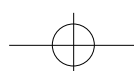
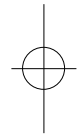
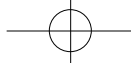


A Recovery Programme for Tourism

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Executive Summary

Ireland's tourism industry is faced with a major challenge - a reversal of the decline suffered in 2001 in a most difficult market environment for international travel and tourism. In order to address this challenge the Irish Tourism Industry Confederation (ITIC) is calling for urgent action to enable the industry to more effectively compete in the international marketplace.

Context

ITIC's Programme for Recovery represents a platform on which Irish tourism can build its recovery through Summer and Autumn 2002 into 2003 and beyond. Based on a comprehensive analysis of market conditions, changing customer behaviour, access transport and distribution patterns and Ireland's competitive positioning, it is apparent that a comprehensive structured approach to regaining lost business is required, rather than any short term fix.

In the changing market and competitive circumstances, Ireland needs to specifically address a number of contextual issues critical to regaining growth. The principal issues include:

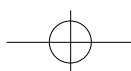
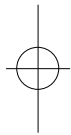
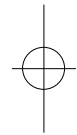
- the need for increased effort to return Irish tourism to the growth targets set out in the National Development Plan (NDP);
- a greater focus on achieving sustainable tourism growth by attracting new visitors who stay longer and spend more than the current average. This can be achieved through a more selective approach to those market segments that offer the better potential for season extension and greater distribution around the country, including a reversal of the decline in own car touring visitors;
- the need for a major year-round marketing presence in Britain, a market which continues to offer potential for growth; continued investment in North America, to further grow Ireland's share of this lucrative market; and a critical re-appraisal of Ireland's positioning and marketing effectiveness in the main European source markets.

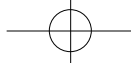
A major over-riding issue is the quantum and efficiency of use, of the resources allocated by the Government to tourism marketing. Currently the allocation is less than than adequate for the task in several markets.

In the context of the above issues, this report outlines the industry's proposal on how best to recover from the recent losses in a manner which will lead to sustainable growth in the future.



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Causes of Recent Downturn

The unprecedented coincidence and accumulation of events in 2001 that resulted in the downturn in tourism to Ireland were:

- the impact of FMD on visitors coming to Ireland in the key booking season in the first half of the year;
- a marked slowdown in global economic activity; and
- the impact of the terrorist attacks of September 11th causing a reduction in travel, especially from North America precipitating a crisis in the global airline industry forcing a reduction in available capacity.

Measurable Impacts

The effect of these factors together caused:

- Loss of 770,000 visitors against target;
- Loss of €317 million in tourist expenditure, against target;
- Loss of up to 10,000 jobs; and
- Loss of least €180 million in Exchequer receipts.

These topline results, however, mask a number of more serious losses incurred by businesses and by regions during the past year. In some instances the downturn in business was of the order of 20%.

A Strategy for Recovery

This extraordinary set of circumstances which has weakened Ireland's tourism industry needs to be reversed. ITIC proposes a recovery programme to respond to the unique set of challenges, based on a three pronged strategic approach as follows:

□ **Destination & Product Marketing**

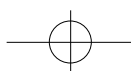
The provision of adequate resources to address the unique challenges facing the industry by the allocation of an additional €20 million in selected markets necessary to stimulate growth. This additional funding for destination marketing will increase the effectiveness of the €134 million plus expenditure on marketing by the commercial sector.

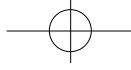
□ **Access**

As competitive access is a key to growth, a programme of incentives and supports for airlines to restore lost capacity and expand competitive access from key markets is proposed. In addition, a number of timely promotional initiatives with ferry companies to grow the 'own car' touring market is recommended.

□ **Business Relief Measures**

The introduction of a number of specific measures to improve Ireland's competitiveness and to secure the continued viability of SME's by alleviating business hardship is proposed.





Summary of Proposals

□ **Destination and Product Marketing**

The following proposals, detailed in the Report, are based on the best market opportunities and prospects for 2002 and 2003.

- **Britain**

Additional funding to expand advertising throughout the year focusing on own car segments, short-break and special interest traffic. Estimated cost of €5m.

- **North America**

Restoration of TV advertising campaign in key metropolitan gateway areas, together with intensified co-operative and support campaigns with airlines and tour operators. Estimated cost of €5m.

- **Europe**

Expanded advertising and promotional campaigns in selected source markets at an estimated cost of an additional €4m. The campaigns would feature low fare competitive access by air and own car traffic.

- **Products**

The industry argue strongly for the restoration of the budget to 2001 levels (+€3.5m) in view of the increased importance of product as a choice of destination. Opportunities in the conference and incentive sector, especially from Britain, justify a minimum of €1m additional funding.

