



The impact of COVID-19 on Māori Land Entities

Part 1: How to Respond

Prepared for Te Puni Kōkiri to support
Māori land owners and businesses
through COVID-19

01 May 2020



Contents

Introduction	3
Business Continuity	4
Opportunities and risks	5
Impact on key sectors for Māori Land Entities	6
Cash flow impacts for Māori Land Entities	12
Conclusion	13

Introduction

Nā tō rourou, nā taku rourou, ka ora ai te iwi - while working in isolation might result in survival, working together can take our communities beyond survival and onto prosperity.

The Whenua Māori team at Te Puni Kōkiri has commissioned Deloitte to prepare a series of three reports on COVID-19 impacts for Māori land entities. The analysis is focused on land-based sectors and the risks and opportunities the COVID-19 impacts present.

Deloitte Access Economics has prepared these reports in conjunction with Hourua Pae Rau, the Deloitte Māori services team.

This series of reports provides information for Māori freehold land owners and others at this uncertain time, to support key decision-making that will impact their whenua and their whānau. The report series adopts a broad definition of the Māori economy, with emphasis on sectors in which Māori land entities operate.

Each report in the series will focus on one of the following three themes, aligned with the remaining phases for the COVID-19 Government response:

- **Respond** - Managing business continuity
- **Prepare to Recover** - Learn and emerge stronger
- **Prepare to Thrive** - Prepare for the next normal

The reports will assess various economic impacts on key sectors and provide wider context to the COVID-19 situation as it stands at the date of the report release.

This report focuses on **Respond** and provides action points on how Māori land entities can respond to COVID-19. The next two reports will focus on how Māori land entities can **Prepare to Recover** and **Prepare to Thrive**.



COVID-19 | Business Continuity

Critical Business Continuity questions for Māori Land Entities

Priorities	Consider the following questions
<p>Command Centre</p> <p>The team responsible for responding to the crisis</p>	<ul style="list-style-type: none"> • Who will be taking the lead in crisis response planning, and which other staff members need to be involved in response planning? • Is there a back-up/succession plan for key members of the response planning team? • What is your key message to your stakeholders and how will you deliver the message?
<p>Talent & Strategy</p> <p>The plan for our staff</p>	<ul style="list-style-type: none"> • What is the level of exposure and risk to employees and what urgent cautionary measures do you have in place? • What alternative working arrangements and additional support are required for your team? • What is the impact on the workforce and are there sectors or businesses where employees can be redeployed?
<p>Business Continuity & Financing</p> <p>Our continued existence as a business</p>	<ul style="list-style-type: none"> • Are there cash conservation and recovery actions that need to be implemented? • Are there assets that you can sell if you need cash quickly in order to address outstanding invoices? • Have funders been engaged to discuss funding requirements and potential changes in contractual obligations?
<p>Supply Chain</p> <p>The resources we need to operate our business</p>	<ul style="list-style-type: none"> • Will any of your suppliers be affected by COVID-19, and will it impact their ability to supply you? • What are the organization's inventory supply requirements, and are there enough supplies to bridge the short term? • Have critical suppliers been engaged, and are they able to withstand the current environment?
<p>Customer Engagement</p> <p>How we stay in touch with our customers</p>	<ul style="list-style-type: none"> • How do you think your customers will be impacted by COVID-19? • Have you engaged with your customers to support your business continuity? • Are your customers reliant on key distribution channels that may be impacted by COVID-19?
<p>Digital Capabilities</p> <p>The technology and support systems we need in the "new normal"</p>	<ul style="list-style-type: none"> • What is the core IT infrastructure that will be relied upon to ensure you can carry on operating? • What new technologies and tools will allow you to enhance communication with suppliers, customers and employees?

COVID-19 | Opportunities and risks

Different dimensions relevant to Māori Land Entities

Opportunities for Māori entities



Social

- The **new normal of digital engagement** will result in new ways to engage with beneficiaries and stakeholders through virtual platforms without the traditional barrier of distance.
- Land entities (and hapū/iwi) are involved in **providing food and other necessities to their vulnerable populations** living in their rohe.
- Creation of **easily accessible internet based social clusters**. This can be used for information dissemination in a more cost effective way.



Cultural

- Uptake of **new modes of interaction** such as Zoom and Skype to support cultural programmes.
- Utilisation of **digital technologies** to foster the importance of both connection and succession to Māori land can create **greater levels of engagement** between Māori Land entities and their shareholders or beneficiaries.



