

Submission of evidence by



GROWING PROSPERITY AND POTENTIAL

to

**Phase 2 of the Royal Commission of Inquiry
into COVID-19 Lessons**

November 2024

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Introduction

This submission is jointly from Business New Zealand (BusinessNZ) and the Employers and Manufacturers Association (EMA). BusinessNZ is a network organisation that encompasses four regional business organisations, ExportNZ, ManufacturingNZ, Buy New Zealand Made, the Business Energy Council, and the Sustainable Business Council. Through its network, BusinessNZ represent about 75,000 businesses, large and small. The EMA serves mainly the northern half of the North Island, but it also delivers some services on an all-New Zealand basis. The EMA has approximately 7,000 members.

Our submission focuses mainly on the effects of the COVID-19 response on businesses, although we do touch briefly on some of the wider economic effects.

In presenting this submission we recognise that the government of the day was dealing with a situation in which the health and other effects of the pandemic were not wholly foreseeable at the outset. It is understandable, therefore, that it chose to take stringent measures. Some mistakes were made, but we do not seek to lay the blame for any errors. Rather, our aim is to highlight what can be learned from the management of the pandemic, so that errors might be avoided in the event of a similar emergency in the future.

The terms of reference for Phase 2 of the Inquiry

The terms of reference do not specify how, and by when, submissions should be made, but we trust this submission will be received. We would like the opportunity to present and discuss our submission in-person.

We also note that the terms of reference are relatively narrow, and we find this difficult to understand. They indicate that the review must be limited to decisions regarding the national lockdown in August and September 2021, and the extended lockdown in Auckland and Northland in September 2021. This seems odd, given that the evidence we present below indicates that, in some respects, the first lockdown had a larger business impact. The evidence also indicates that the business effects of the second lockdown lingered well into 2022, especially in the northern part of the country. As we also show below, some of the wider economic effects lasted longer and are still being felt today.

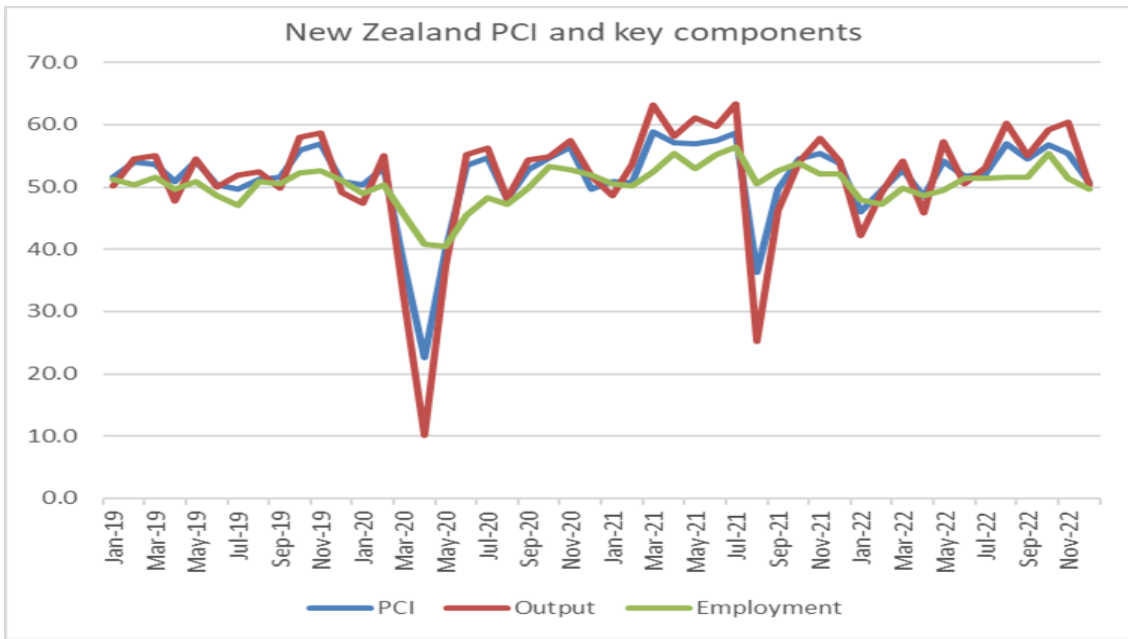
Evidence on the business impacts of Lockdown.