- **Home Holidays**

The underlying importance of the domestic market, which proved to be responsive to increased promotion in 2001, warrants expanded promotional campaigns at a cost of €1.4m.

□ **Access**

- **Airlines**

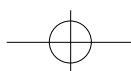
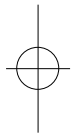
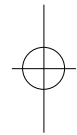
A combination of marketing support and incentive schemes in relation to access charges will serve to stimulate the extra capacity required for growth. The measures being sought include reduced access costs or improved incentives for new and developing routes. The marketing support would include above the line advertising in key market gateways, CRM (customer relationship marketing) campaigns with target and niche market groups; and joint trade promotions.

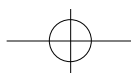
A key target is the restoration of lost capacity and routes together with the introduction of low fares from continental Europe.

- **Ferries**

Visitors arriving by car contribute to the key government objectives of attracting higher spending tourists and widening the spatial and seasonal spread of visitors. It is proposed that the additional marketing activities jointly with ferry operators would include consumer advertising, direct marketing and trade promotional campaigns.

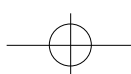
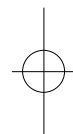
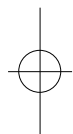
The industry also supports a reduction in port fees and charges for sea access.





□ ***Business Relief Measures***

As many businesses within the sector are facing severe financial difficulties a number of business relief measures are being sought, which will also improve the competitiveness of Irish tourism. Amongst the measures proposed are double tax allowance for overseas marketing expenditure, relief on local authority rates, a reduction in the VAT rate for hotels and restaurants, raising the threshold for VAT liability, together with other measures for the coach and car rental sectors.



1. BACKGROUND

2001 was an extremely difficult trading year for Irish tourism. Preliminary estimates, published by Bord Fáilte, indicate a decline of at least 7% in visitor arrivals. Compared with the target set for 2001, the preliminary estimates represent a loss in earnings up to €317m and 770,000 fewer visitors. However, these top-line results mask the losses suffered by many sectors and businesses within the industry.

The recent downturn in tourism is estimated to have cost the loss of up to 10,000 direct and indirect Irish jobs. CERT estimates that in the hotel, restaurant and bar trade alone, 8,000 jobs, both full-time and part-time, have been lost. This is the first decline in tourism employment in Ireland in a decade. A further erosion of tourism in 2002 on a similar scale would put a further 10,000 to 12,000 jobs at risk.

The Irish tourist industry is now facing its most serious crisis since the early 1970s, as a result of combined damage caused by Foot & Mouth Disease, the global economic slowdown and the aftermath of September 11th.

Furthermore, Ireland's ability to compete and win back tourists in the short term has been seriously damaged as a result of the events of the past year, namely:

- the actual loss of business to competitor destinations and the lingering damage to the image of Ireland as a rural outdoor destination due to the impact of FMD - this is a serious concern particularly in the British and mainland European source markets and amongst specialist market segments;
 - severe losses for tourism service businesses dependent on the North American market, which was down at least 14% with the loss of 143,000 visitors - this has particularly impacted on carriers, the accommodation sector, tour operators, car hire, coach operators, retail outlets and visitor attractions. US tourists are Ireland's highest spending visitors and many businesses cater primarily to this market;
 - the loss of air routes and the curtailment of services, such as Aer Lingus services from Baltimore/Washington; Newark; and Stockholm, Delta's New York service and BA's services from London to Shannon and Cork. The recent reduction in air services appear to have disproportionately affected access to/from Shannon and Cork. The most serious contraction is expected to be on trans-atlantic services with a reduction in capacity of between 20% and 30% for Summer 2002.
- the travel trade distribution network on which Ireland depends has been seriously weakened over the past year as tour operators specialising in Ireland, and the larger branded distributors, face financial difficulties. Several tour operators have reduced staffing levels and constructed their product range, while a few specialist operators have ceased trading.

The impacts of the business downturn and the considerably reduced prospects for 2002/2003 have serious implications for the economy, especially in those areas of the country heavily dependent on tourism for employment and economic activity.

The Challenges Ahead

The unique set of challenges facing Ireland in the short term, include:

- increased international competition as destinations vie for a share of a reduced market, with many destinations already increasing their marketing budgets;
- future economic uncertainty, rising unemployment, and reduced disposable income in most source markets, with some markets already in recession;
- a weakened airline and travel distributor network promoting and servicing tourist demand for Ireland; and
- the ongoing international fight against terrorism and concerns about security of travel, most evident in a reluctance on the part of many Americans to travel.

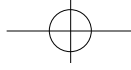
Recovery Proposal

Arising from the recent events and current challenges facing Irish tourism there is an urgent need to put in place a recovery programme to avoid further losses.

