

Tourism



This document is a guide to the Tourism portfolio and provides a summary of key issues and themes for the next few years. It accompanies the Ministry of Economic Development's briefing *Advancing Economic Development* which provides an overview of its thinking about economic development policy.



Contents

Page 3	Chief Executive's Introduction
Page 4	The Ministry of Tourism
Page 5	Tourism in the Economy
Page 5	> Overview of the tourism industry
Page 5	– International tourism
Page 6	– Outbound tourism
Page 6	– Domestic tourism
Page 6	> Opportunities and challenges in a growing sector
Page 6	– Strategic directions for the tourism sector
Page 7	> Key issues in tourism policy
Page 7	– Establishing the funding requirements for effective off-shore marketing
Page 8	– Increasing tourism yield
Page 8	– Addressing inbound tourism quality issues
Page 8	– Labour and skills requirements
Page 9	– Enhancing the quality of tourism offerings
Page 9	– Upgrading infrastructure
Page 10	– Improving environmental practice in the tourism industry
Page 11	Tourism Data, Forecasting and Research
Page 13	> Key issues in tourism research
Page 13	– Viability of the research programme
Page 13	– Dataset enhancement and risks
Page 15	Investment in Tourism Growth and Development
Page 15	> Tourism New Zealand
Page 16	> New Zealand Māori Arts and Crafts Institute
Page 16	> Investing in major events
Page 17	> Managing tourism properties
Page 17	> Tourism Facilities Grants Programme

Page 18	Appendices
Page 18	‣ Appendix 1: Legislation
Page 18	– New Zealand Tourism Board Act 1991
Page 18	– Tourist and Health Resorts Control Act 1908
Page 18	– New Zealand Māori Arts and Crafts Institute Act 1963
Page 19	‣ Appendix 2: Key industry stakeholders
Page 19	– Tourism Industry Association New Zealand
Page 19	– Inbound Tourism Operators Council
Page 19	– New Zealand Hotel Council
Page 20	– Hospitality Association of New Zealand
Page 20	– Regional tourism organisations
Page 20	– Major corporations
Page 20	– Local government
Page 21	– Māori regional tourism organisations
Page 22	‣ Appendix 3: A snapshot of tourism sector performance

Introduction

This document is a guide to the Tourism portfolio and Vote:Tourism. It summarises key issues and themes for the next few years. It will be supplemented by separate papers as required.

It accompanies the Ministry of Economic Development's briefing *Advancing Economic Development*, which outlines the key issues Ministers need to consider when devising their strategy to raise New Zealand's rate of economic growth. Our current Ministry profile describes the Ministry's five strategic priorities and the work being done to progress them. It also profiles our organisational structure and provides contact details for our key managers.

The issues and outputs covered by this briefing are handled by the Ministry of Tourism, a semi-autonomous body within the Ministry of Economic Development. Day to day responsibility for these issues has been delegated to Ray Salter, General Manager, Ministry of Tourism.



Geoff Dangerfield
CHIEF EXECUTIVE



Ray Salter
GENERAL MANAGER

The Ministry of Tourism

The Ministry of Tourism was established in January 2002 as a semi-autonomous body within the Ministry of Economic Development. The Ministry has a mandate to provide policy advice direct to the Minister of Tourism. It currently has 24 staff and a budget of \$6.9 million.

As the Ministry of Tourism is a part of the Ministry of Economic Development, under the Public Finance Act and State Sector Act, the Chief Executive of the Ministry of Economic Development is accountable for all aspects of its performance. The authority to give effect to the Ministry of Tourism's mandate therefore sits with the Chief Executive. The Chief Executive gives effect to the Ministry's mandate by delegating to the General Manager the responsibility to provide policy advice and other contracted services direct to the Minister of Tourism, including developing and signing the annual output agreement.

The total budget for Vote: Tourism is \$86 million, which includes \$62.3 million for Tourism New Zealand, \$10 million for Emirates Team New Zealand for the America's Cup challenge and funding for two grant programmes.

The Ministry administers the whole Vote and provides support for you in three main areas: policy advice, research and managing government's investment in the tourism sector.

Policy advice covers new policy initiatives and advice on initiatives from other departments.

Research covers the provision of research, data, analysis and forecasting.

In terms of your investment in the growth and capability of the tourism sector, we provide advice and administer funding in a number of areas. Most importantly, we advise you on the performance of Tourism New Zealand (TNZ) and the New Zealand Māori Arts and Crafts Institute (MACI), which are the two entities that you are responsible for within the Tourism portfolio. We also manage the process of government investing in major events, tourism facilities and other tourism-related infrastructure.

Tourism in the Economy

Tourism plays a significant role in the New Zealand economy. In the 2004/05 year, it contributed, directly and indirectly, \$12 billion to the total New Zealand GDP, equating to 9.4%. It was also responsible for 18.5% of New Zealand's total export earnings. This places tourism as the largest export earner, ahead of other key export product groups such as dairy, meat and wood. Tourism also accounts, directly and indirectly, for one in ten jobs in the New Zealand workforce.