“Lockdown” refers to Level 4 of NZ’s Alert Level Restriction System, which was in place between March 2020 and December 2021. At this Alert Level, businesses were closed except for Essential Services, which included supermarkets, pharmacies, clinics, petrol stations, and lifeline utilities. In addition, all gatherings and all public venues were closed, and travel was severely limited.

The whole of NZ was in lockdown from 26 March 2021 to 27 April 2021, inclusive. The whole country was again in lockdown from 18 August 2021 to 1 September 2021, inclusive. However, Northland remained in lockdown until 2 September 2021, and Auckland remained in lockdown until 21 September 2021.

The national level effects of the lockdowns can be gauged from the graph below, which is based on BusinessNZ’s Performance of Composite Index (PCI), which combines the Performance of Manufacturing Index (PMI) and the Performance of Services Index (the PSI). The indexes are updated monthly.

The graph suggests that the effect of the first lockdown was more severe than the effect of the second. It also indicates that the effects were particularly acute in relation to business output. Employment was less affected because of the payments of the Wage Subsidy Scheme. The scheme meant that many people remained in employment, even though they were not actually working.



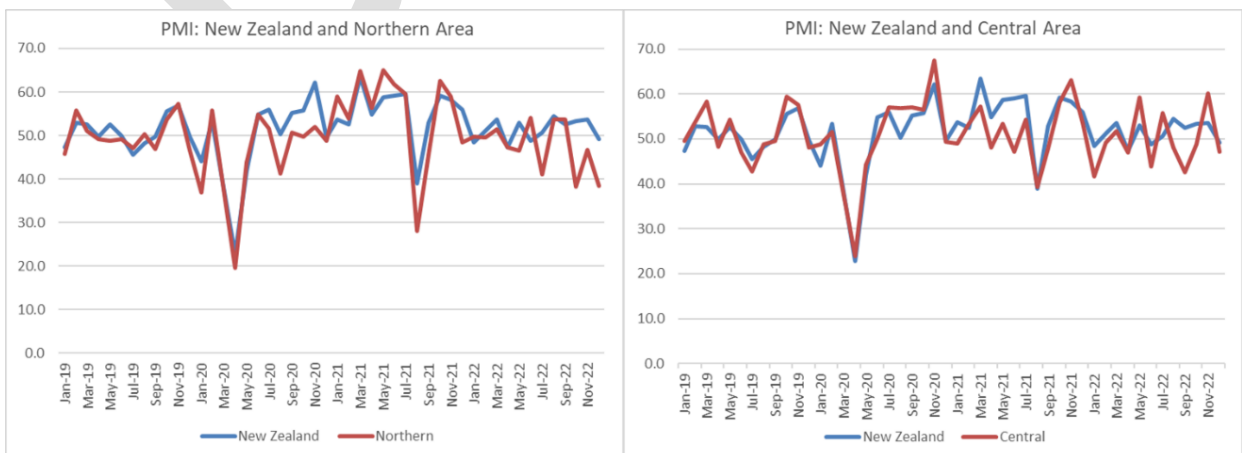
The more severe effects of the first period of lockdown were also evident from Statistics New Zealand’s Gross Domestic Product (GDP) data. GDP fell by 10% during the second quarter (April to June) 2021. Quarterly GDP growth rebounded by 14% during the third quarter and remained marginally positive during the fourth quarter.

