



Response to DPMC request dated 23 December 2021 for feedback on border settings

1. What are the impacts of re-opening in the proposed sequence on your ability to pursue international business opportunities? (i.e. opening to New Zealand citizens and residents in Australia, and then more broadly)

Impact of proposed re-opening sequence – summary

The proposed sequence for re-opening of the borders is unnecessarily harmful to the tourism industry broadly and the hotel sector specifically.

The re-opening sequence:

- Appears to be **susceptible to change at short notice**, which will discourage bookings
- Is **insufficiently detailed** with respect to exactly when international tourists can return to New Zealand and from which source markets, which will discourage bookings
- Is **significantly more onerous than New Zealand's competitor tourist destinations**, such as requiring seven-day isolation on arrival, which will effectively discourage almost all international tourist travel
- Includes no acknowledgment of, or financial support in connection with, the material negative impact on the tourism industry and accommodation sector of continued border restrictions

Impact of proposed re-opening sequence – analysis

As of today's date, Government has provided only a conditioned and indicative timeline for reopening New Zealand's borders to international travellers (as opposed to returning New Zealanders) other than to say that "from 30 April 2022" our borders will open to non-New Zealand nationals "in phases", possibly by visa category.

This formulation of the reopening plan gives most international travellers insufficient certainty to plan and book trips to New Zealand. What does phasing "by visa categories" mean? Will certain source markets open before others? If New Zealanders cannot understand and explain the re-opening sequence with clarity, there is no prospect of international travellers being able to navigate it, especially those for whom English is their second language.

Clear timelines are critical for the travel and tourism industry for a number of reasons including:

- **Sales and marketing:** Timelines are necessary to allow marketing and advertising in key source markets – tourist stays have a long lead time. High-value international travellers on their "once-in-a-lifetime" trip to New Zealand can be expected to make travel bookings months, or even years, in advance of their intended travel dates.
- **Air capacity:** Airlines must open routes and build air capacity.

- **Recruitment and labour:** Hotels currently have insufficient labour to run at full capacity and staff must be recruited and trained for the role. The labour market in New Zealand is already highly constrained and traditional sources of skilled and experienced hotel sector labour – including travellers in New Zealand on working holiday visas – are unlikely to be available at pre-COVID levels.

Government's decision to further delay step 1 (opening to fully vaccinated New Zealanders travelling from Australia) has created additional uncertainty above and beyond the already conditional nature of the 30 April 2022 international reopening date. Travellers and tourism businesses have noted the readiness of Government to adjust re-opening dates at short notice.

Government has given no indication of when it expects the seven-day isolation requirement to be removed, and this will significantly suppress demand.

Government appears not to have made any particular provision to allow tourism industry labour force to enter in advance of "general" border re-opening. Hotel Council Aotearoa has made a number of requests to meet with the Minister of Tourism and Minister of Immigration (or relevant officials) about the *significant labour shortage* that will occur when New Zealand's borders do eventually re-open to international travellers without isolation-on-arrival, but these requests have been turned down. The labour shortage will have a negative impact on the *quality of our tourism offering*.

Context

Prior to borders closing, the overnight accommodation sector generated 55% of its revenues from international travellers. The hotel sector skews even more heavily towards international travellers, because hotel accommodation is typically CBD-located and targeted towards travellers who use public transport routes and stay in city-centre locations while on vacation. New Zealanders tend to self-drive and gravitate towards beach/mountain/lake locations while on holiday. New Zealanders also often stay in privately-owned baches and holiday homes, campsites, motels and cheaper forms of accommodation than hotels.

Domestic travellers in New Zealand are now anticipating inflation and other cost increases in the short term, while at the same time planning for future overseas travel once borders reopen. For these reasons, domestic travellers are now watching their wallets and summer 2021/22 will end up being *even worse* for the tourism and hospitality sector than the summer of 2020/21.

Without international travellers, New Zealand has a massive oversupply of overnight accommodation, and in particular a *massive oversupply of city- and town-centre hotels* (notwithstanding some hotels being effectively repurposed for MIQ work and therefore removed from supplying short-term overnight accommodation).

Demand for overnight accommodation by New Zealand leisure travellers is highly seasonal around school holidays and weekends. Domestic travellers on average spend less per capita than international travellers on the trip of a lifetime – this is true in almost all destinations, not just New Zealand. With outbound travel effectively prohibited through operation of the MIQ booking system, New Zealanders have instead diverted the monies previously spent on international travel towards (a) domestic travel, (b) home renovations, and (c) consumer goods. There has been no like-for-like replacement of international travel expenditure with domestic travel, instead.

