. As well as being a significant user of New Zealand's natural and physical resources, the tourism industry directly benefits from a high level of environmental quality and biodiversity. Unsustainable or damaging behaviour to our environment has the potential to cause disruption to our industry.

Tourism can play a role in helping to sustain the environment, through initiatives such as undertaking research and development into sustainable environments, and the Green Globe initiative that encourages environmentally friendly tourism business practices.

At the same time, the tourism industry is made up of businesses. These businesses are competing in a competitive market. Therefore, the issue of compliance costs is important to our industry.

TIANZ supports sound biosecurity policies that manage and minimise risks to New Zealand's environment while keeping compliance costs to a minimum.

TIANZ advocates:

- Efficient border control processing that preserves and maintains New Zealand's biosecurity at the lowest possible cost. The benefits of biosecurity accrue to the whole country and the costs of border control throughout the country should be met by central government.

- High standards of service to passengers entering New Zealand, by well-trained, friendly and culturally sensitive staff, using the latest technology
- Seamless processing by a single border agency.
- Enforcement backed up with an effective education programme to generate a high level of awareness of the delicate nature of New Zealand's biodiversity, and the important role visitors have in helping to minimise these risks.
- Regular, formal discussions between stakeholders (including the tourism industry) and central government on biosecurity issues to improve the quality of decisions made, and the effectiveness of biosecurity initiatives.

Smoke-Free Environments

TIANZ recognises the importance of a smoke-free framework to both employers and employees, and for society at large. It is now clear that 'passive smoking' has a very real and detrimental effect on those who choose not to smoke.

However, there are technical details within the Supplementary Order Paper (SOP) that might affect the ability of major accommodation providers to provide rooms in which smoking is permitted.

In most hotels, rooms are not ventilated separately. This means that the SOP would regard hotel rooms as "common airspace" by definition. Hotel rooms are also workplaces for some people i.e., room service staff and cleaners and other employees. We are concerned that clause 2 of the SOP and the new sections 5A and 5B would result in large accommodation complexes being captured under the definition of 'common airspace'. A consequence is that if one employee, at any time, objected to smoking in rooms designated as 'smokers rooms', the employer would not be able to allow smoking in those rooms.

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TIANZ is concerned at the business implications of such legislation. From an international perspective, if a number of accommodation providers were prevented by this legislation from being able to offer 'smoker's rooms', New Zealand's ability to attract some overseas tourists who do smoke could be severely affected.

TIANZ has calculated an estimate of the expenditure of overseas visitors to New Zealand, who smoke, from key overseas markets.

This analysis shows that:

- The visitors to New Zealand who smoke clearly make an important contribution to the New Zealand economy.
- Our analysis of the value of the key markets shows that visitors, who smoke, from these markets are likely to contribute in excess of \$1.3B annually to the New Zealand economy.

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- Some markets that have a high prevalence of smoking (especially Japan, Thailand and Singapore) have a high rate of visitor expenditure per visit. This makes 'smoker' visitors from these countries especially valuable to New Zealand.

TIANZ advocates:

- That this SOP be amended so that its provisions do not apply to rooms in accommodation establishments. This would ensure that accommodation providers could continue to provide 'smoke-free' or 'smokers' rooms for their clients, while preventing the consequences of passive smoking in areas that are genuinely in 'common airspace'.

Education and training

TIANZ has welcomed the establishment of the Tertiary Education Commission (TEC), and the development of the Tertiary Education Strategy. New Zealand has previously been without a coherent and integrated system of education, instead relying on supply as a key driver for the provision and funding of tertiary education services. TIANZ has supported a return to a tertiary education system that is aligned to the needs of both industry and the wider community.

We also acknowledge the increased funding allocated to tourism education, albeit that this funding came off a low base. TIANZ strongly supports the role of the Aviation, Tourism and Travel Training Organisation as the ITO for the tourism industry. This ITO serves as "guardian" of industry qualifications, providing quality education and training and the promotion of pre-employment and workbased training.

TIANZ itself is referred to in one of the recommendation on industry training in the Tourism 2010 Strategy. Recommendation 37 states that:

TIA works with Skill NZ to obtain a larger proportion of industry training funding.

As TEC will be assuming the functions currently performed by Skill New Zealand, we believe that a commitment by the Commission to consult with tourism industry representatives prior to approving and funding any tourism courses will ensure that tourism courses are provided that meet the needs of our industry.

TIANZ advocates:

- the establishment of a formal mechanism that enables TEC to formally receive input and advice from the tourism industry on the purpose and composition of tourism related courses (including aviation, tourism and travel), prior to such courses being granted approval and funding.

Research and Statistics

TIANZ supported the efforts of central government during its previous term to dedicate a higher level of resourcing to research on the tourism industry, and the refining of existing tourism statistical data sets. These efforts have included the establishment of a Ministry of Tourism, and the Tourism Research Council of New Zealand. TIANZ has developed positive and useful relationships with the Ministry and the Council and we now regard the Ministry as a tourism 'portal' to the rest of central government.

We also acknowledge recent work by the Ministry such as the development of a research and development work programme, and the review of core tourism data sets undertaken in association with Statistics New Zealand.

Notwithstanding this recent progress, TIANZ believes that further issues to be resolved including:

In particular, TIANZ is concerned about the adequacy of resourcing within the Ministry of Tourism, given the many challenges facing tourism and its sustainability over the next decade.

TIANZ advocates:

- Reviewing the scope, activities and budgets of the Ministry to ensure that they enable the Ministry to tackle a work programme that addresses the emerging tourism issues including: sustainability (economic, social and environmental); tourism's role in regional development; natural resource management (including national park management). Such issues should be resolved in a way that promotes sustainability while maintaining and growing the revenues that are generated by tourism in New Zealand.

In Conclusion

TIANZ looks forward to discussing these issues with you in the near future, and offers its services to assist you in making progress to resolve these issues, to the benefit of the tourism industry, and the country as a whole.

*Tourism Industry Association New Zealand (TIANZ)
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