Environmental

- A focus on the positive effects on the environment during 'lockdown' provide **an opportunity for a broad change to farming and other practices** that are less environmentally onerous.
- 'COVID-19 free' **branding opportunity** to match our 'Pure NZ' brand.
- **Changing international environmental standards** may require primary agricultural activities to transform, whereby more nutritious food is produced using fewer resources while also bringing greater benefits to the international export sector and local communities.



Commercial

- The constraints on capital will force entities to **adopt new operating models underpinned by digital technologies** to reduce costs and increase operational efficiencies.
- With a focus on operational efficiency, land based entities will gradually shift from volume based production to **value based production** such as grass-fed meat, honey and kiwifruit.
- Move towards a **circular economy**, whereby waste materials will be able to be recycled and redeployed within the local communities.

Downside risks for Māori entities

- The **digital divide** (poor internet and/or no device to access the internet) could mean kaumatua, kuia and school age shareholders/beneficiaries miss out on opportunities to fully participate in life and other services (education or tele-health etc.).
- Reduced entity income may **mean fewer resources available for shareholder grants** (health, cultural etc.) eroding benefits built up over time.

- The **trade-off** will become more prominent between supporting cultural and social programmes for whānau wellbeing and providing a dividend.
- **Lower dividends** will impact some shareholders who rely on the cash as income.

- Scarcity of capital will inevitably result in the **deferment of environmentally sustainable farming practices**, potentially compromising kaitiakitanga.
- Constrained capital may also result in the **deferment of programmes aimed at addressing climate change risks**, resulting in increased reliance on the next generation to make a fundamental shift in farming practices.

- Potential **liquidity and cash flow issues** resulting in a lack of capital for distribution to beneficiaries.
- Māori entities exposed to the tourism sector will face an **erosion of value on their investments** due to the closure of New Zealand's borders.
- Māori entities that are facing working capital constraints may be more **vulnerable to opportunistic buyers** (i.e. developers) and suitors offering unfavorable terms.

COVID-19 | Impact on key sectors for Māori Land Entities

An overview - preliminary assessment of sector impacts

The New Zealand economy

The COVID-19 crisis, Alert Levels Four and Three are having far reaching and meaningful impacts on New Zealand society and the economy. The New Zealand economy faces:

- Supply side disruptions
- Falling markets
- Low business and consumer confidence.

Everybody is opting for the **more conservative option**. Given the uncertainty, families and businesses will not (nor can they - given the lock down) spend as much. A significant economic recession in New Zealand looks inevitable.

Key drivers that will influence the scale and depth of the economic impact of COVID-19 are:

- How long Alert Level Four and Three remain in place
- The speed at which New Zealand can return to normal business operations
- How long borders remain closed
- How effective the government and monetary policy support actions are.

Current projections expect New Zealand's **GDP to drop from 5% to 10% over 2020**, and **the unemployment rate to rise between 5.4% to 10.7%**. Jobseeker benefits are already at the Global Financial Crisis (GFC) highs - after just one month (Ministry of Social Development).

COVID-19 shock waves through our Māori land sectors - preliminary views

Short term Impact over the next four to six weeks **H** High impact **N** Neutral or low impact

Long term Impact through 2020, assuming the Government's response is effective **M** Medium impact **O** High demand/opportunity

Sector	Short term	Long term	Influencing Factors			
			Travel Restriction/ Reduced travel/ Lockdown in NZ	Supply Chain Interruption	Reduced Consumption/ Interruption to Retail Operation	Working Capital Pressure
Dairy	M	M		Some impact	Some impact	X
Horticulture	M	N	Some impact	X	Some impact	X
Forestry	H	M	X	X	X	X
Commercial Property	H	H	X		X	X
Fisheries	M	M		X	X	X
Sheep & Beef	H	M		X	X	X
Geothermal	M	O			Some impact	
Tourism	H	H	X		X	X

COVID-19 | Impact on key sectors for Māori Land Entities

Map of the hardest hit sectors over 2020 – current estimate

This sectoral impact map focuses on **key sectors for Māori Land Entities** based on the information we know today.