The impact of COVID on hotel sector revenues is clearly shown in the [Tourism satellite account: Year ended March 2021 | Stats NZ](#). Results for the 12 months following March 2020 border closures are entirely consistent with information and forecasts repeatedly offered up by Hotel Council Aotearoa and other tourism industry groups about the outsized impact on COVID/border closures on our businesses and workers.

In particular, increased marketing to encourage more domestic travel was never going to fill the gap left by international travellers. The hotel sector’s performance in the nine months since March 2021 has been even worse than the equivalent nine months after borders first closed due to COVID. A number of factors have contributed to this further deterioration in performance, including further Auckland lockdowns and the imposition of domestic borders and travel restrictions.

Hotels have been *accumulating losses ever since borders closed*, even though most properties have cut staff levels dramatically and made full use of all available government support, much of which was targeted at small businesses or focused on the impact of lockdowns only, as opposed to the ongoing loss of international guests *ever since borders closed in March 2020*. For the tourism and travel industries, it’s a closed borders story, not just a lockdown story.

On various occasions since COVID began, Hotel Council Aotearoa has provided Ministers/MBIE with data illustrating the impact of border closures on the hotel sector. We can provide data for whatever period you feel is of relevance and would be happy to discuss and explain it. Set out below is an illustration of overall hotel sector room revenue performance in each of years ended December 2019 (pre-COVID), December 2021 and December 2022:

	2019 – unaffected	2020 – partially-affected		2021 – fully-affected		
	YE Dec 2019	YE Dec 2020	Change to pre-COVID	YE Dec 2021	Change to 2020	Change to pre-COVID
ADR	\$195	\$179	-8%	\$170	-5%	-13%
Occ	79.5%	47.7%	-41%	44.6%	-6%	-44%
RevPAR	\$152	\$85	-44%	\$76	-11%	-50%

ADR = average daily rate; Occ = occupancy; RevPAR = Revenue per available room (combines ADR and Occ)

RevPAR combines average daily rate (ADR) and occupancy (Occ) to give a measure of overall hotel rooms revenue performance (rooms revenue is typically accounts for 60-80% of all hotel revenues). Ordinarily, hotels require average occupancy to reach anywhere from 65-75% on “normal” market rates in order to start generating profits. Since COVID, hotel sector rooms revenue performance is substantially below sustainable levels – approximately half of what was being achieved pre-COVID.

Even with increases in domestic travel by New Zealanders, average daily rates and occupancy are both substantially down on pre-COVID levels due to low demand mid-week, low demand out-of-season and oversupply of accommodation product generally, leading to increased price competition.

Meanwhile, hotel-related fixed costs continue to accrue at pre-COVID levels. Hotels must continue to meet insurance, utilities, local government rates, software license costs, salaries and wages of retained staff and other property-related costs that cannot be ignored in there is any prospect of reopening. As with other sectors of the economy, many categories of costs are increasing, which is exacerbating losses.

2. What impact does;

a. the requirement for 10 day managed-isolation have on the attractiveness of international business travel? Would this prevent or enable you to travel?

If you are asking about the impact on *inbound* business travel to New Zealand, then our opinion is that 10 day managed-isolation will have the effect of discouraging almost all international business travel to New

Zealand, which has a negative impact on the hotel sector. Hotels are the accommodation type of choice for most international business travellers to New Zealand.

To the extent you are asking about outbound travel by New Zealand businesses, larger hotels and hotel groups travel internationally to meet with key corporate clients and wholesalers, including attending high-profile international travel conferences and events (“sales & marketing trips”). A requirement for 10 day managed-isolation upon returning to New Zealand would discourage these sales & marketing trips. If New Zealand maintains border settings that are out-of-step with our international tourist destinations, such sales & marketing trips might be forgone for other reasons. Hotels will need to preserve costs. Sales and marketing teams have been slashed since COVID began.

b. the requirement for seven-day self-isolation have on the attractiveness of international business travel? Would this prevent or enable you to travel?

Again, if you are asking about the impact on *inbound* travel to New Zealand, then our opinion is that seven-day self-isolation will have the effect of discouraging almost all international business travel to New Zealand, which has a negative impact on the hotel sector. Hotels are the accommodation type of choice for most international business travellers to New Zealand.

To the extent to you are asking about outbound travel by New Zealand businesses, then our answer in 2.a above applies. Obviously a 7-day self-isolation requirement is less onerous than a 10 day managed-isolation requirement, so outbound travel would be more likely to proceed under a self-isolation rule than a managed-isolation rule.

3. What would be the impact on your business/livelihood of the border remaining closed to most international visitors until after winter 2022?

