Submission to

Immigration Policy (Border and Funding)

Ministry of Business, Innovation & Employment

on the

Review of the Immigration Funding Model: Interim Fee and Levy Review

Date: 22 March 2022

Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the proposals for the Immigration Funding Model: Interim Fee and Levy Review.

This submission is filed without prejudice to TIA's future position. Our ability to prepare a comprehensive submission responding to the document relied on the provision by MBIE of information relevant to the connection between the discussion document and the benefits that would accrue. If any information is provided at a later date, TIA reserve the right to comment further.

EXECUTIVE SUMMARY

1. The tourism industry needs a strong immigration service that effectively manages the risks and costs associated with internationals visiting and working in New Zealand. The industry is a significant user of immigration services.

2. The timely processing and approval of work visas has been a previous area of concern for TIA members and we have been supportive of INZ change programmes including the $140m ICT Transformation Project and the Visa Service Change 2020 Programme.

3. TIA accepts the general cost recovery principle – that the direct cost of processing visas should be recovered from those applying for the visas.

4. Now that the borders are set to reopen one of the biggest challenges for employers is getting the workforce they need to grow their operations back to a sustainable level. It's highly unlikely there will be sufficient New Zealanders to meet the demand and therefore a high reliance on overseas workers is expected. We are concerned about any barriers that may deter these overseas workers from coming to New Zealand, including the increase of fees and levies associated with work visas, as well as any delays in the timely processing of these visas.

5. It's difficult to predict how much an increase in fees and levies will deter workers from coming to New Zealand. Clearly the higher the increase the bigger impact it will have – and some of the proposed increases are significant. The increase to the WHV concerns us greatly. These proposals are being made at a time when Australia announced in January 2022 they will refund the WHV fees to those who want to enter and work in Australia.

6. It's frustrating to see increases in the AEWV at a time when this new visa is not yet operational, taking effect in July 2022. It's now proposed that overseas workers on the AEWV pay $780 in fees. It may well be that this cost burden falls on employers to pay in order for them to attract the staff they need.

7. Officials need to also consider the impacts of these increases within the suite of fees and levies that visitors and workers incur when coming into New Zealand.

8. These proposals aim to reduce deficits in the Memorandum Accounts incurred during both pre-Covid and the Covid era. In effect visitors and international workers arriving in the future will pay for costs incurred in the past. Arguably government should be paying these costs as it seems inconsistent with a fee model to charge for historical costs.

9. The general sense in the industry is that outside of the Australian market there will be a gradual return over the 2022/23 summer as travellers take a cautious approach to international travel, particularly long-haul. It's unclear if the numbers of overseas workers on employer-assisted visas will be similar to pre-Covid or decline as a result of the Immigration Rebalance, including the requirement to pay median wage.

10. INZ has been unsuccessfully trying to balance the books for many years. We note Phase Two of this programme will look at improving sustainability of funding, including options to broaden the payer base. Our view is that the system has been broken for at least a decade and requires a fundamental review so that future visitors and workers are not carrying the cost of a broken system.

11. We are very frustrated with this consultation process and associated timeframes. The level of information provided has been average at best and the one-week timeframe to respond unacceptable.

INTRODUCTION

1. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With around 1,200 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions and retail, airports and airlines, transport, as well as related tourism services.

2. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability.

3. Any enquiries relating to this paper should in the first instance be referred to Steve Hanrahan, Advocacy and Engagement Manager at steve.hanrahan@tia.org.nz or by phone on 027 9122 624.

COMMENT

Our understanding of the issue

4. In 2021 MBIE commenced a review of the immigration funding model. These Phase One proposals are a review of the current immigration fees and levies. These were last reviewed in 2018 and TIA made a submission at the time.

5. Visa fee and levy revenue fell steeply with closure of the border due to Covid-19: from $257 million (year ended June 2019), to $115 million (year ended June 2021).

Government support has kept the system running though this is not sustainable. Phase Two of the programme will consider improving sustainability of funding.

6. The Crown has already written off Covid-related funding deficits of $260m. These proposals seek to fully recover through increased fees and levies $43.6m of pre-Covid deficits as well as partially recover $22m of the $120m deficits incurred during the two years of Covid, with the Crown further absorbing the remaining $98m.