Overview of the tourism industry

Tourism contributes to the wider wellbeing of New Zealand in the following broad ways:

- › **Regional economic benefits** – Tourism is a major economic driver in regional New Zealand, distributing benefits widely, providing employment and improved earnings for regional businesses.
- › **Environmental protection** – New Zealand's unique natural environment is a core component of its tourism value and appeal. Preserving and enhancing New Zealand's environment are goals consistent with, and necessary for, the continued success of tourism. Tourism provides an economic rationale for the pursuit of these goals.
- › **Community services and facilities** – The facilities and activities sought by tourists are also those desired by local residents. Accordingly, tourism provides local and regional government, and businesses with the demand necessary to sustain higher-grade hospitality, recreation, sporting, entertainment and leisure facilities and services.

International tourism

Recently, international tourism has been one of New Zealand's best performing export sectors. In the decade between 1992 and 2002, visitor arrivals grew at 6.8% per annum and visitor expenditure increased even faster.

In the last two years, the advent of low airfares in the trans-Tasman and Pacific routes helped boost visitors numbers. In the last two years, the high New Zealand dollar, visitors making shorter length visits, and the decrease in education visitors kept international tourism revenue flat. However, the medium- to long-term outlook for tourism remains positive. International arrivals are forecast to increase by an average annual growth rate of 4.7% – a pattern of continued strong growth consistent with the historic growth pattern of the past three decades, and international expenditure is forecast to increase \$9.6 billion in 2011, an average growth rate of 6.2% per annum. These forecasts reinforce the increasing importance of tourism within the New Zealand economy.

New Zealand experiences strong seasonal variation in the number of international arrivals, with visitor numbers strong over the summer months. Understanding this demand pattern, and helping the industry to manage it, is a crucial issue. One of the key challenges is to develop initiatives that minimise or accommodate seasonality effects, by targeting particular markets or developing shoulder or

winter season tourism products and services. For instance, the mid-winter rise in international holiday arrivals reflects the growing importance of the ski industry as a winter tourism activity.

New Zealand's top seven inbound markets are Australia, UK, USA, Japan, South Korea, China and Germany. They accounted for 72% of total international visitor expenditure in 2004. Australia, the largest market, contributes 23% of the expenditure.

Outbound tourism

New Zealand outbound travel has had strong annual increases over the decade 1992 to 2002. In the last two years, low airfares to Australia and the Pacific Islands, and the strong New Zealand dollar gave an exceptional boost to overseas travel. The seasonal pattern for overseas travel by New Zealand residents is largely influenced by public holidays and school holidays, and Christmas travel. Australia is overwhelmingly the most popular destination, followed by Asia, Fiji, the US and the UK.

Domestic tourism

Domestic visitors provide a strong base of demand for many tourism products and services, with the total domestic travel expenditure reaching \$9.8 billion in the year to March 2004. Private households contributed almost 85% of the total, with business and government sectors making up the rest.

Domestic tourism is growing at a slower rate than international tourism and, consequently, international tourism will account for an increasing proportion of total expenditure. Domestic tourism demand in the last two years has been flat, probably because of the very strong outbound travel, particularly to Australia, by New Zealand residents.

Opportunities and challenges in a growing sector

International tourism arrivals are forecast to continue to grow at a significant rate; our current forecast to 2011 is 4.7% growth. Strategic work is necessary to ensure that the economic benefits to New Zealand from this projected growth are maximised, while ensuring that tourism activity is sustainable over the long term. Balancing the economic, social and environmental dimensions of the sector will be a challenge, as will maintaining our global position as a desirable destination for the high-value visitors we seek to attract.

Strategic directions for the tourism sector

In recent years, government has played a strong catalytic role in the tourism sector. A New Zealand Tourism Strategy 2010 was developed as a guiding document for the tourism sector and this has facilitated on-going industry and government partnership.

The Strategy established an overall direction for the tourism sector:

- › **a sustainable yield-driven strategy** based on growing tourism demand and financial returns while enhancing the quality of the visitor experience and New Zealanders' quality of life.

The tourism strategy defines specific goals in four areas of the sector:

- › **Securing and conserving a long-term future for tourism** – including environmental protection, increasing Māori participation, promoting New Zealand's heritage and fostering community good will.
- › **Marketing and managing a world-class visitor experience** – including building a compelling brand, establishing New Zealand as the destination of choice in our target markets, optimising the regional and seasonal spread of benefits and providing stronger market leadership.
- › **Working smarter** – including improving sector business capability, more coordinated government commitment, and increased sector cooperation.
- › **Being financially and economically prosperous** – to achieve greater financial contribution and economic growth for tourism, with flow-on effects for New Zealand as a whole.

A key means of implementing the strategy has been through building partnerships with other government departments, local government and the private sector.

The Ministry, which continues to play an important role in ensuring that the strategy stays relevant, plans to undertake a full review in the future. This will involve working with key stakeholders to review progress to date, and to consider whether new priorities, or even a new direction, need to be established.

Key issues in tourism policy

Ensuring the right policy settings to enable the tourism sector to perform effectively is a key Ministry goal. Our policy objectives are focused on making sure that the sector makes a major, sustainable and growing contribution to New Zealand's economic development.