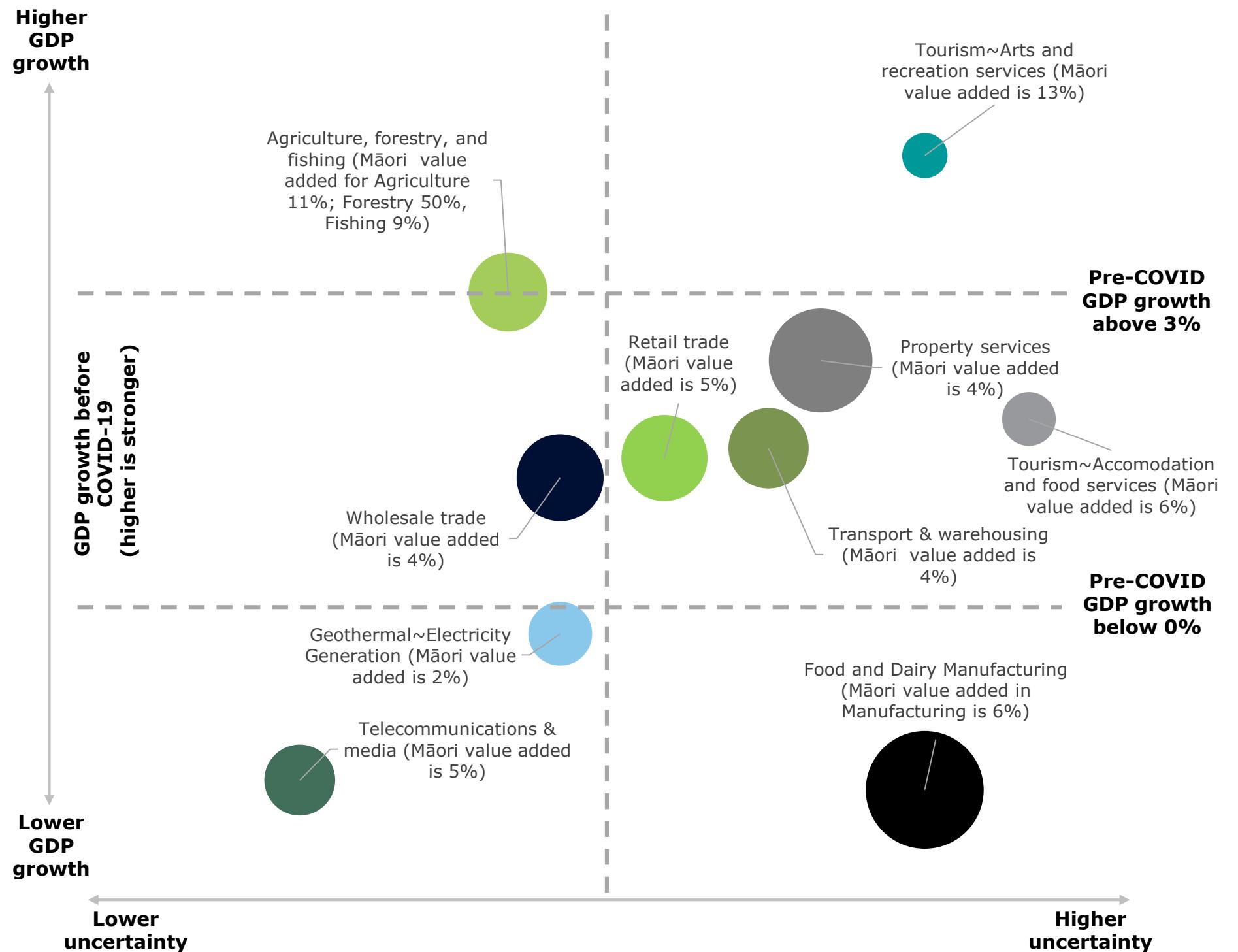
In our view, the extent of the impact for each sector is influenced by the interaction of **the Pre-COVID-19 GDP growth, for each sector, and the perceived uncertainty.**

The **vertical axis reflects the Pre-COVID-19 GDP growth** from 2015 to 2020. There are two lines on the map positioned at 3% Pre-COVID-19 GDP growth and above; and below 0% GDP growth over 2015 to 2020.

The contribution of each Māori sector is based on the 2013 BERL report and the total New Zealand gross value added for each sector in 2013.

The horizontal axis reflects the perceived uncertainty in the sector, incorporating the extent to which each sector is exposed to exports, labour and capital intensity of the sector, and current information on demand and supply factors for each sector.

The size of the circle reflects the relative size of the sector within the New Zealand economy as at June 2019.



COVID-19 | Impact on key sectors for Māori Land Entities

Labour Activity under Alert Level Four and Alert Level Three

We considered the potential change in business activities for Māori Land entities² as we move from Alert Level Four to Alert Level Three this week.

