



**T H E M C K E L L I N S T I T U T E**

## Insights Report: Counting the cost of Australia's delayed vaccine roll-out

Part Two: International border closures

**May 2021**

## About the McKell Institute

The McKell Institute is an independent, not-for-profit research organisation dedicated to advancing practical policy solutions to contemporary issues.

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## About this Report

The McKell Institute Insights Reports provide a quick analysis of emerging public policy issues.

As COVID-19 persists in Australia and globally, Australian health policy measures including lockdowns and border closures, remain subject to intense public debate. Policymakers have had to weigh health risks and economic risks and continue to do so.

Vaccination represents a newer policy option. The speed of vaccination roll-out determines the ongoing health risks and economic risks.

The opinions expressed in this paper do not necessarily represent the views of the McKell Institute's members, affiliates, individual board members or research committee members.

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## Introduction

After the Federal Government failed to reach its target of four million vaccine doses administered by the end of March 2021, the McKell Institute published *Counting the cost of Australia's delayed vaccination roll-out*.

That report projected the likelihood of capital city lockdowns that could be attributed to the delay in Australia's vaccination program under various scenarios. It then estimated the cost of these lockdowns by producing a risk-adjusted net present value of the economic costs. It found conservatively that the economic cost of these lockdowns would be around \$1.4 billion, even if Australia followed the world-class UK vaccination rate.

State-based capital city lockdowns are only one economic cost associated with the delay in the vaccination program. A second and larger cost is associated with any delay in international border reopening as a result of the delay in the vaccination program.

This report projects the likely delay in border reopening and the economic costs of this delay. It finds that **Australia is on track to end international border closures 81 days later than originally planned and will incur an economic cost estimated at \$16.4 billion** from the delay.

### Australia's international border closures are dependent on the vaccination program

Prime Minister Scott Morrison and Secretary of the Department of Health Dr Brendan Murphy have indicated that international border restrictions are likely to ease in the second half of 2021 providing that two criteria are met:<sup>1</sup>

1. A 'substantial proportion' of Australia is vaccinated; and
2. The vaccine is effective at reducing transmission.

In a January 2021 interview alongside the Prime Minister, the Secretary said:

*"It's in all likelihood they [vaccines] will have a significant effect on transmission and we're seeing some early evidence of that coming from the UK. If that's the case, then they should allow progressively over the second half of this year some relaxation of - the health advice will change - some relaxation of border measures and other measures."*<sup>2</sup>

The Prime Minister agreed saying:

*"The key thing I think is going to impact on that decision, is going to be whether the evidence emerges about transmissibility, and how the vaccine protects against that."*

In January 2021, Qantas began taking bookings for international flights from 1 July 2021 but warned that international travel was subject to the vaccine roll-out.<sup>3</sup> A month later Qantas said that most international flights will resume by late-October 2021.<sup>4</sup>

The October resumption date coincides with the complete delivery of the first dose of the vaccine based on the Government's original targets. Since then, all vaccination targets have been dropped.<sup>5</sup>

## The cost of delaying the end of international border closures

### What are the costs of border closures?

Various models have been developed that assess the cost of border closures. However, these models look at the impact of border closures compared to pre-pandemic activity. Even if the vaccine roll-out runs to schedule, associated economic activity will not immediately return to pre-pandemic levels.

EY has calculated that "while international borders remain closed, Australia is losing \$7.6 billion per month in economic value." We have used EY's findings because they are recent and robust. However, they must be modified because we assume that economic activity will not immediately return to 2019 levels.

This report derives its own estimate for the level of economic activity that will occur once borders reopen and compares this to the current levels of aviation-generated economic activity.

The report assumes a slow, gradual return of the international tourism industry. It uses estimates for tourism-related economic activity produced by McKinsey.<sup>6</sup> In addition, business travel is expected to remain reduced from 2019 levels reflecting expected changes in behaviour.<sup>7</sup>

Victoria University's Mitchell Institute forecasts that international university enrolments will continue to decline as the borders remain closed, stating that:

*"If borders continue to remain closed, this [decline in the economic value of the education sector] will blow out to \$19.8 billion by the end of 2022."*<sup>8</sup>

As such, the new estimate is based on the assumption that the vaccination program and border reopening will stop the decline in international student education enrolments, which will remain steady at the 2020 reduced levels. We consider this a conservative estimate as many states are working to negotiate special arrangements to accelerate the return of international students.<sup>9</sup>

EY estimated economic activity from aviation in 2019 (before international border restrictions) and 2020 (during the period of closed borders). After applying the assumptions above we have estimated the economic activity from aviation when international border restrictions end. The economic activity under the three scenarios is outlined in the table below.