The industry is convinced that there is a compelling economic and business case for an expanded investment in marketing Irish tourism. The recovery programme proposed for 2002 is designed to safeguard the extensive investment in plant and employment and to return the industry to playing a significant role as a generator of economic prosperity in Ireland.

This report sets out the rationale for a recovery programme, proposes a short to medium term strategy, recommends how best to address marketing, access and business performance issues facing tourism.

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2. THE CASE FOR INVESTMENT IN A TOURISM RECOVERY PROGRAMME

2.1 Government & Industry Partnership

Recent downturns in tourism, due to factors outside the control of the industry, have resulted in a performance in 2001 that falls short of the targets set in the National Development Plan (NDP), in terms of visitor volumes, expenditure, employment, exchequer receipts and seasonal distribution. The outcome for tourism in 2001, shows a level of visitors 770,000 short of the NDP target and earnings €317+ million below target.

The outlook for 2002 is more difficult and challenging than the assumptions on which the NDP targets were set and will require considerable increased effort for tourism to recover.

The commitment of Government to the tourism sector as an instrument of economic growth is well evidenced by successive policy initiatives and funding for product development, destination marketing and human resource development.

An Taoiseach recently re-iterated that commitment to the industry: *"I want to assure you that the Government is fully aware of the difficulties facing your sector. We are determined to help you respond effectively to the short-term challenge of the recent downturn - while also ensuring that we have the correct structures and strategies to realise the long-term potential contribution of tourism to the Irish economy."* [CERT - Tourism Business Forum, November 26, 2001]

Over the past ten years government-led policies have resulted in excess of €2.5 billion capital investment in the tourism product, which together with greater public private sector partnership in destination marketing, has resulted in Ireland enjoying its best ever period of tourism growth, exceeding that of its competitors. The foundations of that growth have been investment in product and service quality; increased and more professional public and private sector marketing; and the availability of increased and more competitive access. The latter two components are now under threat and need to be addressed, if the strong product base and future investment in plant is not to be eroded.

The importance of tourism is fully recognised in the National Development Plan, especially the development of sustainable tourism as a means of widening the spatial and seasonal spread of visitors, thereby increasing the benefits of tourism expenditure to the under-performing regions of

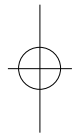
the country. The Government has recently announced a new Tourism Product Investment Scheme, as part of the Tourism Measures of the Regional Operational Programmes for the BMW and South and East Regions, which will provide up to €130 million from EU and Exchequer funding.

Partnerships between government and the commercial sector has been recognised as an important contributor to tourism's success in recent years. Since the mid-1990s the public and private sectors have developed effective partnerships through the Overseas Tourism Marketing Initiative (OTMI), the Tourism Marketing Partnership (TMP) and, most recently, through representation on the Board of Tourism Ireland Limited. The industry acknowledges the Government's commitment to partnerships and values its ongoing effectiveness.

In recent years the states expenditure on marketing has generated annual tourism income from foreign visitors of at least 50 times the investments, which in turn yielded a return to the Exchequer of at least 28 times the marketing budget.

The short-term difficulties which the tourism sector faces warrant a consistency of approach through a series of additional measures in order to bring about the sustainable objectives set for the sector.

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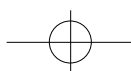
2.2 The Economic Argument

Tourism is the world's largest growth industry. It is Ireland's second largest industry and a major contributor of foreign exchange earnings.

In Ireland, tourism is vitally important in sustaining regional economies and populations in remote areas. The industry is dominated by small - and medium-size enterprises and family concerns and fosters a high level of co-operative effort at local and national level.

In 2000, tourism contributed €4.8 billion to the Irish economy, accounting for 4.2% of GNP. In 2000, tourism generated:

- Significant earnings
- €2.9 billion expenditure by out-of-state tourists;
- a further €0.8 billion by overseas visitors on fares to Irish carriers; and
- €1.1 billion in domestic tourism expenditure.



- Value to the Exchequer
 - €2.0 billion to the Exchequer through taxation of tourist expenditure, of which €1.6 billion came from foreign tourists.

- For every euro spend by out of state tourists, 57 cent eventually ends up with the government through VAT, excise, PAYE, etc.

- Employment
 - Tourism supported 145,000 full-time job equivalents (direct and indirect) in 2000, or 8.7% of employment, equivalent to one in 12 jobs.

- Every €1.3million of out-of-state tourism expenditure supports 51 jobs.

- Regionality
 - Tourism activity is particularly concentrated in areas that lack an intensive industry base; and
 - Tourism plays an effective role in the regional distribution of economic benefit. 40% of visitors to Dublin also visit at least one other region in Ireland.