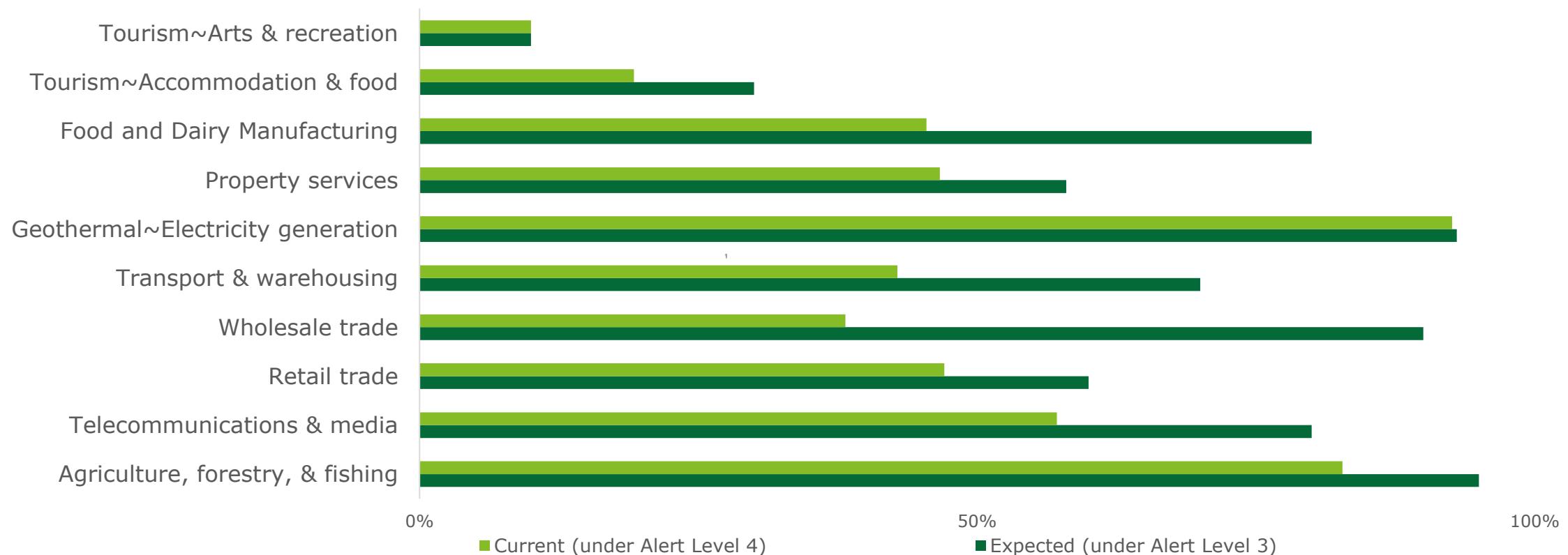
Virtually all businesses will be impacted by the domestic and international response to COVID-19. **The magnitude of the impact, in part, depends on whether they are deemed an essential business, if trade can continue under Alert Levels Four and Three, and how exposed they are to the global economy.**

The impact on activity during the Alert Level Four lockdown varied widely by sector. For example, Agriculture had a very high proportion of businesses deemed essential services. However, most Arts & Recreation services were not viewed as essential. Māori employment is currently 14% in Agriculture and Arts & Recreation services.

During Alert Level Three, we expect an increase in Agriculture & Forestry, mainly because Forestry was not deemed to be an essential service at Alert Level Four. **We also expect an increase in Wholesale Trade & distribution and Transport & Warehousing, all key inputs to Māori Land Entities.** There could be a slight increase in Property services to the extent it complies with Alert Level Three requirements.

Change in New Zealand labour activity between Alert Level Four and Alert Level Three

The graph below displays the change in business activity as New Zealand transitions from Alert Level Four to Alert Level Three. Each bar represents the portion of the sector able to operate under each level, measured as labour activity.



Source: Deloitte, Statistics New Zealand, ANZ, Ministry of Business, Innovation and Employment

COVID-19 | Impact on key sectors for Māori Land Entities

What is the exposure risk for Māori Land entities across key sectors?

Impact on economic activity as we move into Alert Level Three

Sectors are considered on a scale from economic activity that is “significantly reduced” due to COVID-19, to economic activity where supply and demand are continuing as usual. Much of the economic loss in the sectors where activity is “significantly reduced” will be permanent i.e. airlines having to downsize fleet or activity, restaurants closing for good.