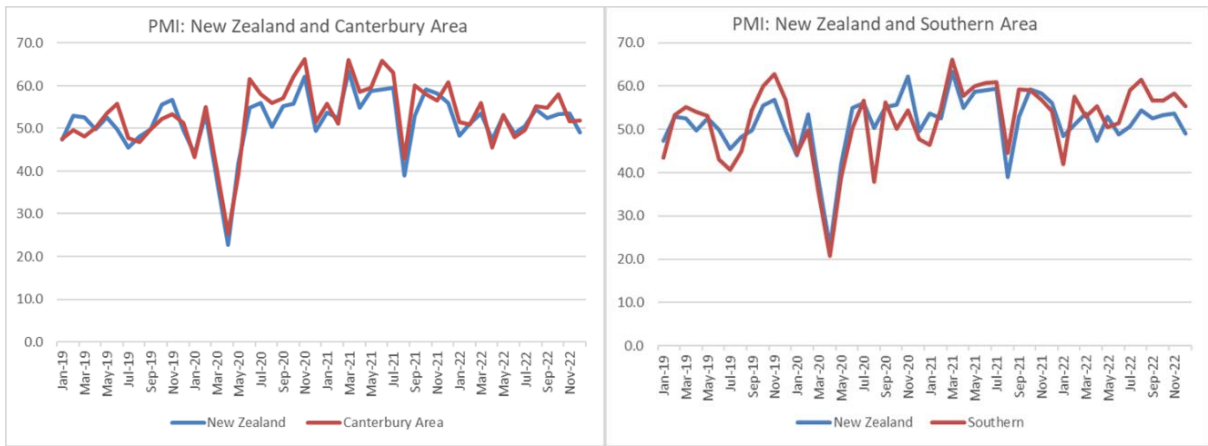
The impact of the second lockdown on GDP was less dramatic than the impact of the first lockdown. In the third quarter of 2021, GDP fell by 4.0% before recovering by 3.5% during the fourth quarter.

Given that the length of the lockdown was not the same throughout New Zealand, it is important to consider the sub-national impacts. We do this in the following graphs, using the PMI and the PSI. It should be noted that the vertical scale in each of the graphs is the same, in order to highlight the relative severity of the effects in different parts of the country.

The PMI and the PSI both show results for four sub-national areas: Northern (which includes the Northland, Auckland, Waikato and Bay of Plenty regions), Central (which includes the remainder of the North Island and the Nelson, Tasman and Marlborough regions), Canterbury (which includes the Canterbury and West coast regions), and South (which includes the Otago and Southland regions). Taken together, the Northland and Auckland regions account for 68% of the population of the Northern area.

The next four graphs indicate the effect of the first lockdown on manufacturing was broadly the same in all four areas, but that the effect of the second lockdown was more severe than elsewhere in the Northern area. There is also a suggestion that the effects in the Northern area lingered during 2022, while they appear to have evaporated elsewhere.