Table 201: Distribution of Incoming Tourism Revenue 2000

| | |
|---------------|-------|
| Dublin | 30.0% |
| Midlands/East | 9.4% |
| South East | 8.3% |
| South-West | 18.4% |
| Shannon | 11.3% |
| West | 14.9% |
| North West | 7.7% |

Source: Bord Fáilte

- Increasing Importance of Tourism as an Employer

Tourism has been increasing in importance over the past five years in terms of income and employment generated, in contrast to agriculture, which has been declining in relative importance.

Table 202: Employment in the Tourism and Agriculture Sectors

| | 1995 | 2000 | Change +/-% |
|----------------------------------|---------|---------|-------------|
| Direct employment in tourism | 55,025 | 74,700 | +35.8% |
| Direct employment in agriculture | 149,100 | 120,100 | -19.5% |

Source: National Accounts

In 1995 the contribution of agriculture, forestry and fishing to Ireland's Gross National Product, or the 'value added' by the sector was some 2.8 times the size of tourism. However, by 2000 tourism's contribution had grown while agricultural output declined in absolute terms to 1.9 times that of tourism.

Return on Exchequer Investment

Investment by the state in tourism marketing yields a handsome return in terms of additional expenditure into the economy. On average in recent years, visitor expenditure in Ireland represents a return of 50:1 on the cost of the government funded marketing programme.

If non-discretionary visitors for business and those visiting friends and relatives are excluded, the average rate of return on public sector marketing expenditure is 30:1.

Tourism marketing investment tends to yield not only a higher rate of return than that achieved in other sectors, but more importantly, provides a more immediate return in foreign earnings and consequential employment. The short-term return on incremental marketing investment was amply demonstrated in 2001, when additional destination marketing expenditure of €8m generated an estimated additional €130m in visitor expenditure, a marginal rate of return close to 16.1.

2.3 The Scale of the Marketing Challenge

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The environment for travel demand is far more challenging than at any time in the recent past. The global economic climate together with the consequences of the terrorism attacks of September 11th on travel patterns and intentions create a unique set of circumstances.

In addition, Ireland in 2002 is uniquely challenged to deliver in the context of an all-Ireland destination marketing programme being implemented for the first time by Tourism Ireland at a time when the scale and intensity of the competition is increasing.

The scale of the marketing task is not inconsiderable, combining the need for continuing strategic destination marketing with more tactical re-assurance and priced promotional messages to selected markets.

The recently published Government Book of Estimates and Tourism Ireland's Limited outline marketing programme would indicate that the total marketing resource being allocated by the state to the task of destination and product marketing in 2002, is well below the tourism marketing budget in 2001. The proposed budget for 2002 is, at best, approximately equal to the resources allocated in 2000.

While the quantum of resources may be comparable the marketing environment and the scale of the tasks are considerably different and more challenging. Entering into 2000, most source markets were buoyant with tourism demand growing; Ireland was on a fast growth path winning market share from its competitors; capacity on access routes was expanding ahead of demand offering highly attractive fares thereby driving growth; and improved product offering were attracting a number of new special interest niche markets.

These conditions are in stark contrast to the prevailing conditions facing the industry as it goes into 2002. In addition, the allocated resources are intended to support the launch of a new all-Ireland strategy and the roll-out of Tourism Brand Ireland's new communication campaigns.

2.4 Market Responsiveness to Promotions

The responsiveness of the market to tactical promotion, including pricing, has always been acknowledged by the government and the industry. In times of crisis in the past additional resources for marketing have been recognised as necessary to stem the decline. The responsiveness of the market was most recently evident in 2001 following the FMD scare which deterred up to an estimated half a million visitors.

Additional resources made available by Government, together with incremental marketing and discounting by the industry, resulted in generating short-term demand which partially compensated for the loss of booking during the FMD crisis which coincided with the peak decision and reservation period. The result was that Ireland recovered business resulting in an estimated net loss of 175,000 visitors due to FMD.

Table 203: 2000, 2001 and 2002 Est. Overseas Marketing Budgets (non-pay)

| | 2000 | 2001 (est.) | | 2002 (est.) |
|-------------------------------|------|-------------|---|-------------|
| Bord Fáilte Marketing (B1/B3) | €21m | €28m | Tourism Ireland (incl. N.I. contribution) | €27m |
| OTMI | €8m | - | Bord Fáilte / Tourism Ireland | €5m |
| Other Marketing funds (est.) | €25m | 36m | Bord Fáilte other funds | €23m |
| Est. Total | €54m | €64m | Est. Total | €55m |

Sources: Various published data from Bord Fáilte and Tourism Ireland Ltd.

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On the basis of the foregoing analysis it is obvious that the proposed resources are inadequate to the task. Furthermore, the allocation for 2002 falls well short of the record marketing investment by Government in tourism in 2001.