	Activity halted or significantly reduced	Activity reduced	Activity slightly reduced	Activity relatively unimpacted
Consumer	 Travel (planes, trains, ships)	 Real Estate purchases	 Agricultural produce	 Essential goods (such as food, health and utilities)
	 Hotel & Restaurants	 Investment management	 Luxury goods (influenced by income constraints)	
	 Leisure (e.g. cinemas, sports)	 Discretionary purchases		
Business	 Travel (planes, trains, ships)	 Fisheries	 Power and utilities	 Horticulture
	 Hotel & Restaurants	 Commercial property services	 Wholesale and distribution	
	 Events (e.g. Te Matatini regional competition)		 Dairy	
			 Forestry	

COVID-19 | Impact on key sectors for Māori Land Entities

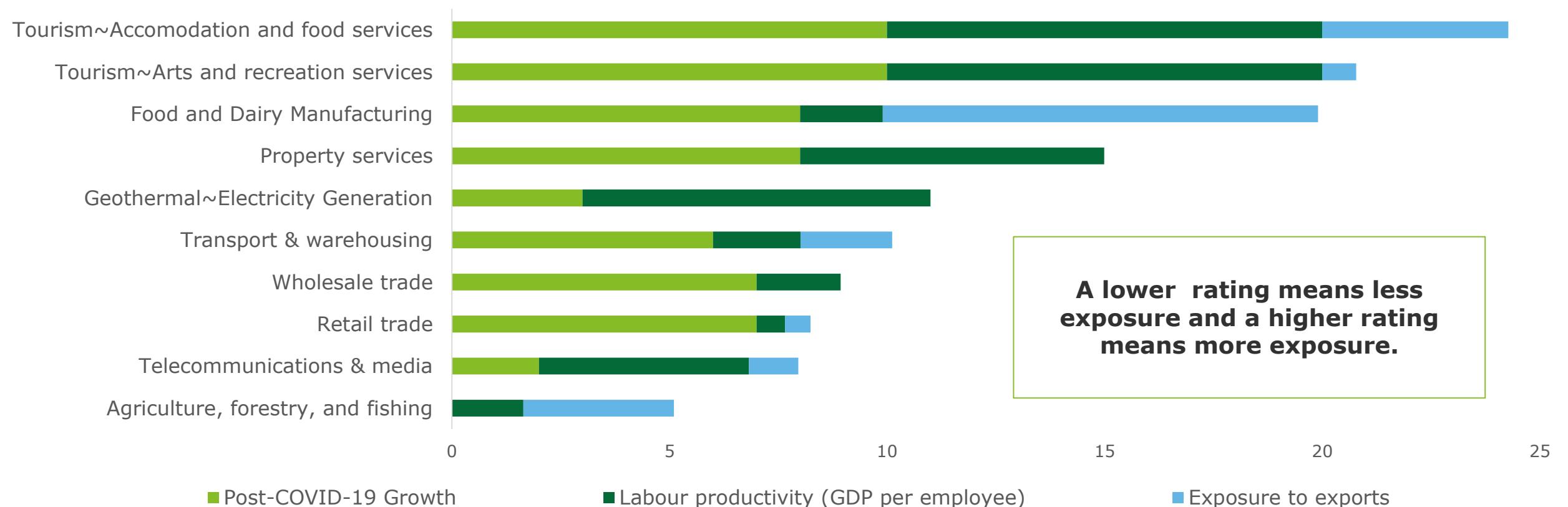
Exposure index for sectors relevant to Māori Land Entities

The Exposure Index consists of three components:

- **Expected Post-COVID-19 growth.** The growth was informed by our in-house view and IBIS sectoral reports on New Zealand. The scale in the Exposure Index is 0 to 10. 0 represents a positive growth and 10 represents a significant negative growth over 2020.
- **Labour productivity.** This indicator shows how labour intensive the sector is. The more labour intensive, along with mobility restrictions, the greater the risk for this sector. 0 represents low GDP per employee in the sector and 10 represents high GDP per employee.
- **Exposure to exports.** This indicator shows how export intensive the sector is based on the percentage of exports to GDP for each sector in 2019. 0 indicates the sector has no exposure to exports and 10 indicates the sector is highly exposed to exports.

