

Crisis in Car Rental Sector to delay tourism recovery

The Irish Tourist Industry Confederation (ITIC) predicted today that the lack of cars on the rental fleet will lead to serious loss of business this year. They predict a revenue loss of up to €250 million with attendant Exchequer losses in the region of €60 million.

ITIC is the representative body for the tourism industry which is focused on the economic development of tourism in Ireland, nationally and regionally.

A shortage of rental cars, particularly automatics, was experienced last year when the peak rental fleet numbered 17,500 cars. As things currently stand, according to ITIC, the fleet this year is unlikely to reach 12,500 cars.

Peak Season Car Rental Fleet			
<u>Year</u>	<u>2008</u>	<u>2009</u>	<u>2010 est.</u>
Fleet Size	27,971	17,500	12,500

The best estimate for this year is 60% below the fleet size in 2007, and between 7,000 and 10,000 cars short of what would be the optimum number needed to meet expected demand. The shortfall will inevitably lead to rental prices spiking, and will inflict lasting reputational damage in all overseas markets.

Unresolved, there will be an immediate and profound negative impact on all sectors within the tourism industry, according to Eamonn McKeon Chief Executive of ITIC. One third of all overseas holidaymakers hire a car while in Ireland. That rises to 42% for North American holidaymakers, who face the added problem this year of acute shortages of cars with automatic transmission. An example of the damage being done already is clear in an email received on March 4th by the Car Rental Council from Rachel Wheeler of Tampa Florida;

While you may find the cost of a manual to be reasonable, most people in the U S drive automatics. While we are capable of driving a manual, we have 3 children to worry about, and we will not only be driving on the other side of the road (steering wheel and stick on the other side too), but many roads in Ireland are small, windy, and narrow, and we would want to focus more on the road than worrying about trying to get used to the other side, different hand to shift gears etc. I find it extremely disappointing that to get a car large enough for a family of 5 for luggage space and automatic, skyrockets the price. I assure that I will be posting my facebook page the cost of rental cars in Ireland, which will not help the tourism industry over there and will probably make people re-think before they visit.

Apart from the car rental companies themselves, substantial business will be lost to airlines, tour operators, hotels, B&B's restaurants and visitor attractions. Rural locations will be especially hard hit, as city break tourism is less dependent on car hire for mobility. Shortages

of the magnitude predicted will drive prices to levels which will do lasting damage to Irish tourism's recovery prospects, ITIC claims. They cite a 1 week mid size car rental cost in August from the website of a major international carrier which shows a price premium for Ireland of almost 200%. "At a time when every other sector in tourism is on their knees, and where prices have been reduced massively, here we have one vital service which has the capacity by itself to collapse the hoped for recovery", says McKeon. "If a solution is not found quickly", he added, "this will go down as the greatest tourism own-goal of all time."

ITIC says the car rental business model is broken and cannot be remedied without direct intervention by Government. The car rental business is based on the rental firm's ability to sell used cars to car dealers in the latter part of the year when the peak tourist season is over. The present crisis is due to three shocks which originated in changes to the regulatory system:

- changes to VRT and annual road tax rates to assessment based on CO² emissions;
- the elimination of the Vehicle Registration Tax (VRT) rebate, which was specifically introduced to meet tourist demand; and
- exclusion of current year ex-rentals from the scrappage scheme.

The problem requires an immediate solution to allow additions to the fleet by peak season, as cars are ordered 10-12 weeks ahead of delivery. Unless this problem is addressed now, ITIC is certain that substantial tourism revenue will be lost to Ireland this summer.

The proposed three-stage solution focuses on unwinding the shocks caused by changes to the regulatory regime as these are within the control of Irish policy makers. The three stages are:

- **Stage 1 - Postponing the Elimination of the VRT Refund:** The main argument put forward for removing VRT relief is that it is costly to administer, not that its rationale is no longer valid. In fact, the rationale of providing rental cars to tourists at affordable rates has never been more relevant.
- **Stage 2 - Introducing a Stimulus Programme:** The VRT refund was initially introduced to replace a prior existing grant scheme. Any new stimulus scheme would need to make a distinction between manual and automatic vehicles owing to the significant gap in the residual values of these cars.
- **Stage 3 - Extending the Scrappage Scheme:** Follow the example of Germany and extend Ireland's car scrappage scheme to cover current year ex-rentals. By allowing current year ex-rentals into the scrappage scheme, car dealers will be more willing to enter into buyback contracts, thereby opening up an avenue of supply.

The net gain to the Exchequer from each component of the solution is shown below. The net gain arises because the tax take on each new car always exceeds the cost of the incentive provided, and also, the tax take on the tourism expenditure is salvaged through an increased supply of rental cars.

Exchequer Gain from the Proposed Solution	
An Integrated Solution - Combining Stages 1, 2 & 3	€62.2 million
Stage 1 - Postponing the Elimination of the VRT Refund	€18.8 million
Stage 2 – Introducing a Stimulus Programme	€32.6 million
Stage 3 – Extending the Scrappage Scheme	€13.0 million

The gain from an integrated solution far exceeds the gain from each stage on its own due to scale effects.

The degree to which rental companies, finance providers and dealers are able to respond to the shortage depends on the scale of the incentives provided, according to ITIC. “We can be more certain of successfully closing the rental fleet gap if an integrated package of measures is put in place. The closer the rental fleet is to its optimal size, the less damage is done to tourism”, they add

ITIC is asking the Minister for Finance as a matter of extreme urgency, to incorporate the three self-funding solutions into the Finance Act. Otherwise the non availability of quality rental cars this year will cause long lasting reputational damage to Ireland’s vital tourism industry, seriously delay recovery, and pile further extreme hardship on the sector, particularly in the West and the more remote tourist areas.

ENDS

For further information contact:

Michael Keane, Insight Consultants: 086-8244500

Eamonn McKeon, Chief Executive, ITIC : 087-2564630

Paul Redmond, Chief Executive, Car Rental Council of Ireland: 087-6436895

Note to Editors

Stage 1 - Posponing the elimination of the VRT refund: This results in a net gain to the Exchequer of € 18,8 million in 2010 based on incentivising 2,000 cars to be added to the 2010 rental fleet. This recovers 20% of the estimated tourism revenue loss under a likely scenario of 50% trip cancellation due to car hire shortages

Stage 2 - Introducing a stimulus programme: This would result in a net gain to the Exchequer of € 32.6 million in 2010, based on causing 4,000 cars to be added to the 2010 rental fleet of which 10% are automatics. This action recovers 40% of the tourism revenue loss in a likely scenario of 50% trip cancellation due to car hire shortages

Stage 3 – Extending the scrappage scheme : This is assumed to result in an additional 2,000 cars to the 2010 fleet. This recovers 20% of the tourism revenue loss under a likely scenario of 50% trip cancellation due to car hire shortages.

An integrated solution- Combining stages 1, 2 and 3: This gives the best outcome as running all parts of the proposed solutions together fully closes the rental fleet gap, salvaging 100% of the tourism business.

Each stage above, and the integrated solution, offers an incentive to rental firms and car dealers to add units to the rental fleet that is less than the VRT and VAT earned by the State per car. This means that there is a net gain to the Exchequer for each and every car added to the rental fleet. In addition, the State earns 24 cent from every euro spent by a tourist. So by avoiding trip cancellations due to car hire shortages, the Exchequer increases its gain.