The key issues in the tourism portfolio are set out below.

Establishing the funding requirements for effective off-shore marketing

In the 2005 budget, New Zealand was allocated a one-off boost of \$8.9 million for additional offshore marketing this year. The decision was conditional on a review of the agency's marketing baseline being undertaken in advance of the next budget cycle. (Since 1999, Tourism New Zealand's underlying environment has been a fairly static baseline, with one-off packages for specific activities in recent years.)

Most central governments play a role in marketing to international visitors in off-shore marketing campaigns, though the level of funding and extent of industry partnership varies widely. Establishing appropriate levels of funding for this output is fundamental to ensure that off-shore marketing maintains New Zealand's position as a desirable holiday destination in the global tourism market.

Accordingly, a baseline review of Tourism New Zealand's off-shore marketing function commenced in 2005. This review is aimed at establishing the baseline funding requirements for the off-shore marketing undertaken by Tourism New Zealand over the next 10 years to achieve continued growth and development of the tourism sector.

Increasing tourism yield

The New Zealand Tourism Strategy 2010 advocates a focus on increasing the yield from tourism, over increasing the numbers of tourists that visit. Work is under way to assist the tourism sector to grow yield, both through a three-year research programme aimed at advancing our understanding of how to increase yield, and through developing relevant performance indicators for investment in the sector. This work will form one of the bases for a mid-term review of the New Zealand Tourism Strategy in 2006/07.

Addressing inbound tourism quality issues

China is a key emerging market in the tourism sector, and our positioning in this market has the potential to have significant spill-over effects for other sectors as well. However, changes in the China market pose a challenge to efforts to grow yield. One of the reasons is that the leisure group tour sector of the market is plagued by extreme cost-cutting practices, a heavy reliance on overpriced commission-based souvenir shopping, and the tour operators' and their suppliers' failure to comply with New Zealand regulations. As a consequence, New Zealand tourism product is perceived in China as expensive and low quality.

The Ministry is working with other agencies to develop a medium-term action plan to address these quality issues. Potential solutions revolve around increasing the effectiveness with which New Zealand regulations are enforced, tightening of the current Approved Destination Status system implemented by the New Zealand Immigration Service and providing forward guidance for tourism marketing activity in that market.

Labour and skills requirements

The tourism sector directly employs nearly 6% of the New Zealand labour force and, indirectly, closer to 10%. The Tourism Workforce and Skills Projections Report (November 2004) forecast that the sector's labour requirements would total 34,000 new employees to meet the growth requirements of the sector and a further 90,000 to address turnover within the industry over the next seven years. When placed within the context of New Zealand's current and expected future tight labour market conditions, these requirements pose a significant challenge for the tourism industry.

Some of the key challenges for the sector are:

- › the predominantly small scale of businesses, which lack the resources to invest in training
- › low barriers to entry, relatively low wages and limited career development paths, which can result in a high rate of turnover in employees

- › a fragmented training and education sector in its approach to tourism requirements.

Given forecast growth of the sector and international visitors' increasing expectations, a good alignment between the skills and talent needed within the tourism sector and the volume and relevance of the offerings of the training sector is critical. The tourism sector must also develop a focus on productivity improvements, an area closely linked with the concerns outlined above on increasing the tourism yield. We are working with a leadership group, drawn from the industry, to develop strategies to assist the sector to move towards higher skills and higher productivity. The broad goals of this work are better aligning and managing the supply and demand of skills, and increasing the workforce's productivity and sustainability.

Enhancing the quality of tourism offerings

Ensuring visitor satisfaction requires that the expectations of tourists and the type or quality of product on offer by the tourist sector are well aligned. Research has demonstrated that there is currently a gap of unfulfilled demand for high-quality indigenous and cultural tourism products.

We are driving a range of initiatives aimed at lifting the quality of the tourism offering by building general business capability, and by lifting Māori tourism capability to better meet unfulfilled demands identified by high-yield visitors. Initiatives include increasing the flow of relevant research information to Māori tourism operators and facilitating business assessments and business mentoring opportunities for existing Māori tourism operators.

Assessment and mentoring services are offered to Māori tourism operators through the Māori Tourism Facilitation Service, a Ministry of Tourism initiative delivered through Te Puni Kōkiri. This initiative is only in its first full year of operation. How the initiative develops will depend on feedback and results of this year's work.

Upgrading infrastructure

Developing regional infrastructure is critical for the sector's continued growth and to ensure the tourism experience meets the higher expectations of high-yield visitors. Investing in infrastructure is also fundamental to managing risks that could pose threats to future sector growth.

In 2004, Vote: Tourism was allocated \$11m, spread over three years, to assist small communities with high tourism volumes to invest in water and sewerage infrastructure to sustain their tourism industry. Twenty-one communities in seven districts have been approved to receive grants totalling \$620,000 to help them prepare their final applications to the Tourism Demand Subsidy Scheme. These will be assessed in late 2005.