Overseas Marketing Expenditure by the Industry
In 2001, the commercial sector spent an estimated further €134 million on marketing Ireland and its tourist services. This expenditure is in addition to the destination marketing spend by the state, so that the combined expenditure is close to €200 per annum.

Table 204: Summary of Marketing Expenditure by Industry

| | 2001 | 2000 |
|-------------------------|---------|---------|
| Carriers | €50.0m | €49.0m |
| Accommodation Sector | €43.0m | €42.0m |
| Tourist Services | €11.0m | €10.0m |
| Irish Tour Operators | €9.0m | €9.0m |
| Overseas Tour Operators | €20.0m | €19.0m |
| Total | €134.0m | €130.0m |

Table 205: Industry's Marketing Expenditure by Market Area

| | 2001 | 2000 |
|------------|--------|--------|
| Britain | €34.4% | €33.6% |
| C. Europe | €27.9% | €28.5% |
| N. America | €33.5% | €33.8% |
| Other | €4.1% | €4.1% |

This clearly demonstrates the benefit of allocating incremental marketing resources.

Furthermore the rate of return on the additional or incremental marketing expenditure represents good value for money for the government. The marginal average rate of return is estimated at a minimum of 16:1 on the €8m additional overseas marketing funds provided to tackle the impact of FMD - the return would have been greater but for the effects of September 11th on traffic from the US in September/October.

Tactical marketing responses, including fare initiatives, have proven ability to stimulate demand. Experiences over the past three months amply demonstrate that fare initiatives and other value-added tactics on the part of carriers, destinations and product providers have stimulated the market for travel, particularly for trans-atlantic leisure travel.

For example, low fare promotion by Aer Lingus in the US demonstrated that despite the overall adverse market environment and a demonstrable reluctance to travel, attractive pricing can stimulate demand in specific market segments.

The domestic market also proved responsive to increased promotion in 2001. The allocation of an additional €1million through Bord Fáilte contributed to the estimated 12% increase in home holiday which had been reported.

2.5 Competitive Destination Activity

Ireland is not unique in facing the challenges that lie ahead. Since the outbreak of FMD, Britain, our closest competitor has been expending additional resources to recover its position in those markets in which we compete.

Most destinations have responded by allocating additional resources in order to stimulate demand in the aftermath of September 11th. The resultant trend of travel to closer to home destinations has considerably increased competition between European destinations, together with an increased emphasis on domestic tourism promotion in many of Ireland's source markets.

Some sample initiatives taken by competitor destinations in Ireland's source markets include:

- *Britain:* in response to Britain's tourism trade special offers, BTA launched a new website, 'Britain for Less' - www.visitbritain.com/uk/britainforless - to help promote these to the public and meet the needs of visitors travelling on a budget. In addition to a special campaign in Oct/Dec 2001, the BTA has launched a new ad campaign, using the banner "UKOK" in Canada, Belgium, France, Germany, Ireland, the Netherlands and the US, which will run between February and June.
- *US:* the Travel Industry Association of America (TIA) has launched a US\$20 million high profile tv advertising campaign to encourage travel to and within the United States. In addition the TIA is working to draft federal tax legislation, which would provide business relief and encourage expenditure on travel.
- *Canada:* committed and additional \$14 million for an aggressive multi-pronged tourism marketing strategy in East Coast US and UK markets. The campaign, launched in late October, included new direct-response television campaign, supported by radio, print and e-marketing campaigns.
- *The Scottish Tourist Board (STB):* following the launch of A New Strategy for Scottish Tourism, is formulating a national strategy for transport. The STB together with the Scottish Enterprise and Highlands & Island Enterprise has identified a number of access transport 'gaps', from Sweden, Italy, Spain and the Unites States. The Scottish Executive has agreed to provide incremental funds or a number of financial support packages for interested carriers.
- *The Norwegian Tourist Board,* in an effort to encourage visits by U.S. travellers, has teamed with SAS Scandinavian Airlines, Norwegian Coastal Voyages, and the Fjord Norway region to form the Discover Norway Marketing Alliance. The alliance aims to boost awareness of the country's charms among consumers and agents through consumer ads and direct mailings.

2.6 Some Market Indicators

An analysis of a number of key travel and intention indicators that have emerged over recent weeks point to a slow recovery within certain market segments. These trend indicators represent contestable opportunities that Ireland can exploit with a keenly focused and properly funded marketing campaign.