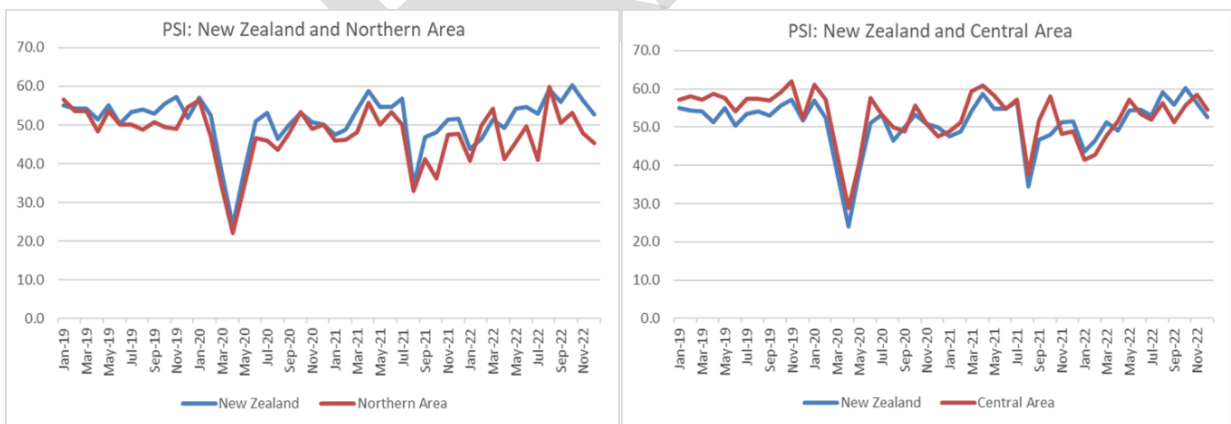


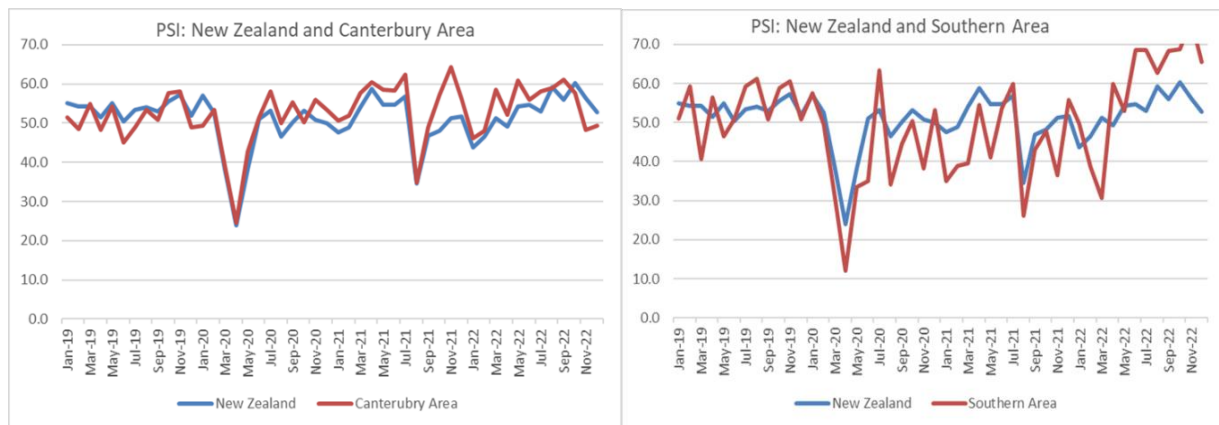
The next graphs use the regional results of the PSI, and they paint a similar picture to the graphs based on the PMI. They indicate that the effect of both the first and second lockdowns in the Northern area was about the same as the effect at national level. However, it appears again that there were lingering effects of the second lockdown in the Northern area.

These lingering effects can be better understood when it is noted that, although Auckland ceased to be in Level 4 lockdown on 22 September (i.e. after roughly 5 weeks), the region remained at Level 3 for a further 6 weeks, while most of the rest of the country was at Level 2. At Level 3 businesses could operate but not physically interact with customers, and public venues remained closed. By contrast, at Level 2 businesses could operate reasonably freely, save for requiring physical distancing and applying contract tracing.

Worse still, when “traffic light” system replaced the 4-level alert system in late November 2021, Auckland entered at the restrictive Red setting, while the rest of the country entered at the freer Orange setting. The region stayed at the Red setting until the end of 2021.

The graph for the Southern area also indicates that the area experienced both the lockdowns and the subsequent recovery period differently from the other areas of the country. The PSI readings for the Southern area were lower than elsewhere during both lockdowns, but there was unusual growth during the second half of 2022. It should be cautioned, however, that the readings for the Southern area are more variable than elsewhere, and this might be because there are relatively few businesses and a relatively small sample size in the area, compared to elsewhere.





Concerns about the management and operation of the lockdowns.

The foremost question, from a business perspective, is whether the restrictions on business operations were too restrictive. Our view is that they were. We say this with the benefit of hindsight, but we infer that the government realised this, as witnessed by the move to the more permissive traffic light system in December 2021. Many businesses had found a way of continuing to operate within the rules, even at Level 4 lockdown, and this might explain why the national level effects were less in the second period than in the first.

Another question was whether the 2020 and 2021 lockdowns, with their associated tight restrictions on business activity were necessary at all. There were actually few COVID cases and deaths until March 2022, by which time there were considerably fewer restrictions than there were earlier. Again, however, this is easy to say with the benefit of hindsight.

A further question was whether imposing different Alert Levels in different parts of the country at the same time was justifiable. This felt unfair, particularly to Auckland and Northland, and it is clear that the economic damage this caused was significant and lasting.

In addition, the decisions about which individuals or groups were permitted to enter the country and bypass MIQ rules were capricious. Regardless of whether the MIQ rules were justified, the decisions should not have been arbitrary and should not have been applied inconsistently. We also note that the MIQ facilities were often operating under capacity, which delayed the entry of vital business personnel into the country.

Our view is that New Zealand needs a better plan that does not rely so heavily on Health Orders, should a similar pandemic occur again in the future. Health Orders provide a legal framework, but they are blunt tools to deal with fast-moving and complex health crises, which require ability to flex when it's clear a rule is not working. Some health edicts were unworkable, others were vague or silent on key issues, which meant that they were often difficult for officials to interpret.