Improving environmental practice in the tourism industry

New Zealand's national parks and conservation lands are key destinations for both international and domestic visitors. Statistics show that a key reason tourists visit New Zealand is for our landscape (91%), with over half of the international tourists visiting the conservation estate during their stay. This makes our landscape the prime catalyst for the visits that underpin the success of our tourism sector.

There are two key challenges for tourism in terms of the management of the conservation estate. The first is the risk of exceeding the carrying capacity at icon sites. Crowding and overuse can detract from the quality of visitor experience and, consequently, visitor satisfaction. This challenges the sustainability of our current success. The second is that increasingly discerning visitors expect to see tourism businesses "walking the talk", with sustainable business practices that protect the natural environment.

Because enhancing our environmental performance is of prime importance for tourism, we are working with both the Department of Conservation and the Ministry for the Environment. We work with Conservation to ensure the conservation estate is sustainably managed and its environmental values, upon which tourism relies so heavily, are retained. The environmental non-governmental organisations and the tourism industry are also engaged in this work area with Conservation and ourselves. Our partnership with the Environment Ministry supports environmental best practice by developing sustainable tourism charters within the tourism sector. As tourism operators hold nearly one third (1500) of all Department of Conservation concessions, there is good leverage to impact on this area through the tourism sector.

MONITORING RISKS TO INTERNATIONAL TOURISM FLOWS

It is essential that we continue to monitor risks to international tourism flows and the industry generally, and be in a position to respond. For the short and medium term, these risks include:

- › changes in the value of the New Zealand dollar
- › the activities of country competitors such as Australia, which has recently increased its investment in off-shore marketing
- › natural disasters
- › terrorism and national security
- › international health scares – we are participating in the whole-of-government, contingency planning, lead by the Ministry of Health, in respect of Avian Influenza
- › the impact of escalating energy costs on airfares
- › airline route capacity issues.

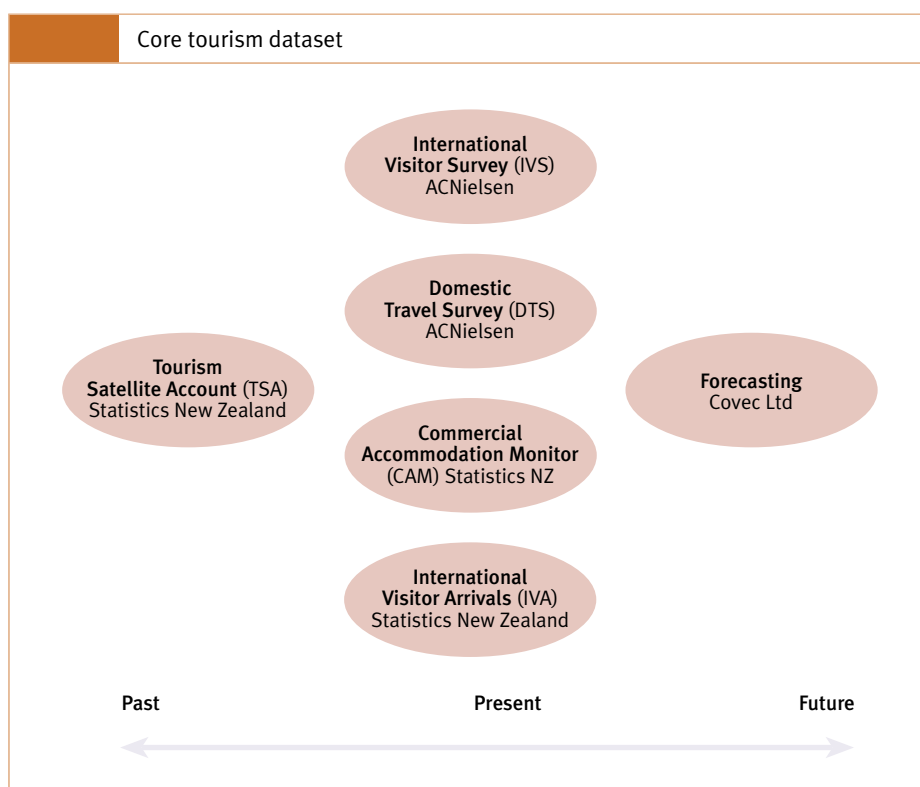
Tourism Data, Forecasting and Research

Decisions affecting tourism are taken by a wide range of stakeholders, including central and local government, tourism businesses, the financial sector and regional tourism organisations. Over recent years, we have established a high-quality programme specifically designed to address the information needs of these stakeholders.

From a fragmented and incomplete system, we have developed a data, forecasting and research programme that is widely regarded as world leading. In particular, our data resources and forecasts provide comprehensive, accurate and timely information to support decisions taken across the sector. The understanding of the tourism sector as a vital part of the New Zealand economy has been fundamentally improved since this information has been in place.

We are mindful that the research programme itself is a work in progress. There are resource issues around data procurement, in building the research capacity of the sector, and in maintaining the critical regional-level data from the commercial accommodation monitor (refer **Key issues** section below).

The cornerstone of the programme is the core tourism dataset (refer Figure 1 below). The responsibility for this dataset has been vested with us in recent years and we manage the tourism datasets as a system to increase consistency and quality.