Catastrophic, if continued border closures are not accompanied by meaningful targeted support for hotel sector businesses.
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Winter 2022 is much later than most hotel operators’ reasonable expectation for reopening, given (a) government’s previous assurances that vaccination would be our country’s path back to normality, and (b) government’s refusal to implemented targeted support for tourism businesses outside of former support packages that were tied to lockdowns only.

For the reasons explained in 1 above, closure of New Zealand’s international borders has a material and ongoing negative impact on the hotel sector. Almost all non-essential hotel maintenance and upgrades have been cancelled. New hotel development projects are largely stalled (unless construction had started pre-COVID). Talent levels have been decimated. Customer relationships have withered and other countries are re-opening faster than New Zealand and offering a better arrival experience. Banks are increasingly nervous given government’s caution with border reopening, even though New Zealand has now achieved high levels of vaccination. Inflation and supply chain challenges have increased hotel costs, but accommodation providers have no pricing power given the oversupply of rooms without international visitors to fill them.

The overall accommodation landscape is in disarray, as proven by mothballing of hotels in certain locations, the collapse of YHA, the repurposing of multiple motel properties to MSD, etc. Our largest local authority (Auckland Council) is engaged in expensive and unnecessary litigation to support a patently punitive and unfair targeted rate that places an entirely unfair new rates burden on large hotels. Government at all levels

appears convinced that the sector is “too big to fail” and that any recovery will be swift. The level of engagement and understanding of the sector is poor, despite repeated offers from industry to work in partnership with government.

Expect further business failures, particularly at the bottom end where banks are running out of patience, and in motels, campsites and youth hostels.

4. Do you feel confident that New Zealand could manage the public health risk if border restrictions were eased before winter 2022?

It's not Hotel Council Aotearoa's role or responsibility to opine on New Zealand's readiness to manage the public health risks associated with COVID. Only Government and relevant health authorities have sufficient knowledge of current readiness. In our opinion, such assessments of our health system's capabilities should not be made through polling of individuals or businesses that may not have complete information.

Hotel Council Aotearoa simply notes that:

- **Luxury of time to plan and implement:** The initial success in keeping COVID out of New Zealand gave authorities a long period during which our health system was under no strain whatsoever, presumably allowing time to plan and implement vaccination rollouts, ICU capacity increases, rapid testing regimes, targeted financial support packages and improved border management regimes, since we cannot ever have planned to remain isolated from the rest of the world forever
- **High vaccination rates:** 92% of New Zealand's eligible population are now fully vaccinated. There is currently no shortage in New Zealand of vaccines or boosters and any eligible New Zealander can readily book their next vaccination (or booster) without undue delay. Paediatric vaccines will shortly be available, too. There can be no argument that New Zealanders concerned about their own personal wellbeing are currently unable to access vaccines, or have had insufficient time to do so in the last six months.
- **Lower fatality rate:** COVID appears to have had a relatively low fatality rate in New Zealand conditions when compared with the experience elsewhere. This may be as a result of:
 - Low overall population density and relatively low population density in our largest city (Auckland) compared with other cities with a similar number of inhabitants
 - Low levels of public-transport use
 - Low levels of apartment living
 - Favourable weather for suppressing infection by respiratory viruses, including high humidity and relatively mild winters – both particularly true for our largest city, Auckland
 - Fairly low median age compared with other wealthy nations with similarly strong health systems
 - High vaccination uptake
 - High levels of compliance with public health measures such as mask-wearing and social distancing
 - A hospital system that has been able to maintain high levels of access to ICU beds throughout the pandemic
 - Avoiding most of the “first wave” deaths, when the nature of the disease was less well understood and treatment protocols were unsettled
- **Omicron less dangerous than previous variants:** International evidence appears to increasingly support the view that Omicron is significantly less dangerous than the Delta variant. Omicron

appears to be more of a bronchial disease than Delta with less incidence of fatal pneumonia. It is not unusual for pandemics to become less lethal as they progress.

- **Past predictions excessively cautious?** All of the worst predictions about COVID spread within New Zealand, both after outbreaks of Alpha/Delta, and during step-downs in the alert levels and COVID protection framework, appear to have overstated the risk. There has been no “explosion” of COVID cases over summer.

It is for government to properly assess public health risk in light of experience and data from the 21 months since borders were closed, including weighing up factors such as the above.

5. What public health measures could you live with over the longer term domestically and at the border? What measures would be more difficult to live with over the longer term? (i.e. pre-departure testing, on-arrival testing, self-isolation, vaccination requirements, travel declarations.)

Domestic

Domestic borders should not be introduced again at any stage, unless the virus dramatically and materially mutates with much higher fatality rates than seen anywhere around the world for COVID.

