NZIER INSIGHT
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Hiking prices and tourism funding

Are we on the right track?

A summer of discontent

International tourism to New Zealand has grown rapidly in recent years, and in the long hot summer of 2017/18 it made headlines for the wrong reasons, with reports of crowds at the country's beauty spots and freedom campers despoiling wild places. The Coalition Government has picked up on the public mood and announced decisions to do something, but is it putting tourism on a more sustainable basis?

First salvo in the Government's response was the announcement in early June that it would double Great Walks fees to foreigners, giving effect to an idea floated before the last election, by the National Party. It seemed a hastily considered proposal at the time, rushed out to be seen to address a topical concern, and months later it still does.

The second salvo in mid-June was its announcement that it would introduce a border levy on incoming visitors, except nationals from Australia and some of New Zealand's Pacific Island neighbours. A levy has also been long talked about in tourism circles as a potential solution to funding tourism infrastructure, the liability for which otherwise falls on local ratepayers, or taxpayers through the activities of the Department of Conservation (DOC).

To put this in perspective, the doubling of hut fees for foreigners, which will be trialled on the South Island's four most popular tracks, is expected to earn about $2.9 million a year, which could almost eliminate the shortfall of revenue against expenditure on running all nine Great Walks. It would result in the price of a bunk to foreigners on the Abel Tasman Track increasing from $38 to $75 a night, and on the Milford Track from $70 to $140, while New Zealanders still face the lower prices.

The border levy has been set at $35 per person entering and is expected to raise around $80 million per year. These funds would be distributed through a process yet to be announced between local authority infrastructure and conservation activities. As there are 68 local councils with wish-lists for tourism-related infrastructure running to many millions of dollars each, this doesn't seem likely to be the last word on tourism funding.

A tax by any other name…

Although called a border levy, this instrument is basically a tax with revenues earmarked for a specific purpose. Unlike other levies in use, it selects contributions from only a subset of the people who benefit from it.

Taxes have two principal purposes, to raise revenue or to change behaviour to reduce undesirable externalities like overcrowding or environmental degradation. A tax to raise revenue is best levied across a wide base of taxpayers at a low level, to provide as little distortion as possible to the economic activity that generates the revenue. A tax to change behaviour has the opposite requirements, and must be levied at a high enough rate to be noticed and focused on the subset of the population whose behaviour is causing a problem. If a tax is successful in changing behaviour it will shrink its tax base and it becomes less reliable in raising revenue, so a fundamental question in tax design is choosing the right form for the intended purpose.

The border levy is something of a hybrid that defies these basic design principles. At $35 a head it is set at a low level relative to the cost of a long-haul flight to New Zealand, and it is not expected by the Government to have a noticeable effect on tourism arrivals. Yet it is focused on a sub-set of visitors, which is more appropriate for a behavioural tax than for a revenue raising one, but it is poorly targeted to reduce externalities.

The border levy is not an efficient way of raising revenue for tourism purposes. That there have been suggestions of an additional $9 administration fee per applicant, around 25% of the intended revenue haul, indicates there is a high cost involved in collecting the revenue, not to mention the cost of setting up an electronic authority to implement the scheme and a process established for allocating the funds across recipients.

All border levies face these issues, as explained in NZIER Insight 56-2015[1] on a border levy for customs processing of incoming visitors. Incoming tourism is a source of export earnings, a sale of services to people from other countries. At a time when governments seek to increase exports, why hit them with a discriminatory levy?

What have foreigners ever done for us?

New Zealand is a trading nation and depends on foreign markets for its livelihood. In recent decades the exporting of services to tourists coming to our shores has matched or overtaken the export of goods from commodity-based industries like dairy, meat and forestry, all of which, like tourism, depend on New Zealand's reputation as a reliable supplier of quality goods and experiences from a clean green country. In the past we have welcomed foreigners to New Zealand, hoped they enjoyed their stay and our produce, and went home to spread the word. Now that they're doing that, why treat them as unwelcome and discriminated against?

The premise behind surcharging foreigners is that:

1. New Zealand's conservation lands and other tourism facilities are under pressure from visitor growth,
2. overseas visitors are driving that growth, and
3. foreigners should pay more than locals because they do not pay taxes that support the infrastructure.

All these propositions are unfounded.

Tourism has grown in recent years, but it is distributed very unevenly around the country. On some Great Walks, national parks and other hotspots tourist numbers are high and foreigners may predominate, but there are plenty of other places where they are not so common.

The source of growth is closer than it seems…

The international tourism that receives so much attention is only part of the story. Tourists are people spending time away from home, and New Zealanders exploring their own country form a larger share of tourists than foreigners. Statistics New Zealand's Tourism Satellite Accounts show that domestic tourism expenditure has been both larger, and growing faster, than international tourist expenditures over recent years.

Overall there is little hard data on who uses what parts of New Zealand's great outdoors. The Ministry of Business Innovation and Employment collates an International Visitor Survey every year which yields some information, but the parallel Domestic Travel Survey on New Zealanders' domestic tourism was discontinued in 2012.