From this database, the Ministry prepares an extensive body of analysis and communication material. The one-stop-shop Tourism Research Council of New Zealand website (www.trcnz.govt.nz) contains the latest data and analysis, and it allows users to manipulate data to do their own investigations. A series of publications, including an annual forecasting booklet, an annual update of the tourism data and the monthly *Tourism Leading Indicators Monitor*, are published and distributed widely throughout the sector.

The Ministry has invested considerable effort in developing a research programme that is designed to address information deficits across the sector – for instance, in the key areas of tourism economics, knowing our customers, tourism flows and regional data. The following four key projects are being advanced in 2005/06 to address these knowledge gaps:

- › **New Zealand tourism flows model** – This will use the tourism data to map actual and forecast tourism activity using a geographic information system. This approach will greatly enhance the way data is used to tell tourism stories, identify congestion points and support business and local government planning processes around the provision of services and infrastructure. Desk top roll-out will be in late 2005, with the potential to make it a web-based system later.
- › **Enhancing economic and financial yield in tourism** – This is a three-year partnership project led by ourselves and the Tourism Industry Association, with a number of industry sponsors also contributing. This partnership will enable us to assemble new information on how tourism works in the economy and develop tools to ensure we can maximise benefits from tourism, with an emphasis on growing yield over visitor numbers in a way that is consistent with the Tourism Strategy. Lincoln University is the lead researcher.
- › **Regional data collection** – This is a partnership between the Ministry of Tourism, Tourism New Zealand and six regional tourism organisations and is designed to generate better knowledge on motivations and satisfactions of travellers at the regional level (the Tourism Research Council’s key priority areas). This approach will ensure aligned methodologies that will allow benchmarking and analysis. Commencing in October 2005.
- › **Analysis programme** – The Ministry is developing its data analysis programme with key initiatives, including using new data sources such as credit card data, developing new comparative indexes of performance and tailoring of analysis for specific sector groups such as the hotel sector.

The Tourism Research Council provides strategic leadership to our research programme and also sets the research priorities of the tourism sector. It is chaired by Lex Henry, has members from the private and public sectors and is supported by the Ministry. The Council is focusing on improving the quantity and quality of applied research supporting tourism. A number of positions on the Council are, or shortly will be, vacant and will need to be filled. These members are appointed by the Minister of Tourism.

The Ministry contributes to the research programmes of other members of the tourism sector. For instance, Tourism New Zealand has a substantial research programme designed to support its international marketing activities and we are working to align our International Visitor Survey and Domestic Travel Survey to ensure we collect information consistently. We also contribute towards a number of projects funded by the Ministry of Research, Science and Technology and, where possible, aim to integrate their research findings into our programmes.

Key issues in tourism research

Viability of the research programme

There are a number of issues to be addressed to ensure the sustainability and development of the research programme:

- › The Ministry of Tourism's 2005/06 research budget drops significantly in out-years, the implication being that key initiatives underway, including the Tourism Flows Model, regional data collection and analysis programmes, will not be able to be supported in out-years. These projects deliver on TRCNZ's identified tourism research priorities, and our inability to sustain these will be a significant risk. As such, long-term funding levels to support the applied research programme need to be addressed.
- › Costs for the core tourism dataset are subject to price movements, and funding increments are required to ensure the scope and quality of data is maintained. Statistics New Zealand has signalled that the cost of the *Commercial Accommodation Monitor* will increase from \$322,000 to \$549,000 in 2006/07, to provide for overhead expenses incurred by Statistics New Zealand in conducting this project.
- › There is limited scope to address funding for tourism research through the government's science pool. Funding from the Foundation for Research, Science and Technology for tourism research has reduced to around \$1.1 million, despite the 18.5% contribution tourism makes to New Zealand's export earnings. A fundamentally new approach is needed to address this long-standing issue, including whether a centre of excellence for tourism research could be established and funded.

Together, these issues highlight the need to consider the long-term funding requirements of the Ministry's research programme. While the funding requirements will depend upon the overall strategy to be pursued, the existing budget available beyond 2005/06 will not sustain the current programme.

Dataset enhancement and risks

We have an ongoing programme to enhance the core tourism dataset and to ensure better outputs are produced. There are risks that additional information is already being sought at regional levels, such as by the regional tourism organisations, and at territorial authority level. For respondent load reasons, the *Commercial Accommodation Monitor* is likely to be changed from its current form.

The outcome of this, if realised, will be a substantial loss of regional data. The regional tourism organisations and key industry groups (e.g. Tourism Industry Association, hotels, motels, and holiday parks) are supportive of the current approach and do not support proposed changes.

While the review work around this matter is in progress, it remains a significant risk to the programme. Any loss of data quality will generate considerable negative feedback from the sector and will jeopardise our ability to generate quality regional data and to support fine breakdowns in the tourism flows model.

Investment in Tourism Growth and Development

Government makes a considerable investment in tourism through the work of two Crown-funded organisations, Tourism New Zealand and the Māori Arts and Crafts Institute. The Ministry's role in relation to these organisations is to advise you on government's ownership interest, including appointments to the Board, assessment of the Statement of Intent and Annual Report, and on any major governance or capital issues.