Our exposure index reveals that overall, Agriculture, Forestry and Fishing has the lowest exposure relative to the other sectors for Māori Land Entities. Agriculture, Forestry and Fishing could see a positive growth over 2020 and have less exposure from a labour productivity perspective, **but have high exposure to a fall in export demand.**

Total New Zealand sector exposure index, relevant to Māori Land Entities



Source: Deloitte, Statistics New Zealand, IBIS reports

COVID-19 | Impact on key sectors for Māori Land Entities

High level commentary on potential sector impacts

Target industry	Short term	Long term
Dairy	 <ul style="list-style-type: none"> Reduction in dairy export forecast by \$390 million. There are also anticipated reductions in dairy production due to hot and dry conditions. 	 <ul style="list-style-type: none"> Relatively positive outlook as a result of solid domestic production and rising prices, but the reduction of farm-gate milk prices will dent dairy farming and rural incomes.
Horticulture	 <ul style="list-style-type: none"> The re-opening of contactless food suppliers will reduce the barrier to delivering produce by growers and provide an opportunity to meet domestic produce demand. Access to labour will be a key constraint for this sector over the short term. 	 <ul style="list-style-type: none"> Horticulture exports are expected to be relatively positive over 2020. Due to closed borders the sector has taken a hit in international labour supply.
Forestry	 <ul style="list-style-type: none"> Decline of 30% in exports, contributing to significant short term impacts. 	 <ul style="list-style-type: none"> Log exports should be in a good position over the next six to twelve months, however at potentially lower prices and lower volumes.
Commercial Property	 <ul style="list-style-type: none"> Losses where commercial tenants, unable to work through the lockdown periods, default on payments or need to vacate the property. Severity of impacts will vary depending on the type of property i.e. retail, residential, commercial. 	 <ul style="list-style-type: none"> Some tenants' businesses may fail through the recession, which may require vacancy and likely a more challenging re-leasing environment.
Sheep & Beef	 <ul style="list-style-type: none"> Drought conditions have led to a shortage in cold store capacity, and meat processing capacity has reduced by 50% for sheep and 30% for cattle. 	 <ul style="list-style-type: none"> Heavily reliant on exports – 33% of products shipped to China.
Geothermal	 <ul style="list-style-type: none"> The geothermal sector continues to operate in every level of lockdown, with the majority of staff able to work remotely. 	 <ul style="list-style-type: none"> Opportunity to work with the Government and customers to ensure a low-carbon energy sector for a more sustainable New Zealand.
Tourism	 <ul style="list-style-type: none"> Large scale job losses forecast across the service industry with disproportionate impacts felt in Queenstown and Rotorua. 	 <ul style="list-style-type: none"> Domestic visitors to fill some of the international tourism demand gap, however some New Zealanders will also be taking a conservative approach.
Fisheries	 <ul style="list-style-type: none"> Exports expected to lower over the short term due to lower catch limits and a significant decrease in lobster revenue. 	 <ul style="list-style-type: none"> Demand for luxury products such as lobster and paua to drop while international markets recover, but sector as a whole expected to stabilise over 2020.