The Ministry of Health was often slow and unjustifiably obstructive in making decisions that had already been made successfully around the world. The delays in importing and applying RAT tests kept businesses unnecessarily under lockdown for extended periods. The EMA, for example, offered 10 million RAT tests in August 2020 from one of its members that was already supplying them internationally. Several months after refusing the tests, officials from the Ministry came back to the EMA asking for help to get them into the country. By then, however, an important opportunity had been missed.

We also believe that it was a mistake to exclude business-focused ministries, including MBIE and MPI, from the decision-making. Government Ministers and Ministry of Health officials did not have sufficient understanding of business issues, and the result was that there were often poor decisions and unintended consequences.

The New Zealand government did establish an Epidemic Response Committee on March 25, 2020, to oversee and report on the government's management of the COVID-19 pandemic. This committee was particularly important during the early stages of the pandemic when the country was under strict lockdown

measures. However, the committee was disbanded on May 26, 2020. This was a mistake, in our view, because it took away the opportunity for wise counsel to be heard.

Regional lockdowns should also have been managed regionally, or at least with regional representation in the decision-making process. They should not have been managed solely from Wellington. For example, when the Ministry of Health first announced that Auckland was going into a regional lockdown, no-one had consulted Auckland authorities. None of the testing stations were aware of the decision that they would be granting exemptions to the likes of truck drivers, and Auckland police warned of a traffic jam extending from the Bombay Hills to Warkworth.

The borders to contain the epidemic within Auckland were arbitrary. They were sometimes along only one side of a street and trapped teachers, pupils, and medical professionals, when their homes were almost within touching distance of their schools and workplaces. Exemption papers and systems to grant them weren't available either.

During the first lockdown, the Ministry for Social Development, and later MBIE through its Auckland Policy Office, worked with an Auckland business focussed group to help advise central agencies on problems and possible solutions. The Police and the Ministry of Health also took part in that group at various times and received and gave advice. As a result, organisations like the EMA, Auckland Business Chamber and Pacific Business Trust, and many others, were able to get accurate information to their members, and also help with input into more informed decision-making. That group still exists today and can quickly be re-mobilised and scaled up.

Can anything be learned from other jurisdictions?

The terms of reference also ask about the experiences of other jurisdictions, but it is difficult to reach firm conclusions on this point. Compare, for example, Norway and Sweden. Norway had rigorous lockdown procedures, while Sweden followed a more relaxed regime in pursuit of herd immunity. Norway had more cases than Sweden, taking their respective population sizes into account, but it had considerably fewer deaths. Sweden, on the other hand, suffered less economic and social disruption. Given this sort of evidence it is difficult to assess which of these two countries experienced better outcomes overall. Nonetheless, we remain of the view that the emphasis in New Zealand should have been on favouring business continuity.

Specific concerns about the arbitrary restrictions on business operations

We presented evidence about the business effects of the COVID-19 response to Phase 1 of the Inquiry. Some of that evidence focused on problems with obtaining vaccines and rolling them out, as well as with obtaining and distributing RAT tests and PPE supplies. Some also pointed to the arbitrariness of rules on business operations, and here we expand upon the effects of how the rules were applied.

Some decisions about whether and how businesses could operate were arbitrary, often unfair, and sometimes had negative consequences. To quote a few examples:

- Small businesses, especially in the retail sector, were prevented from operating, while large businesses were able to stay open. So, for example, butchers, bakeries and other small-scale food retailers were considered to be non-essential and were not permitted to operate. Supermarkets, on the other hand, were able to stay open. The supermarkets were, in effect, granted strengthened monopoly powers.
- This was actually perverse in some ways because many small businesses could have enjoyed business continuity by serving customers without the need for customers to enter their premises. They could have served customers at the doorway. Large businesses could not do this. It is doubtful, therefore, whether the rules actually served the interests of public health, and we believe that businesses should have been able to continue operating, as long as they could demonstrate that they were taking appropriate safety measures.
- Sole traders could have easily continued to work, having a workplace of one. There was no good reason for preventing them, and it is difficult to see how this contributed to the spread of infections.