- Estimates of December passenger traffic from six major US airlines, including American, Continental, US Airways and Southwest, suggest a collective 14% drop compared with December 2000. Traffic had fallen 32% in September, with a slow recovery to a 26% decline in October, followed by 20% decline in November.
- The cost of travel is decreasing, while low cost carriers report continued growth despite the terrorist related and economic conditions.
- A survey conducted in January 2002 by ICM Research on behalf of Nation-wide Building Society reveals that British people will still be going abroad this year. This year, more people are intending to travel abroad for their holidays with 51% planning to go abroad and only 18% preferring to stay in the UK.
- The second Travel Confidence Index from online travel agent Expedia.co.uk shows that the "cash rich" older age groups and ABC1s who are most undeterred by recent events.
- Nine out of 10 Americans are saying that their vacation travel plans have not been changed by the events of Sept 11. The latest poll conducted by Yesawich, Pepperdine and Brown, released in mid-November, showed for the second consecutive month an increase in positive intention to travel for leisure amongst Americans.
- The present market climate suggests a reversal of the trend of the past five years where Europeans were increasingly taking long-haul holidays at the expense of short-haul intra-European destinations. The immediate outlook suggests that the short-haul sector will gain at the expense of inter-continental destinations due to concern regarding travel to a number of areas and the impact of economic downturn on disposable incomes.
- The latest data from the Association of European Airlines shows signs of a slow recovery on a weekly basis.
- Reports from Aer Lingus and the United States Tour Operators Association indicate a level of recovery becoming apparent in the US market, particularly for travel in the first quarter.

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3. AN INTEGRATED RECOVERY PLAN

3.1 A Strategy for Recovery

A tourism recovery programme to successfully respond to the unique set of challenges needs to address three inter-related components in an ordered and complementary manner, namely:

- Destination & Product Marketing;
- Access; and
- Business Relief measures

Ireland's tourism needs to implement appropriate strategies in each of these three areas.

Recommendations

- The present climate calls for a greater emphasis on short-term tactical promotional campaigns appropriate to each market. The emphasis should typically feature more co-operative advertising with the trade.
- Based on recent business-to-business meetings between product providers and market travel trade there is an urgent need to support the distribution network of carriers and tour operators who feature Ireland. Otherwise Ireland's competitive strength built up with considerable investment will be eroded.
- Specific measures are required to ensure that the industry remains competitive and that the sustainability of SMEs can be secured for the future.

3.2 Destination and Product Marketing

The approach proposed for 2002 by Tourism Ireland and Bord Fáilte is fully endorsed by ITIC, namely a focused concentration on those source markets and segments that represent the best short-term prospect, while at the same time maintaining a promotional presence in all markets to benefit from any recovery in the short to medium-term.

Priorities

The best overseas market prospects for 2002, on the basis of current market conditions, including economic projections, would appear to be, in order of priority.

- Britain;
- North America;
- Mainland Europe; and
- Other long-haul markets.

The industry are firmly of the view that the focus of both destination and product marketing must be

concentrated on identified segments in each market that are likely to be the most receptive and thereby yield the best rate of return on marketing investment.

The domestic market will continue to underpin the tourism sector and warrants increased marketing investment.

The industry is committed to working with Tourism Ireland and Bord Fáilte to maximize the effectiveness and efficiency of the combined public and private sector marketing spend through a broader platform of joint programmes in each source market.

The quantum additional resources are based on an assessment of the appropriate level of destination and product marketing required to stimulate recovery in the current circumstances. The allocation of these resources reflects anticipated market responsiveness and the expected level of competitor activity across Ireland's source markets.

The following set of proposals are presented on the basis of

- a prioritisation of the 'best prospects' for Ireland in the correct context;
- maximising growth opportunities in each market in order to speed up recovery towards NDP targets; and
- effectiveness, efficiency and achievability of proposed marketing initiatives.

The programme of initiatives proposed represent a re-instatement, where appropriate, of marketing activities that have been curtailed compared to 2001, together with a re-focussing of marketing tactics to stimulate short-term prospects in identified market segments.

The case for additional findings is justified on the basis of the proven responsiveness of the market to promotional campaigns which include good value offers. Most recently this has been demonstrated by the impact of special offer fares on trans-atlantic routes, where the market responded and incremental traffic, which would not otherwise have travelled, visited Ireland.

Table 301: Summary of Proposed Budgets and Additional Marketing Expenditure for 2002

| | Proposed Budget | Additional Funding Required |
|-------------------|-----------------|-----------------------------|
| Britain | €8.7m | €5.0m |
| North America | €8.0m | €5.0m |
| Europe | €10.4m | €4.0m |
| Product Marketing | €12.6m | €5.0m |
| Sports Marketing | €6.4m | - |
| Home Holidays | €2.1m | €1.4m |
| Est. Total | €48.2m | €20.4m |

Source: Estimates based on published data
Notes: *Tourism Ireland Ltd provision **Bord Fáilte provision

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3.2.1 Britain

Ireland's largest and closest market represents the best market prospect in the short-term. The market where Ireland has a larger potential customer base, including past visitors and those with Irish affiliations, is well serviced by air and sea access. Proximity, common language, strength of Sterling, lower petrol costs, familiarity and the peace dividend of decommissioning combine to position Ireland as a safe and viable year-round alternative destination in a time of concern regarding travel. Market segmentation, range of promotional communication channels and short lead-time for decision making provide Ireland with the ability to respond to an evolving market environment.