7. The approach, which includes adjusting fees and levies to only close half of the projected revenue shortfall to YE June 2024 will lead to ongoing deficits in the Memorandum Accounts of approximately $155m[1] over the next two years. We assume the expectation is these accounts will return to credit balances at some date in the future though that is not clear in the information provided.

8. The revised fees and levies are expected to take effect from July 2022.

Our feedback

9. Our feedback follows, based on the following themes.

   a. Tourism and the immigration system
   b. Current operating environment
   c. Impact of increased pricing
   d. Adjusting the fee and levy mix
   e. Revenue forecasting
   f. Ongoing concern regarding fiscal deficiencies
   g. Consultation process and timeframes.

Tourism and the immigration system

12. The tourism industry needs a strong immigration service that effectively manages the risks and costs associated with internationals visiting and working in New Zealand. The industry is a significant user of immigration services. For example there were more than half a million visitors from three visa-required countries in the YE December 2019 – China, India, and South Africa. There were also 15,320 employer-assisted work visas approved in the YE December 2019. This does not include open work-right visas such as the Working Holiday Visa and student visas – two cohorts important to the tourism workforce.

13. It's important to the success of tourism that we have an immigration system that is timely, efficient and understands the needs of our industry. The timely processing and approval of visas has been a previous area of concern for TIA members and we have been supportive of INZ change programmes including the $140m ICT Transformation Project and the Visa Service Change 2020 Programme. The expectation was that these

[1] $38m in visa account; $108m levy account; $9m eTA account

significant projects will lead to improvements in the timeliness and costs of using the New Zealand immigration service, enhancing the visitor experience for those visiting New Zealand and ensuring that employers can easily access overseas workers where there are no suitable New Zealanders.

14. TIA accepts the general cost recovery principle – that the direct cost of processing visas should be recovered from those applying for the visas.

15. We note that a change in government policy – such as the recent decision to issue residential visas to the 165,000 migrants already in New Zealand, can stretch and challenge resources. We are concerned about the impact of decisions such as this on future processing ability, such as the ability to implement the new Accredited Employer Work Visa (AEWV) and the delay currently placed on the return of visa-required visitors such as those from China, India and South Africa. There has been comment this delay is linked to current resourcing limits within INZ.

16. We are mindful that policy changes can add significantly to processing costs and timeframes at no fault of the applicant. Therefore it is important that our visitors and overseas workers do not pay the price of policy changes and are charged only for those costs directly attributable to the timely and efficient processing of their visa application.

Current operating environment

10. These proposals are being made at a time when the tourism industry has been decimated by the impacts of Covid-19 over the last two years. Business demand has dropped significantly and many businesses are in a dire situation. TIA surveyed members in February 2022 to assess the impacts of Omicron variant of COVID-19, and the Red setting of the COVID Protection Framework (CPF) on the tourism industry. The results of TIA's pulse survey are here. Across all sectors, all regions and all sizes of business the impairment of revenue compared to a similar period last year is at nearly 60%. This in turn was half that of pre-COVID levels due to the loss of revenues from international visitors.

11. There is a sense of optimism slowly returning to the industry following the recent announcements that international visitors will return to New Zealand from 12 April 2022, with visitors from visa-waiver countries to return from 1 May 2022.

12. Now that the borders are set to reopen one of the biggest challenges for employers is getting the workforce they need to grow their operations back to a sustainable level. It's highly unlikely there will be sufficient New Zealanders to meet the demand and therefore a high reliance on overseas workers is expected. We are concerned about any barriers that may deter these overseas workers from coming to New Zealand, including the increase of fees and levies associated with work visas, as well as any delays in the timely processing of these visas.

Impact of proposed increased pricing

13. The proposals are being made across 12 visa products. Seven of these are of high relevance to the tourism industry:

- Electronic Travel Authority[2] (eTA): indicative increase of $15 (33%) from $45 to $60.
- Visitor visa: no increase proposed. Capped at the current rate of $245.
- Working Holiday Visa (WHV): indicative increase of $255 (91%) from $280 to $535.
- Fee-paying student: indicative increase of $180 (65%) from $275 to $455.
- Post-study work: indicative increase of $350 (71%) from $495 to $845.
- Accredited Employer Work Visa (AEWV): indicative increase of $185 (31%) from $595 to $780.
- Skilled Migrant (Resident): indicative increase of $1760 (91%) from $3240 to $5000.