However, the Mountain Safety Council (MSC) found in the Active NZ surveys around 1 in 4 New Zealand adults, or 936,367 people, went on a tramp in 2017, up from about 9% in 2014. Those figures suggest a compound annual growth rate between those years of around 28%. MSC also estimated from the International Visitor Surveys that 602,766 foreigners went on a tramp in 2017, which equates to a compound annual growth rate of about 10% since 2014.[2]

…and foreigners pay more than they get back in services

Foreign tourists pay GST like New Zealanders, but unlike in other countries they are unable to get any such tax refunded on leaving the country. Government adds their contribution to other tax revenues to fund general public expenditures, of which social security and welfare account for 25%, health for 16%, and education for 13%. So, on average over half of each dollar of tax revenue is used to support services foreigners would not use, except for vestigial amounts on ACC and on education by foreign students, who already pay higher school fees than locals. For the rest, it is likely that in their short visits foreign tourists do contribute to the cost of conservation, defence, policing and other services that make New Zealand an attractive and safe place to visit.

The Tourism Satellite Account shows that in the year to June 2017 foreign tourists contributed $1.47 billion in GST, 8% of the total collected. The 3.8 million visitor arrivals in the year ending March 2018 spent on average 8.8 days in the country, accounting for 1.8% of the person-days spent in New Zealand over the year, compared to the resident population of 4.87 million.

That foreign contribution to GST has grown by 133% since 2011, an average annual rate of 8%, or about an additional $100 million per year. Whether looking at the annual totals, or the growth component each year, foreign tourists are contributing a surplus to tax revenues that could provide for maintaining and upgrading tourism infrastructure, if it weren't being siphoned off for other purposes.

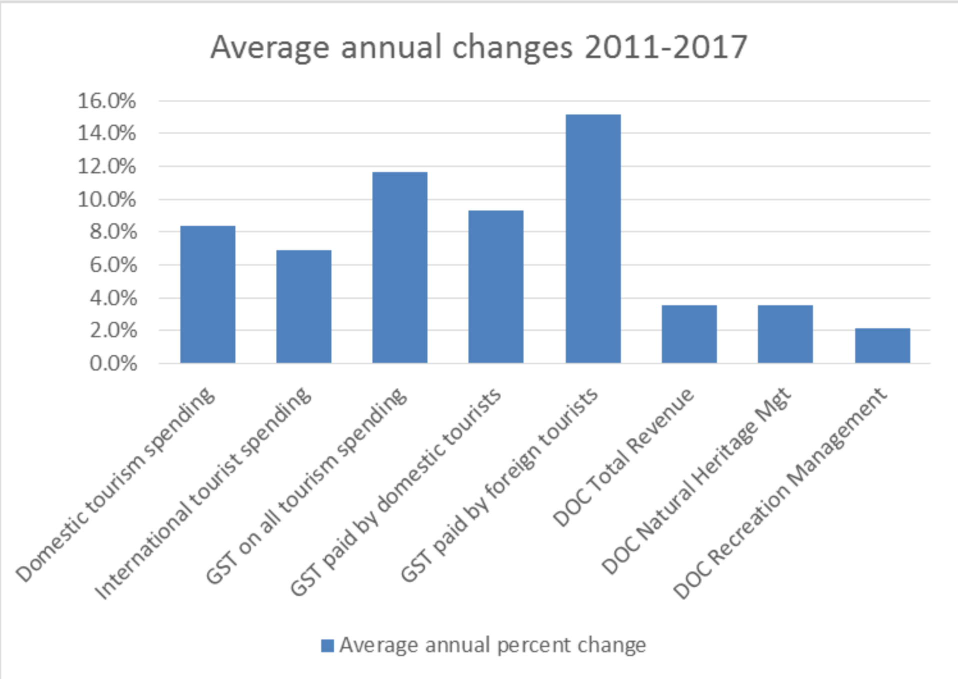
[1] https://nzier.org.nz/publication/new-travel-charge-borderline-at-best-nzier-insight-56

[2] These figures are for participation, i.e. the number of people who go tramping 1 or more times in the course of a year, rather than use as measured by the visitor days spent tramping. See *https://www.mountainsafety.org.nz/insights/a-walk-in-the-park/*

Heading down another track?

The problem with tourism is not about how to extract more from foreign visitors but how to manage the external costs tourism can cause, like congestion of facilities and wear and tear on the environment that detract from New Zealanders' well-being. The value of tourism will be overstated if such costs are not accounted for, but they are difficult to recoup from users of the open access landscape, as is exemplified by the challenges faced by DOC.

DOC manages about a third of New Zealand's land area. It receives about 87% of its funding from Government, the balance from a mix of sources like user charges and licences, lease and concession fees. In 2011, 49% of its annual budget was spent on natural heritage management, and 41% on recreation management. In 2017, the share spent on heritage management remained the same, but recreation's share was slightly lower at 38%.