In addition to providing advice on the performance of these organisations, we also administer a number of funds that support development in the tourism sector, in particular, through funding major events and the development of new and improved tourism facilities.

Tourism New Zealand

Tourism New Zealand is the Crown entity responsible for marketing New Zealand as a tourist destination. It was established under the New Zealand Tourism Board Act 1991, to market New Zealand as a visitor destination and to maximise the long-term benefits to New Zealand.

Tourism New Zealand is the major recipient of funds from Vote: Tourism, receiving baseline funding of \$62.361 million (GST exclusive) for the 2005/06 financial year, or 73.9% of the entire Vote: Tourism allocation. This amount includes baseline funding, additional funding assigned to specific work programmes (such as China Trade Training and USA Campaign) and an additional one-off boost for tourism marketing of \$8.889 million.

Tourism New Zealand's dominant focus is international marketing, which includes tourism brand building, advertising and promotion; the international media programme; trade training; participation in trade shows; running an internet site and provision of market research.

The centerpiece of the entity's work programme is implementing a global marketing campaign (100% Pure). The aim of this campaign is to position New Zealand as the ultimate destination among its target market of interactive travellers, so as to increase the value that New Zealand derives from international tourism. As noted, New Zealand's international travellers come from five key markets: Australia, Europe, North America, Japan and Asia. Tourism New Zealand's 13 offices outside New Zealand cater to these customers.

During 2004/05 and the current year, our primary focus has been on improving Tourism New Zealand's accountability documentation and processes. The Crown Entities Act 2004 will impact on the organisation in terms of the quality and depth of strategy and planning information it is required to provide to government in its Statement of Intent. These changes will take full effect in the next financial year.

Tourism New Zealand is governed by a board of up to nine directors, each appointed for a term of up to three years by the Minister of Tourism. The current Chairman is Wally Stone and the Chief Executive is George Hickton. Appointments for four board members will come up for your consideration in 2006.

New Zealand Māori Arts and Crafts Institute

The Institute was established by the New Zealand Māori Arts and Craft Institute Act 1963 (originally Rotorua) with a role to “encourage, foster, and promote all types of Māori culture, the practice and appreciation of Māori arts and crafts, train Māori in Māori arts and crafts, provide demonstrations, exhibitions and performances and assist in the preservation of Māori culture”. The Institute currently sells tourism services in the form of tours of the Whakarewarewa thermal valley, concerts, demonstrations of carving and weaving and retail products. It trades under the brand name Te Puia.

The Crown granted the Institute a perpetually renewable lease over the Whakarewarewa Reserve and part of the Arikikapakapa Reserve and right to collect entry fees. It pays an annual rent for the land. The current Crown equity in it is \$19m. It does not pay any dividends and is tax exempt.

The Institute has a seven-member board, appointed by the Governor-General on the recommendation of the Minister of Tourism. The Chairman is Robert Macfarlane, the Chief Executive is Andrew Te Whaiti. The appointment of one board member will come up for your consideration in 2005. The remaining six will come up for consideration in 2006. Three of these members will have already completed two or more terms.

The Institute faces two key issues.

- › It is wholly government-owned but is not a designated Crown entity. We consider that the requirements of the 1963 legislation places government at undue risk, and we propose that it become subject to the more robust accountability regime in place under the Crown Entities Act 2004.
- › It is proposing a \$23m redevelopment of its site with the aim of enhancing visitor numbers. Visitor numbers have been static at around 500,000 over the last decade. Their re-branding as Te Puia earlier this year was part of a related range of new marketing initiatives to support their expansion. We have been working with the Institute to build its business case for this redevelopment.

Investing in major events

Government occupies a pivotal position in New Zealand’s major event sector, with several government agencies involved in delivering and funding events. Government invests in major events to ensure that New Zealand obtains the significant social, cultural and economic benefits they offer. The two America’s Cup events held in Auckland, for example, are estimated to have generated over \$1 billion in economic activity.

Government invests in events in two broad ways:

- › **Attracting, growing and retaining major events** – The Major Events Development Fund was established to attract, grow and retain major events in New Zealand, or to support New Zealand events off-shore. Decisions on funding are made by an inter-agency group, which includes relevant Ministries and Crown agencies

and brings a whole-of-government approach to the allocation of funding. The Ministry of Tourism chairs the group and provides the secretariat. The Fund has been allocated \$3.4 million each year for the next three years. The inter-agency events group is also tasked with developing a future-focused strategy for the government support of major events, and this is under development. As part of its strategy to date, the group supports the conference and incentive industry through allocating funding for bids to secure these events for New Zealand venues.

- › **Event-specific funding – Emirates Team NZ Challenge** – Government support of the America’s Cup campaign has been significant in the past. In 2004, the government agreed to provide \$34m spread over three years in support of the Emirates Team NZ challenge in Valencia in 2007. In the current year, \$10 million has been appropriated to support the Emirates Team New Zealand campaign in the America’s Cup Challenge. An assessment of the Team New Zealand challenge estimated that \$85 million (excluding GST) would be injected into the New Zealand economy over the 2003-2007 period. As 2007 draws nearer, additional demands for leveraging off publicity around the Cup event are likely.