14. We note that visitors are the least impacted group from the proposals, with no increase proposed to the cost of a visitor visa and a $15.00 increase in the eTA.

15. It's difficult to predict how much an increase in fees and levies will deter workers from coming to New Zealand. Clearly the higher the increase the bigger impact it will have – and some of these proposals are significant.

16. The increase to the WHV concerns us greatly. Officials will be aware of announcements by government that as part of the Immigration Rebalance the median wage is to become the default minimum wage for overseas workers on employer-assisted visas such as the AEWV. One outcome of this policy is there will be a greater demand for workers on open work-rights, such as the WHV and student visa.

17. These overseas workers, particularly those on the WHV, are likely to be more price sensitive that others due to the temporary nature of their employment and that the main purpose from coming to NZ is as a visitor rather than worker. We're therefore opposed to such a significant increase of 91% to the WHV, taking the fee from $280 to $535. This comes on the back of an increase in the WHV fee as part of the 2018 review of $170 (54%), meaning that since 2018 the WHV has increased by $365 (214%) from $170 to $535.

18. These proposals are being made at a time when Australia announced in January 2022 they will refund the WHV fees to those who want to enter and work in Australia over the next three months. We understand that this programme may be extended. https://www.cnbc.com/2022/01/20/backpacking-australia-students-allowed-despite-covid-policies.html. There will be strong competition for working holidaymakers from other international destinations, especially Australia. We are concerned that the increased fees will send them elsewhere, further compounding the workforce shortages.

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[2] The eTA is an electronic travel authorisation for citizens of visa waiver countries. Although not a visa it has been a mandatory entry document since October 2019.

19. It’s frustrating to see increases in the AEWV at a time when this new visa is not yet operational, taking effect in July 2022. It’s now proposed that overseas workers on the AEWV pay $780 in fees. It may well be that this cost burden falls on employers to pay in order for them to attract the staff they need. Prior to the 2018 review similar fees were $260 - $355. So there has been an increase of approximately $520 (200%) over four years on fees associated with employer-assisted visas.

20. Officials need to also consider the impacts of these increases within the suite of fees and levies that visitors and workers incur when coming into New Zealand. These include the International Visitor Levy ($35), Border Clearance Levy ($38.03), International Passenger Security Levy ($13.12) and Safety Oversight Levy ($1.50). We are aware that government is currently considering proposals to increase the IVL. While an increase in fees and levies may seem reasonable when looked at individually, when looked at in the context of overall fees and levies incurred it adds further to an already high level of border costs.

Adjusting the fee and levy mix

21. You have asked for comment on the proposals to adjust the fee and levy mix. The single slide on this issue in the slide-deck shows that the proposal is to shift the current cost-recovery mix from 58% visa fee/7% levy to 40% visa fee/27% levy.

22. The impact is described as limited in the short-term as levy payers are a subset of fee payers, and longer term this provides options to share costs with a wider group of users therefore resulting in a lower average cost.

23. At our meeting the comment was made that one of the reasons for increasing the levy component is that some of the system costs such as IT are currently covered by the fee when it is more appropriate these are covered by the more general cost nature of the levy as they benefit the group rather than the individual.

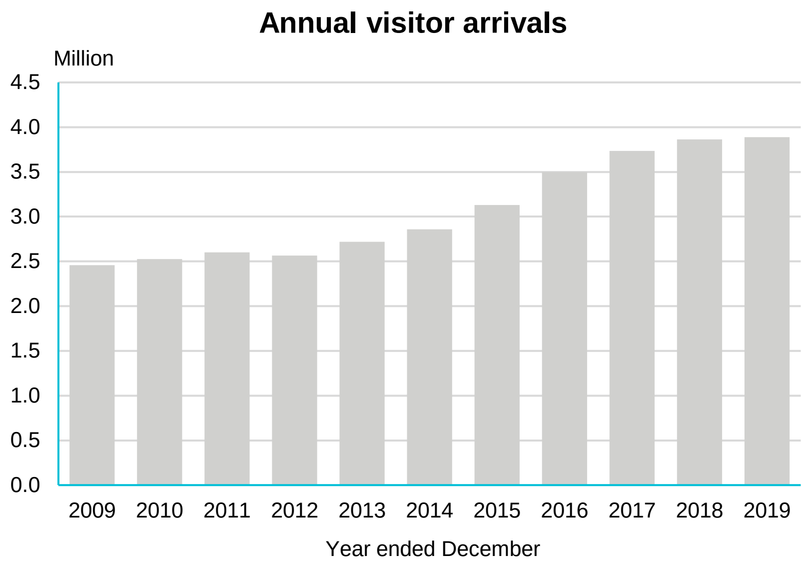
24. These proposals aim to reduce deficits in the Memorandum Accounts incurred during both pre-Covid and the Covid era. In effect visitors and international workers arriving in the future will pay for costs incurred in the past. Arguably government should be paying these costs as it seems inconsistent with a fee and levy model to charge for historical costs. We are concerned that this shift towards levy costs is a guise to get future visitors and workers to pay past costs. We assume there are strong internal auditing systems in place to ensure that the shift from fee to levy meets government rules and guidelines.