Based on the market size and its potential for Ireland, the market justifies a year-round marketing presence, so that the destination is continually visible to prospective leisure travellers.

Currently Ireland's spend in Britain is less than adequate to achieve maximum market penetration. The aim should be to double the advertising spend in a concentrated effort to exploit the year-round opportunities of the market.

Key target segments for 2002 include:

- Short-break and alternative destination seekers;
- VFR;
- Special segments for sports, events and life-style values;
- Own car market;
- Coach tours; and
- Business related travel: meetings / conferences and incentive travel.

Schedule A: 2002 Additional Destination Marketing in Britain

| | Est. Costs |
|---|------------|
| Restore consumer advertising to 2000 levels | €1.5m |
| Trade platform advertising (year round) | €0.75m |
| CRM Campaigns | €0.75m |
| Own car campaign and carrier support | €2.0m |
| Sub Total | €5.0m |

3.2.2 North America

The US market is significantly and increasingly more important for Ireland than for other European countries. In 2000, US visitors accounted for almost 19% of all visitor nights spent in Ireland. The corresponding figures for other European destinations include: Britain 16%; the Netherlands 8%; France 5% and Sweden 4%. Irish Hotels depend for 25% of the US market.

As American visitors are high spenders, their revenue contribution is disproportionately greater than the volume. This reflects their length of stay and their tendency to spend on good accommodation, car-hire or coach tours and on Irish goods and crafts.

In addition, visitors from the US arrive over a much longer season (March-October) than European visitors, and tend to travel more, visiting more regions within Ireland.

The dependence of many products and areas in Ireland on the US market necessitates the maintenance of a marketing campaign, focused on selected 'close-in' markets, including Irish-related and past visitors. While US is the most vulnerable market in the present circumstances there are some positive signs of recovery and clear indications of market responsiveness to promotional pricing.

The key objectives for 2002, for which the current budget allocation is less than adequate, are

- to at least maintain Ireland's share of the US to Europe travel. Ireland has been successfully gaining share in recent years and the priority must be to protect past investment and fight to ensure that share is not lost to competitors in a highly competitive environment; and
- to support carriers and tours operators, particularly those who are dedicated Ireland specialists. The competition from larger carriers and European destinations will be more intense and Ireland, to protect market share, needs to invest more in marketing to secure access and range of tour operators programme through 2002 and into 2003.

It is evident from current booking patterns, as reported by carriers and tour operators that the lead-time between booking and travel is reduced under present circumstances, typically to 60 days. This is encouraging for prospects of generating demand and converting latent interest in Ireland.

Key target segments for 2002 include:

- Close-in market segments with knowledge of Ireland;
- Market close to gateways; and
- Segments that are more adventurous, e.g. California residents.

Schedule B: 2002 Additional Destination Marketing - North America

| | Est. Costs |
|---|------------|
| TV network campaign (metro area)* | €3.5m |
| CRM - past enquiries, affinity groups, etc. | €1.0m |
| Tactical trade support | €0.5m |
| Sub Total | €5.0m |

*Note: contingent upon appropriate market conditions

3.2.3 Europe

While prospects for travel are depressed by economic conditions and, to a lesser extent, by a reluctance to travel, Ireland could benefit from a shift in demand from long-haul travel to short-haul destinations.

However, it will be difficult for Ireland to achieve growth in holiday visitors in 2002, against the trend of recent years. A major stimulus, such as low fare access is required.

Key target segments for 2002 include;

- Markets close to gateways with competitive access;
- Customer base of appropriate trade distributors;
- Special interest segments; and
- Business related discretionary travel seeking alternative destination.

The proposal is to spend the additional funds in a small number of selected markets and to do so mainly in co-operation with carriers and tours operators.

Schedule C: 2002 Additional Destination Marketing in Europe

| | Est. Costs |
|---|------------|
| TV & press advertising | |
| - Germany | €0.75m |
| - France | €0.50m |
| - Spain | €0.25m |
| Extend tactical advertising with trade (3 waves) | €1.25m |
| Campaigns with selected operators including own car | €1.25m |
| Sub Total | €4.0m |

3.2.4 Product Marketing

The stated strategy of developing niche markets for special interest products is one to which both the government and the private sector are fully committed. The product range that Ireland offers includes sporting activities, cultural tourism, discretionary business tourism (conference, meeting and incentive travel), educational and language courses, and events. Over the course of the past two Tourism Operational Programmes considerable investment has been made in the improvement and expansion of special interest facilities. As a result Ireland has been attracting increasing numbers of niche market or 'specialist' visitors.

