

Extra quarantine capacity for ‘critical workers’ is critical

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On August 8, Prime Minister Jacinda Ardern said the Government would consider loosening New Zealand’s border controls and strict visa regime.ⁱ Ardern said the Government is “keen to get local businesses more access to essential skilled workers to help grow the economy and create opportunities for resident Kiwis.”ⁱⁱ

The Government is right to be concerned about this issue. Unfortunately, the Government was forced to switch its focus to stamping out the virus and fixing the country’s evidently porous borders.

But with firms and workers now facing the fallout from a second period of enforced lockdown in Auckland and a return to lighter restrictions country-wide, it is now critical the Government address the border bottleneck.

The human costs of the shortage of managed isolation and quarantine capacity keeping Kiwi families apart is well understood. But the bottleneck at the border also risks choking the life out of the economy. With the border closed to international students, the \$5 billion export education sector – along with the 50,000 jobs it supports – remains on ice.

But the border problem is not limited to students. Businesses are also struggling to bring in critical foreign workers with niche skills not available in New Zealand.

Many people think “foreign workers” refers to seasonal fruit pickers or dairy farmhands. But New Zealand businesses also rely on highly paid foreign workers with specialist skills. The German sewerage specialists brought to New Zealand to help fix Wellington’s waste-water system during lockdown are a good example.

As the economy struggles to get back on its feet, businesses must have access to such expertise.

Border exemptions for critical workers too scarce

While New Zealand’s borders remain closed, an employer may apply to the Ministry of Business, Innovation and Employment (**MBIE**) for an “Employer Border Exception.” To qualify for a border exception, businesses must show their need for an offshore worker falls within one of five specified criteria:

- For a Government-approved programme, infrastructure project or event;
- To support an approved Government-to-Government agreement;
- For a Government-funded science programme;

- To fill an urgently needed role with significant benefit to the national or regional economy; or
- To access workers with unique experience and technical or specialist skills that are not available in New Zealand.

Applications are considered on a case by case basis and Immigration New Zealand claims most approval requests are considered within two weeks of submission.

However, a recent survey of The New Zealand Initiative's members – among them a majority of New Zealand's largest companies – revealed a series of shortcomings with the critical worker exception process.

The key problem is lack of quarantine capacity for the critical foreign workers' businesses. Compounding the lack of capacity is that Government projects on an approved "list" are prioritised. If a project is on the priority list, workers are waved through. Businesses with projects not on the list describe the process as time-consuming and lacking in flexibility or any mechanism for appeals.

As one respondent said, the process "appears to be a bit of a mess ... with a huge amount of paperwork and process and zero visibility on status and timing of any outcome." Another said, "the process is not seamless and transparent, and so you really have no idea if you are going to be successful which makes planning difficult."

According to the responses:

- Large projects are at risk of stalling as employers wait for specialist overseas workers;
- Major plant commissioning will be deferred while firms struggle to get approval to bring in commissioning personnel;
- Senior executives (or their families) are left in limbo overseas after resigning from highly paid jobs to relocate to key leadership roles in New Zealand;
- Critical overseas staff in New Zealand for major projects are unable to take breaks to return to their homes to visit their families, leading to resignations threatening project delivery;
- Firms with overseas subsidiaries or investment opportunities unable to travel to manage their offshore interests; and
- Firms must apply, and then reapply if circumstances change, setting the "clock" back to zero regardless of the application's urgency.

These problems are not just a concern for businesses. The disruption or delay of projects hurts workers as much as the firms employing them.

Solutions needed

When appointed in June and July, the task of Housing Minister Megan Woods and new Minister of Health Chris Hipkins was to fix New Zealand's porous borders. Last month's revelations of systemic failures in the testing of border staff was a significant setback for both the Government and the wider economy.

With the Government once again promising the necessary testing procedures are in place, it is time for the Government to work out how to scale up the country's border capabilities to meet the needs of firms and workers.

The New Zealand Initiative outlined how this could be achieved in its July research note, *Safe Arrivals*.ⁱⁱⁱ The report suggests New Zealand's managed isolation and quarantine facilities could be significantly upscaled with:

- A user-pays system for business migrants (critical workers *and* New Zealand citizens who need to travel overseas for work).
- A booking system to manage both demand and the quality of managed isolation facilities.
- Strict auditing, policing and enforcement.

With businesses willing to bear the costs, budget constraints for the costs of managed isolation facilities will ease. This will increase the range of facilities for user pays managed isolation. Consequently, capacity would not be diverted away from returning Kiwis. Furthermore, taxpayers would no longer need to meet the costs of returning business travellers.

Pending increased capacity for critical worker exemptions, MBIE must change its application-based approach to deciding which firms and projects get priority. The approach gives MBIE no way of knowing which critical workers are *most* critical to the economy. Is it the tunnelling engineer hired for a major infrastructure project or the digital security specialist needed for a national network company? The new chief executive or the new chief risk officer?

The politically-sensitive "shovel-ready" infrastructure projects announced by the Government in June add further complications to MBIE's list-based approach. The projects include the \$360 million cycle and walking path over Auckland's Harbour Bridge (Northern Pathway). But it is unclear why this nice-to-have, but not must-have, project should be on a priority list for critical worker border exemptions.

The priority for "employer border exceptions" should be projects where the shovels are already in use. These are more likely to keep Kiwis in jobs than projects that are not yet even underway.

Fortunately, economics can help fill MBIE's knowledge gap. In situations of imperfect information (like which critical worker is most critical), markets and the price mechanism can help officials discover the best way to allocate scarce resources.

MBIE should approach allocating border exemptions in the same way it deals with other scarce resources – like radio spectrum – and hold an auction. While there are obvious differences between radio waves and quarantine facilities, there are similarities. Both involve concessions from the state to use a scarce resource And MBIE controls both resources.

MBIE could auction off any surplus capacity in managed isolation facilities after allocating places for returning Kiwis and the Government's other social priorities. Using an auction, the Government could ensure its scarce border exemptions are given to those roles with the greatest economic value for New Zealand.

The end-user of an exemption may be a business needing an aircraft engineer, a data scientist, or a specialist project manager. By using an auction process, the Government will know the highest bidder has the highest value use. The money raised by the auctions could also then be spent on further up-scaling quarantine capacity.

However, while an auction process would be worthwhile, the bigger priority is scaling up the country's quarantine capacity at the border to get the whole economy working. Without urgent action, the feedback from New Zealand's largest businesses is sobering. Major projects will stagnate, costs will overrun, and critical overseas staff will be lost. As a result, both the economy and employment levels will suffer.

ⁱ <https://www.stuff.co.nz/national/politics/122380097/tick-tick-podcast-jacinda-ardern-says-border-may-open-for-essential-skilled-migrants>

ⁱⁱ Ibid.

ⁱⁱⁱ <https://nzinitiative.org.nz/reports-and-media/reports/research-note-safe-arrivals/>