Government has also made significant contributions for events surrounding films such as *The Lord of the Rings* trilogy.

Managing tourism properties

We manage twelve properties at Wairakei under a Memorandum of Understanding with the Commissioner of Crown Lands. These were residual properties of the former Tourism and Publicity Department that were not sold or transferred in the 1980s.

We also manage Whakarewarewa, Arikikapakapa and Roto-a-Tamaheke reserves in Rotorua on behalf of the Ministry of Economic Development, which holds the statutory responsibility for them.

In Rotorua, two of the properties are occupied – one by the Māori Arts and Crafts Institute and the other by the Rotorua Golf Club.

Our main focus on these properties relates to tourism interests, and in rent received from the occupants for use of these properties – \$369,000 from Wairakei and \$441,000 from Rotorua in 2004/05.

Tourism Facilities Grants Programme

Each year we administer a small discretionary fund for public or private non-commercial organisations to provide or improve a nationally significant tourism facility that will enhance overseas visitors’ understanding and enjoyment of New Zealand. Decisions regarding the successful applicants are made by the Minister of Tourism. The principal aim of the Tourism Facilities Grants Programme is to enhance overseas visitors’ understanding and enjoyment of New Zealand through supporting initiatives that would not otherwise be realised. In 2005/06, \$300,000 has been appropriated for this fund.

Appendices

Appendix 1: Legislation

New Zealand Tourism Board Act 1991

This Act sets out the objective, functions and powers of the New Zealand Tourism Board that governs the Board's operation. The purpose provided is "to ensure that New Zealand is so marketed as a visitor destination as to maximise long-term benefits to New Zealand" and, to this end, the functions are to "develop, implement and promote strategies for tourism" and "advise the government and the New Zealand tourism industry on matters relating to the development, implementation and promotion of those strategies".

The Board must provide the Minister with an annual statement of projected outputs and liabilities for approval, and an accompanying statement of the estimated outcomes. The Minister may direct the Tourism Board to amend its annual statement or issue policy directives for implementation by the Board.

This Act empowers the Minister of Tourism to appoint members of the Board of Directors.

The Tourism Board is a Crown entity for the purposes of the Crown Entities Act 2004. This Act imposes certain requirements on the Board, including a requirement to provide a Statement of Intent and an Annual Report each year.

Tourist and Health Resorts Control Act 1908

This Act provides for government management of natural springs, spa baths and various reserves. It also regulates the removal of mineral water and sulphur from the reserves. Currently it applies to:

- › Arikikapakapa Reserve, which is leased in part to the Rotorua Golf Club and in part to the Māori Arts and Crafts Institute
- › Whakarewarewa Reserve, which is leased to the Māori Arts and Crafts Institute and includes the famous Pohutu geyser
- › Roto-a-Tamaheke, which is unoccupied, consisting of a large boiling lake, mud pools and scrub land.

The Ministry of Tourism monitors and advises the Minister on the use of these lands.

New Zealand Māori Arts and Crafts Institute Act 1963

The Act established the Institute to "encourage, develop and promote all types of Māori culture and the practice and appreciation of Māori arts and crafts".

Members are appointed by the Minister in accordance with the 1994 amendment to the Act.

Appendix 2: Key industry stakeholders

Tourism Industry Association New Zealand

The Association is a membership-based and funded organisation representing the interests of around 3,500 large and small tourism operators. It has a Wellington-based executive, which services the membership and represents the industry on tourism issues. Its Chairman is Geoff Burns and the Chief Executive is Fiona Luhrs.

The Association provides members with leadership, guidance and related services to help foster a viable and sustainable tourism industry. A key part of its role is as an industry advocate with local and central government, and in the media. This allows the industry to communicate and advocate the wider strategic issues affecting tourism businesses and provides an opportunity to assist government decision making and develop solutions to problems. The Association also provides umbrella membership arrangements for other associations such as the Motel Association of New Zealand and the Bus and Coach Association.

The Association also manages three national industry events each year as part of its core business: Tourism Rendezvous New Zealand, the New Zealand Tourism Awards and the New Zealand Tourism Conference.

Inbound Tourism Operators Council

The Council, a trade association, represents the New Zealand inbound tourism industry and allied tourism industry suppliers. Paul Yeo took up the post of Chief Executive in July 2005.

Its stated mission is to “unite all inbound tour operators for the purpose of marketing New Zealand as an internationally competitive tourist destination by promoting and arranging inbound travel of the highest standards through encouragement of development of services, facilities, training and education”.

Members agree to abide by a code of ethics and practice, and the Council assesses its members annually against these standards. It advises that its members process 50% of visitor arrivals to New Zealand.

A subgroup of Council members, the China Market Portfolio Group, is part of the Approved Destination Status for regulating travel to New Zealand from China.

New Zealand Hotel Council

The New Zealand Hotel Council is an incorporated society that represents the interests of over 100 international chain, independent, privately-owned and boutique hotels throughout the country. Its Chief Executive is Jennie Langley, its Chairperson is Steve Kirkpatrick.