DOC's annual Crown allocation is about 0.3% of total government spending, and has conspicuously failed to rise in step with recent growth in tourism activity. It is now a bit less than the proportion of GST revenue from foreign tourists that contributes to social security expenditure, given the current average allocation of tax dollars.

The numbers of New Zealanders visiting the conservation estate or engaging with voluntary conservation and pest control schemes, not to mention the drawcard of landscape for tourism and overseas filmmakers, indicate conservation is important for the economy and people's well-being. The conservation estate is a source of natural capital that should be maintained on a more sustainable basis than it has been. That needs no new taxes, just new awareness of its value and how it can be degraded by under-providing for maintenance and growth, diminishing the experience for all, New Zealanders and visitors alike.

How to pay for the walks...

There is merit in raising more revenue from user charges, as this collects money from places where the demand is strongest and gives guidance to where more spending is needed. But the price differentiation that would be most useful is not distinguishing by visitors' place of origin, but by the timing and type of use. It is most logical to charge more during peak periods, so that those who put most stress on existing facilities and drive the need for capacity upgrades pay more towards them. Such pricing can also shift some demand to off-peak periods.

DOC currently charges less for Great Walks off-season, because it removes certain facilities like fuel in huts and avalanche-prone bridges. That differential does nothing to provide for future growth.

Contrary to common expectation, it is not necessary for user charges to cover the full costs of services. In a classic article,[3] Walter Oi explained how theme parks and facility-based clubs balance the need to gather revenue to cover costs without raising prices too high, by having a general access or club membership fee to cover the fixed costs of infrastructure, and user charges to cover the variable costs. The entry fee confers access to the park, but visitors pay extra for their rides and drinks afterwards.

This is a practice well-known by suppliers of infrastructure with high fixed costs and low usage costs such as telephone and power networks, and is applicable to DOC's networks of visitor facilities.

[3] In Oi, Walter, "A Disneyland dilemma – two-part pricing for a Mickey Mouse Monopoly", *The Quarterly Journal of Economics* Vol. 85, No. 1 (February, 1971), pp. 77-96.

The style of pricing is highly adaptable, encompassing straight two-part pricing, season tickets (where the cost of separating access and use charges is too high to be worth doing) and optional pricing where people choose the pricing that best suits their circumstances (like rental car companies offering cost per kilometre or unlimited kilometre rates).

…is tempered by the landscape

DOC currently does not charge visitors for access to land, only for using a limited range of facilities (accommodation yes, car parks no). This is partly because of legislative restriction, but also because it manages broad tracts with long porous borders and many access points, where it would be prohibitively costly to charge for entry and exclude non-payers except in a few locations.

However, where charging for access is not feasible, tax revenues from the community that benefits can cover the shortfall. That community includes both New Zealand taxpayers and foreign visitors, whose GST revenue could provide such support for both DOC and local authorities' tourist infrastructure.

DOC is also reluctant to raise its prices to levels that might exclude New Zealanders. However, New Zealanders are also contributing to congestion and the need for capacity upgrades and should expect some seasonal variation in price and availability. There are more subtle ways of giving Kiwis some preferential treatment or discount than simple price discrimination against foreigners.

Doubling hut fees is unnecessary, raises expectations and creates resentment at unfair treatment between people sharing the huts and receiving essentially the same services. It's not just that at $140 per adult night, a bunk in a basic self-service Milford Track hut costs as much as a fully serviced motel unit in town – it also costs nearly three times as much as equivalent accommodation in high-priced Norway.[4] This will only add to the complaints on the internet that New Zealand is expensive and poor value for money.

Great Walks have a booking system that caps the numbers using the huts, so higher fees may not reduce foreigners on the tracks. Rather bunks will be secured by people willing to pay more while foreigners who aren't will still come to New Zealand but divert to other tracks less prepared for more tourists, including those with an honesty box where they pay even less. If the Routeburn is too expensive, they'll more likely hit the Greenstone-Caples tracks a day's walk from the Routeburn, than go to lightly-used Lake Waikaremoana Great Walk.

Tourism has been a success for New Zealand, bringing jobs to the regions and raising the country's profile on the international stage. While downsides are becoming apparent, with localised crowding, lack of capacity and wear and tear on facilities, they reflect a long period of underfunding of the basic capital of the business that brings people here, the landscape and infrastructure to access it.

Targeting foreigners with a border levy is an expensive way of raising funding, and hiking their hut fees, although easily done, raises little in the broad scheme of things and is ineffective as a rationing tool to curb overuse. Both measures present risks to New Zealand's reputation as a place to visit because foreigners don't vote, except with their feet.

A change in the way tourism is provided for across the country is overdue, but hitting foreigners with surcharges and new taxes is neither a sufficient nor an efficient way of going about it.

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[4] See Den Norske Turistforening's bunk rates in self service huts and dorms https://english.dnt.no/routes-and-cabins/