There are better and more cost-effective ways to manage whatever pandemic pressures might arise in regional health facilities, and these should be planned for in advance of future pandemics. Airlifting patients between regions and/or creating mobile “Nightingale” units seems likely to be a much more cost-effective option for a low-population country like New Zealand than creating domestic borders that prevent travel to/from our largest commercial centre, Auckland.

A robust cost/benefit analysis should be undertaken around the use of domestic borders in any future pandemic.

Domestic borders have created considerable unnecessary financial hardship as well as splitting families and causing additional mental stress at a time when people naturally want to be with their loved ones. Domestic borders have created a “them and us” mentality in New Zealand that is dangerous, ugly and un-Kiwi. These attitudes will impact on re-opening of our international borders, as well.

International

With COVID endemic throughout the world, New Zealand must find a way to set aside international border restrictions as a principal tool in the arsenal to fight this particular pandemic. Vaccination levels are now high, treatment protocols and pharmaceuticals are in place and the virus itself appears to be becoming less lethal. We cannot be “out of step” with other international destinations.

As we look to re-engage with the rest of the world, *greater thought need to be given to the guest experience.* New Zealand should design a border regime that draws upon the best practices employed overseas. We must use rapid-testing to avoid self-isolation requirements, if that’s what the rest of the world is doing.

There is no benefit in having the “toughest border in the world” from a tourist marketing perspective. The hotel sector absolutely rejects any suggestion that this could be beneficial to New Zealand in the medium- or long-term.

In reality, a “tough” border will depress demand for international tourist travel to New Zealand, particularly amongst cash-rich, time-poor international travellers who might otherwise be expected to spend significantly while here. Outside of health systems being in existential crisis, international travellers will give no “credit” to New Zealand for having low levels of COVID in the country, in the same way that appropriately

vaccinated travellers don't give much thought to whether or not a particular destination has ongoing outbreaks of measles, rabies or other diseases.

6. What changes to the existing reopening approach would you suggest if New Zealand needed to tighten its border settings again? (i.e due to a serious variant of concern or another pandemic).

Hotel Council Aotearoa recommends:

- **Less haste in tightening border settings** or amending reopening timelines for less lethal versions of COVID.
- **Greater transparency** about policy goals and more direct consultation *in advance* with the major tourism and travel industry bodies.
- Much **greater specificity** and **much more advanced notice** for border setting changes.
- **Much more liberal approach to compassionate exemptions** to the quarantine/isolation requirements once the virus is already in New Zealand. For example, given COVID is already in New Zealand, what real downside is there in allowing an additional 10-100 compassionate arrivals each and every day?
- **Possible use of offshore quarantine/isolation facilities to get New Zealanders home** – for example, use of pre-departure quarantine/isolation in a Sydney hotel and green channels from that hotel onto the aircraft and back to New Zealand.
- **More nuanced work with industry on the sources of labour and how border settings impact on that** – why is government prepared to allow the agriculture sector a tailored seasonal labour solution, yet it simply refuses to properly engage with tourism businesses on the looming labour shortage in our sector? Up to 2,000 hospitality industry workers such as chefs, housekeepers and maintenance personnel could be allowed to enter New Zealand at an early stage in the reopening plan, especially since hotels have rooms available for self-isolation. All that's needed is a willingness to engage with industry on solutions.
- Greater **input from industry experts around border-related booking systems** (e.g the MIQ booking system).
- A **more logical and nimble approach to self-isolation**, even if COVID is not circulating in certain regions. For example, self-isolation in Auckland might be allowed if domestic borders are in place and COVID is endemic in Auckland at the time. For large periods, we have required MIQ stays for NZers returning here from Australia, even though large parts of Australia had lower COVID infection rates at the time.
- In regards to future pandemics, **Government should be prepared to offer properly targeted financial support to businesses that serve international travellers to New Zealand** in connection with each and every future closure or material restriction at our borders, for so long as such restrictions are in place. Government now has a wealth of information to analyse and understand about the impact of shutting borders at short notice and keeping them closed for an extended period of time (currently 21 months). Government must in future acknowledge and accept that border closures and lockdowns are two separate tools that logically justify different financial responses to assist affected businesses.

Key recommendation: Any future border setting changes should be accompanied by targeted ongoing financial support to all impacted travel and tourism businesses, not just those owned directly by Government such as Air New Zealand and KiwiRail. Such financial support should prioritise businesses with high fixed costs and should be provided for so long as any border restrictions remain in place. Without ongoing targeted financial support of this nature, the burden of New Zealand's health response to pandemics is unevenly distributed.

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