- Cooked food delivery was not permitted, but non-cooked food delivery was allowed. Supermarkets could sell cooked food, but dairies could not.
- While agriculture and horticulture were designated as being essential, forestry and floriculture were not, even though these four industries had similar work environments. We are aware of media reports about flower growers having to mow their crops.
- Construction could have continued, as it did in Australia, with safety measures and social distancing which would have meant fewer infrastructure delays and a major part of the economy continuing.
- Construction was deemed a critical industry, but manufacturers supplying doors and windows to the industry were not, so you could have your home or building, just without windows.
- We could have protected more of our international student market had the government accepted the reasonable plans put forward by industry to quarantine incoming students in student halls which was declined by the government adamant about maintaining the quarantine hotel system.
- In the particular case of Auckland, the lockdown rules made it harder to keep groceries on the shelf. Many food manufacturers had key staff, like maintenance engineers, production managers and safety leads who could not cross the border, in order to carry out their duties, and the Health Ministry's one by one approval system caused backlogs and frustration. Some food manufacturers had to shut down production lines, which meant product shortages.

Wider economic effects

Before, during and after the lockdowns, there was major monetary and fiscal expansion at a time when there were significant supply side disruptions. The inevitable result of this was elevated inflation, the subsequent tackling of which, through high OCR settings, has had a depressive effect on the economy which is still being felt today. There was also rapid growth in Crown debt which has limited the ability of the government to respond to the recessions that flowed from the high interest rates that were needed to reduce the inflation. We believe that these effects could and should have been avoided, or at least reduced in their severity.

The restrictions on personal interaction, designed to limit the spread of COVID-19, also resulted in reduced school attendance, the effects of which have also lingered and are still being tackled. Our concern about this is that the result is likely to be a reduction in future workforce capabilities that will have an ongoing effect on the country's economic performance.

School shutdowns increased social deprivation and will significantly impact the labour market for years to come. The gap in educational achievement has grown, with the bottom 20% now considerably worse off than they were. This was exacerbated by things like lack of access to technology (the Ministry's distribution of tech equipment to homes was a disaster). The explosive growth in emergency housing, especially in Rotorua, shifted people away from their home communities and supports.

The Auckland lockdown, which of course also isolated Northland, also put a major dent in national supply chains, and this was another unintended consequence. Many companies elsewhere in the country found their supplies of components, raw materials and finished products drying up as the national supply was strangled by Auckland's lockdown.

Conclusions and recommendations

Notwithstanding our concerns about the Terms of Reference for Phase 2 of the Inquiry, we believe that valuable lessons can be learned for the management of negative consequences arising from any future epidemic response.

First, it is clear that the rules about what businesses could and could not operate in lockdown were arbitrary and restricted small businesses unnecessarily. **We recommend that, in the event of any future lockdown, businesses should be permitted to operate, if they can demonstrate that they can do so safely. Moreover, whatever rules are applied should not put small businesses at a disadvantage, compared to large businesses in the same sector.** Rules affecting business operations should be viewed through a Health and Safety lens. If a business can manage the restrictions

applied to Level 4 or Red Alerts, then the business should be allowed to open. In our view, it is especially difficult to justify restrictions on business operations, once population vaccination targets are reached.

Second, we doubt whether it was wise to treat different areas of the country differently when it came to determining the severity of restrictions on business and other activities. Apart from the business and wider economic harm this did, it created a sense of injustice. **We also recommend that, subject to the previous recommendation, different parts of the country should be treated equally.**

Third, we believe that it is important to understand and absorb the lessons for macro-economic management during a possible future time of crisis. Accordingly, **we recommend that decisions about monetary and fiscal settings should be more cognisant of their likely combined effect on inflation, especially when there are supply-side constraints.**

Lastly, we regard it as a mistake to have concentrated all the decision-making power in the hands of a few Government Ministers and Ministry of Health officials. Business-focused ministries were not closely involved, and the Epidemic Response Committee was shut down. **We recommend, therefore, that decision-making powers should be shared with Parliament, the Ministries of Primary Industries and Business, Innovation and Employment, and other departments that have a depth of commercial understanding.** This would avoid many of the unintended consequences we have highlighted in this submission.

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The BusinessNZ Network is New Zealand's largest business organisation, representing:

- Business groups [EMA](#), [Business Central](#), [Business Canterbury](#), and [Business South](#)
- [BusinessNZ](#) policy and advocacy services
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium-sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) - country of origin licensing organisation for NZ-made products, NZ-grown ingredients, and NZ-coded software services

The BusinessNZ Network is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

The BusinessNZ Network contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and Business at OECD ([BIAC](#)).