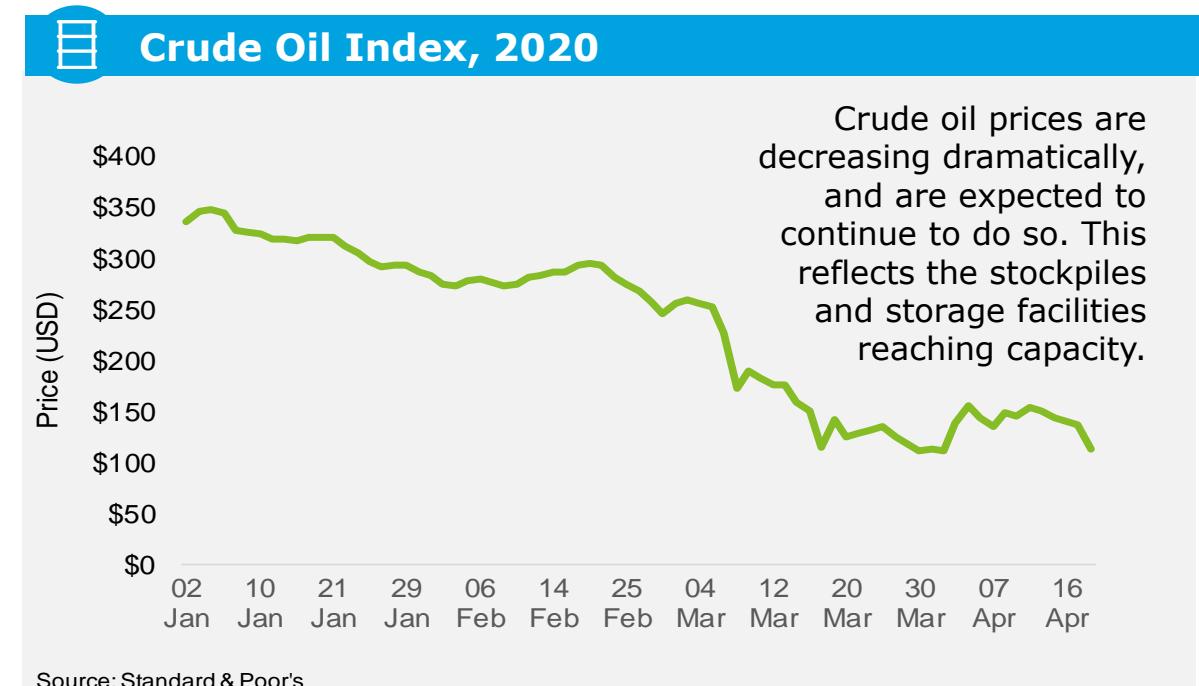
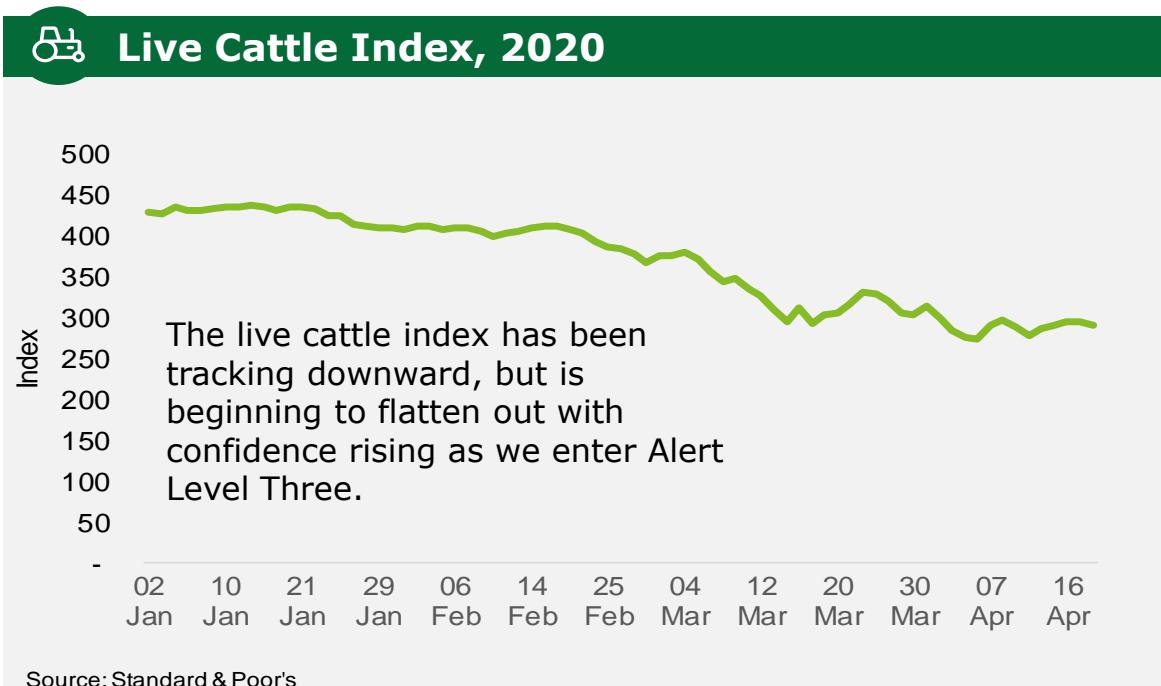
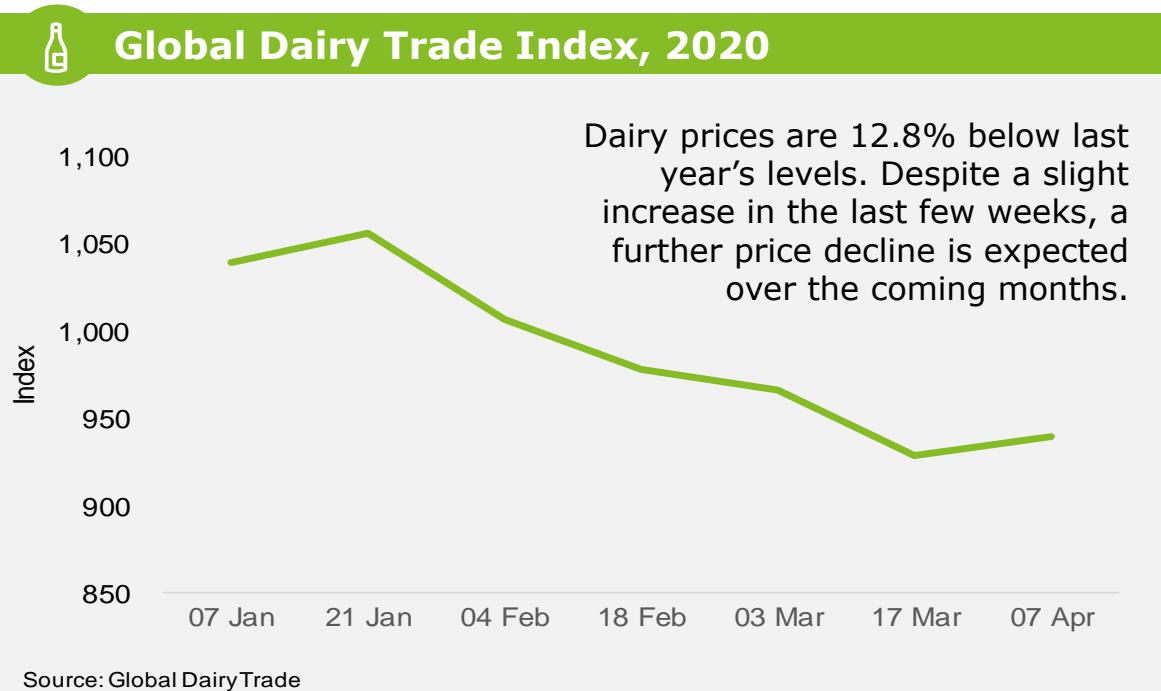
Source: Deloitte, Horticulture NZ, ANZ, ASB, Westpac, Ministry of Primary Industries