The Council represents the interests of its members with key tourism, business, local and central government leaders. It also produces newsletters, regular updates, research reports and forecasts for the industry on the performance of the accommodation sector.

Hospitality Association of New Zealand

The Hospitality Association is a trade association representing 2,000 hospitality businesses. The Association serves as a local and national advocate for its members, providing them with advice on business matters, such as employment and liquor licensing matters, and negotiating purchasing benefits. The make up of the Association membership is diverse and its members employ an estimated 32,000 staff.

Its President is Bill McLean and the Chief Executive is Bruce Robertson.

Regional tourism organisations

There are 30 geographically-based regional tourism organisations. Their primary role is to market and promote their region domestically and, increasingly, internationally. They are mainly funded by district and city councils and also by the private sector and regional councils. The actual mix of private and public funding varies between the different regional organisations. Central government does not provide any direct funding. The organisations' combined income in 2003/04 was \$30.1 million.

The organisations work together in the collective Regional Tourism Organisations of New Zealand, and have recently created this as a formal entity. The Chair of the Regional Tourism Organisation of New Zealand is currently vacant.

Major corporations

A small number of corporate entities involved in tourism are listed on the New Zealand Stock Exchange. The three largest in terms of market capitalisation are Air New Zealand, Auckland International Airport and Sky City. Other listed corporations include accommodation operators CDL Hotels and Kingsgate International, and transport and tour operators Toll Holdings and Tourism Holdings. Gullivers Travel Group and Southern Travel have listed on the stock exchange more recently.

The structure of the industry is overwhelmingly dominated by small and medium-sized, privately-owned firms and individuals. This makes the coordination of the industry particularly challenging.

Local government

Local Government New Zealand represents the interests of territorial and regional local authorities on a wide range of issues, including their involvement in tourism. Local authorities are important stakeholders in the sustainable development of the tourism industry; however, they vary in their understanding of, and commitment to, their roles in tourism.

The CEO of Local Government New Zealand is Eugene Bowen.

Local government plays an active role in the success of the New Zealand tourism industry, through:

- › funding the regional tourist organisations, which are responsible for marketing their region to potential domestic and international visitors
- › providing core utilities and infrastructure such as roads, water, signage, lighting, museums, art galleries, sports stadia and parks
- › through the Resource Management Act, planning and managing for the natural and cultural resources on which tourism depends.

Māori regional tourism organisations

Māori Regional Tourism Organisations are collectives of operators who work together to improve Māori participation in tourism, including the development of quality tourism product and the development of working relationships with regional tourist organisations.

The New Zealand Māori Tourism Society is a national society representing 13 regional organisations (listed below). The Chief Executive of the Society is Johnny Edmonds.

- › Te Tai Tokerau Māori and Cultural Tourism Association Incorporated
- › Tamaki Makaurau Māori and Cultural Tourism Association Incorporated
- › Tauranga Moana Māori Tourism Development Incorporated
- › Māori In Tourism Rotorua Incorporated
- › Central North Island Māori Tourism Organisation
- › Ngati Porou Tourism
- › East Coast Māori Tourism Operators Association Incorporated
- › Hawkes Bay Māori Tourism Charitable Trust
- › Māori Tourism Taranaki Trust
- › Whanganui Māori Regional Tourism Charitable Trust
- › Te Ara A Maui O Aotearoa Tourism
- › King Country Māori Incorporated
- › Te Waipounamu South Island Regional Māori Tourism

In addition to these member organisations, there are some other Māori regional collectives that operate independently of the Society.

The Ministry has worked to promote the development of mutually beneficial relationships between the regional Māori and regional tourist organisations.

Appendix 3: A snapshot of tourism sector performance

- › **International arrivals:**
For the year ended July 2005, there were 2.399 million international visitor arrivals, up 121,000 or 5.3% on the previous year.
- › **Outbound tourism**
The number of overseas trips undertaken by New Zealand residents totalled 1.832 million for the year ended July 2005, up 239,000 trips or 15.0% on the previous year.
- › **International visitor expenditure**
International visitors spent a total of \$6,298 million in New Zealand for the year ended December 2004 (excluding international airfares), a decrease of 1.3% (\$85 million) on the previous year.
- › **Total tourism expenditure**
Total tourism expenditure for the year to March 2004 was \$17.2 billion, up 0.4% (or \$72 million) on last year. It comprised 57% domestic and 43% international tourism expenditure.
- › **Contribution to the economy**
Tourism's direct and indirect value-added contribution to the economy was \$12 billion (excluding GST, import duties and other taxes on production), which was 9.4% of the total New Zealand GDP.
- › **Export earnings**
International tourist expenditure represents 18.5% of New Zealand's total export earnings in 2004. This places tourism as the largest export earner ahead of other key export product groups such as dairy, meat and wood.
- › **Employment**
Tourism is estimated to support directly, and indirectly, 172,000 full-time equivalent jobs, or 9.9% (one in ten) of the total New Zealand workforce in 2004.