25. It is difficult to comment further on the proposed adjustment to the fee and levy mix as there is no information provided on the range of costs that are proposed to be recovered by the fee and those by the levy.

Revenue Forecasting

26. The slide-deck notes 'Revenue: demand once borders reopen is hard to predict. We are assuming most volumes return to 65% and 75% of pre-COVID levels in the years to 30 June 2023 and 2024'.

27. Pre-Covid, for the YE December 2019, New Zealand had 3.888m visitor arrivals. Based on this MBIE estimate of 65% return to volume there would be 2.527m visitors arrive in the YE June 2023. Our biggest market in 2019 was Australia, with 1.538m visitors, 40% of arrivals. This market is expected to bounce back reasonably strongly.



Source: Stats NZ

28. Perhaps of more relevance to these proposals is the return of visa-required countries. At this stage visitors from China are not travelling due to their government's restrictions on travel. Visitors from China made up 407,000 (10%) of visitors in 2019.

29. The general sense in the industry is that outside of the Australian market there will be a gradual return over the 2022/23 summer as travellers take a cautious approach to international travel, particularly long-haul. We are hearing that forward bookings out of America and Europe are solid for January-March 2023, less strong for the 2022 spring/early summer.

30. It's unclear if the numbers of overseas workers on employer-assisted visas will be similar to pre-Covid or decline as a result of the Immigration Rebalance, including the requirement to pay median wage. However this potential drop in demand may be offset by a lack of New Zealanders and employers are forced to recruit offshore.

Ongoing concern regarding fiscal deficiencies

31. In 2018 we noted our concerns about a forecast deficit of approximately $50m in the Memorandum Account as at 30 June 2018 and that this was not the first time INZ has faced a major deficit. In 2012 the Visas and Permits Memorandum Account had a deficit balance of $36.4m. At the time INZ attributed the deficit to lower than expected volumes of visa applications (particularly student visas) and the effect of the Canterbury earthquake in February 2011 in reducing the number of people coming to New Zealand.

32. The 2018 consultation document's 5-year outlook to 2021/22 implied that the proposals at the time will 'balance the books', wiping the $50m deficit. We acknowledge that Covid has put paid to those plans, and note the limited information provided in this consultation round did not attempt to analyse if in the normal course of events INZ would have met its goal to wipe the deficit.

33. We have noted earlier in the submission our concerns about the level of historical deficit new arrivals are being expected to pay for.

34. It's now ten years since 2012 that INZ has been trying to unsuccessfully balance the books. We note Phase Two of this programme will look at improving sustainability of funding, including options to broaden the payer base. Our view is that the system has been broken for at least a decade and requires a fundamental review so that future visitors and workers are not carrying the cost of a broken system. We support the Phase Two approach and request to be involved, from the early stages, in this work.

Consultation process and timeframes.

35. We are very disappointed and frustrated with this consultation process and associated timeframes. In the 2018 round MBIE provided comprehensive documentation and reasonable timeframes for consideration.

36. In this round we received a briefing from officials on Monday 14 March 2022 with an expectation that responses are received before 22 March. We were shown a slide deck at the briefing and then sent that information post meeting to respond to.

37. The pack notes 'MBIE started an in-depth review of the immigration funding model in 2021' yet we are given a few days to respond to proposals.

38. It's unreasonable to ask us to fully consider these proposals when we are given very limited information and unrealistic timeframes to respond. It does concern us that these proposals are being pushed through with a token exercise in industry consultation.

<u>Follow up process</u>

39. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.