 High impact
  Neutral or low impact
  Medium impact
  High demand/opportunity

COVID-19 | Cash flow impacts

Significant shocks have hit commodities

Each economic index reflects the global market over the past three months. The first three indexes (Global Dairy Trade, Whole Milk Powder Price and Live Cattle) align closely with the key sectors discussed earlier in the report. The Crude Oil Index influences, amongst other economic activity, production and transport heavy industries such as Transport, Postal & Warehousing and Forestry.



Conclusion

- The Māori economy is a significant contributor to the overall New Zealand economy particularly in sectors such as Agriculture, Forestry and Logging, and Arts and Recreation.
- The survival of the Māori economy, including its constituent parts such as the Land Entities, partly hinges on how well it can respond to and recover from COVID-19. Initiatives taken by businesses to **Respond** and **Recover** from the impact of COVID-19 will certainly impact how the Māori economy continue to **Thrive**.
- In this report, the first of our three issues, we have provided a discussion of COVID-19-related opportunities and downsides within the Māori economy. We have also discussed a number of action points on how entities can **Respond** to the impacts of the pandemic.
- The **Respond** phase, which should address the immediate challenges relating to supply chain, employee welfare and customer engagements, is aimed primarily at ensuring business continuity.
- Within this phase it is key for entities to dedicate personnel (response task team) to spearhead the response process as well as develop a crisis response plan to steer the business through the pandemic. The response plan should include actions that leverage financial and other support provided by Government and other non-government agencies.
- In our next issue we will focus on how entities can prepare for the **Recovery** phase from the impact of COVID-19. The third issue will focus on how entities can further **Thrive** post-COVID-19.



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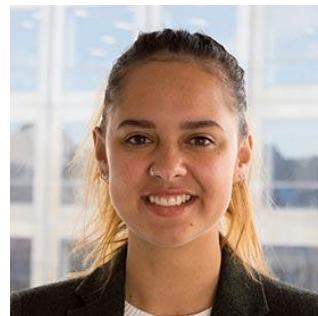
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Te Puni Kōkiri disclaimer

This publication is intended to provide information on the matters contained herein and includes analysing the extent of the impact of Coronavirus (COVID-19) on Maori Land Entities as at the date of the publication. It has been written, edited and published and made available to all persons and entities strictly on the basis that its authors, editors and publishers are fully excluded from any liability or responsibility by all or any of them in any way to any person or entity for anything done or omitted to be done by any person or entity in reliance, whether totally or partially, on the contents of this publication for any purposes whatsoever.



Te Puni Kōkiri
MINISTRY OF MĀORI DEVELOPMENT

Deloitte disclaimer

This report includes analysing the extent of the impact of Coronavirus (COVID-19) on Maori Land Entities. At the time of the Services, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis will have on Maori Land Entities and the broader domestic and global economies.

We rely, in part, on publicly available information in relation to the effect COVID-19.

Accordingly, it is not possible for our Work to identify and quantify the impact of all COVID-19 related uncertainties and implications. Changes to market conditions could substantially affect the Maori Land Entities and our Work. Unless requested, we will not update our Work for any subsequent information or events.

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