**Table 1: Economic activity generated by aviation**

Scenario	Per year (\$m)	Per day (\$m)
2019 (No border restrictions) <sup>10</sup>	99,366	272
2020 <sup>11</sup> (Current border restrictions)	8,053	22
Vaccinated Australia (End of border restrictions)	82,453	226
<b>Economic cost of delay</b>	<b>74,400</b>	<b>203</b>

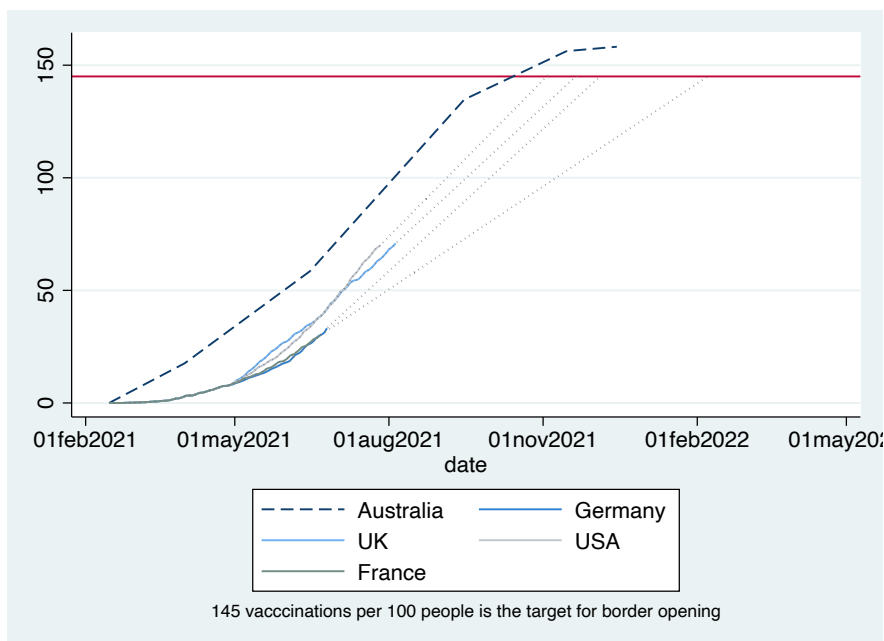
The difference between current economic activity and the economic activity once international border restrictions are lifted determines the economic cost of a delay to the end of international border closures. This report finds that the end of international border closures will increase economic activity by approximately \$203 million per day.

### How long will borders be closed?

We assume that Australia must reach the rate of vaccination forecast for October 2021 under the Government’s original target before border restrictions are eased. This is consistent with Qantas forecasts and the statements of the Prime Minister and the Secretary of the Department of Health.

We have simulated Australia’s vaccination program by superimposing the growth rates of comparable countries as well as projecting Australia’s existing growth rate. We then forecasted the point at which Australia will reach the rate of vaccination required to open international borders.

**Figure 1: global vaccination performance extrapolated to Australia**



If Australia continues at its current growth in its rate of vaccination, the point at which international border restrictions are eased will be 81 days later than originally outlined by the Government. This delay has an estimated economic cost of \$16.44 billion.

The table below also includes the delay in ending international border closures, and its economic cost, should Australia follow the vaccination rate of comparable nations.

**Table 2: The projected delay and economic impact of Australia's vaccination program**

<b>Vaccination rate</b>	<b>Days delayed</b>	<b>Estimated cost of delay (\$ billion)</b>
If Australia continues at the current vaccination growth rate	81	16.4
If Australia follows the USA vaccination rate	20	4.1
If Australia follows the UK vaccination rate	37	7.5
If Australia follows the German vaccination rate	51	10.3
If Australia follows the French vaccination rate	116	26.8

<sup>1</sup> <https://www.abc.net.au/news/2021-02-04/coronavirus-australia-borders-could-open-sooner-vaccines/13119152>

<sup>2</sup> <https://www.pm.gov.au/media/interview-sam-maiden-newscomau>

<sup>3</sup> <https://www.9news.com.au/national/coronavirus-travel-ban-qantas-flights-go-on-sale-july-2020/28976894-9867-442f-a7de-1929b7cbfd05>

<sup>4</sup> <https://www.qantasnewsroom.com.au/media-releases/qantas-and-jetstar-prepare-to-resume-international-flights-from-late-october/>

<sup>5</sup> <https://www.abc.net.au/news/2021-04-11/scott-morrison-abandons-covid-19-vaccination-target/100061998>

<sup>6</sup> <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/covid-19-tourism-spend-recovery-in-numbers#>

<sup>7</sup> <https://www.esri.com/about/newsroom/publications/wherenext/business-travel-decline/>

<sup>8</sup> <https://www.vu.edu.au/sites/default/files/mitchell-institute-stuck-in-transit-international-student-update.pdf>

<sup>9</sup> <https://www.sbs.com.au/language/english/australian-states-consider-plans-for-return-of-international-students-in-2021>

<sup>10</sup> [https://d3n8a8pro7vmtx.cloudfront.net/bca/pages/5386/attachments/original/1603278065/The\\_role\\_of\\_international\\_aviation\\_in\\_Australia's\\_economic\\_recovery\\_EY\\_Analysis\\_22\\_October.pdf?1603278065](https://d3n8a8pro7vmtx.cloudfront.net/bca/pages/5386/attachments/original/1603278065/The_role_of_international_aviation_in_Australia's_economic_recovery_EY_Analysis_22_October.pdf?1603278065)

<sup>11</sup> [https://d3n8a8pro7vmtx.cloudfront.net/bca/pages/5386/attachments/original/1603278065/The\\_role\\_of\\_international\\_aviation\\_in\\_Australia's\\_economic\\_recovery\\_EY\\_Analysis\\_22\\_October.pdf?1603278065](https://d3n8a8pro7vmtx.cloudfront.net/bca/pages/5386/attachments/original/1603278065/The_role_of_international_aviation_in_Australia's_economic_recovery_EY_Analysis_22_October.pdf?1603278065)