This strategy is soundly based on market trends reflecting changing tourist behaviour. Increasingly special interests, both active and spectator pursuits, are becoming the motivators for travel which, in turn, determine the choice of destination. For Ireland to effectively compete in these niche markets a continuous promotional programme is required to increase awareness of the range of special interest travel opportunities to specialist distributors and potential visitors.

Conference meetings and incentive travel represent an important market segment for Ireland. The opportunities for Ireland, especially in the British market have improved with increased partnership for high yield traffic. Recent research from the Association of Irish Professional Conference Organisers (AIPCO) shows that Ireland currently has a low share of this market.

The industry is disappointed that the marketing resources allocated to specialist product sector in 2002 is significantly less than in 2001. In a market development phase this is especially regrettable, as a great deal of the marketing momentum will be lost as a result.

The case for additional resources for product marketing is based on a number of factors, including;

- evidence which suggests that special interest segments can be more loyal and committed in recession or other difficult market situations;
- the benefits largely accrue to areas outside of Dublin, including rural areas badly effected by FMD in 2001; and
- the opportunities which have been identified in each market due to the current situation, represents a unique opportunity for increased market penetration by Ireland as an alternative destination.

Schedule D: 2002 Additional Product Marketing

| | Est. Costs |
|---|------------|
| Restoration of Bord Fáilte overall product marketing budget as per 2001 | €3.5m |
| Increased promotional campaigns for conference, meetings and incentive travel | €1.0m |
| Specific campaigns for activity and short-trips from Britain | €0.5m |
| Sub Total | €5.0m |

In addition, it is proposed that Bord Fáilte consider waving the fee for participants, including Incoming Tour Operators, at overseas trade and consumer promotions in 2002.

3.2.5 Home Holidays

For most tourism businesses in Ireland the domestic or home market is critically important, underpinning viability. As has been demonstrated in the past year the home market is responsive to promotion and has contributed to the sustainability of many businesses at a time of a downturn in overseas visitors. The importance of the domestic market is most marked in the case of hotels, events and special interest activities.

Bord Fáilte is targeting further growth, following on the buoyancy and responsiveness of the market in 2001.

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For 2002 the industry is calling for a more aggressive year-round campaign to further stimulate demand for short breaks, including event and other leisure related trips, within Ireland.

The industry is firmly committed to increased spending on home holiday marketing in conjunction with Bord Fáilte. Joint advertising platforms are acknowledged to be effective in leveraging additional marketing expenditure on the part of the industry while presenting an persuasive promotional communication to the market.

Schedule E: 2002 Additional Home Holiday Marketing

| | Est. Costs |
|--|------------|
| Expanded promotional campaigns | €1.0m |
| Additional press advertising campaigns - joint & platform | €0.4m |
| Sub Total | €1.4m |

3.3 Access

In order to bring about a recovery in tourism to Ireland greater utilisation of available capacity on air and sea routes, together with an expansion of capacity on air routes, is required.

The justification for increased investment in securing adequate access is not limited to the short-term objective of re-instatement of lost capacity, but rather to ensure that Ireland is not competitively disadvantaged compared with access into Britain.

3.3.1 Air Access

In order for Irish tourism to recover to the levels achieved in 2000, air access capacity needs to be restored to the levels that applied before the cutbacks that were put in place in 2001 following the September 11th attacks in the USA.

The Irish Tourist Industry Confederation recommends that the government support the development of incentives to airlines for

- the introduction of additional routes
- the re-instatement of cancelled routes

The current reduced route network of scheduled services, even allowing for seasonal adjusted capacity, will seriously limit Ireland's ability to attract tourists in the peak 2002 season. In addition, the reduced network of air services severely restricts the spatial distributions of visitors, as an estimated 12,000 seats per week have been lost to Shannon Airport. Ireland's ability to compete in the US market is severely constrained by the loss of routes and an overall reduction of up to 25% in available seats.

For Irish tourism to begin to recover from the reduction experienced last year the air access capacity lost during 2001 must be recovered and indeed increased. Competitively priced seats to Ireland must be made available. Mainland Europe presents an important opportunity in particular where growth in recent years has been, at best, static. Low cost access for all carriers will work to stimulate the growth and potential in key markets such as Germany, Denmark, Sweden, Switzerland and selected Italian and French gateways.

A scheme or package that encourages the development of existing routes and supports the opening of new routes is required. Any such scheme should be sufficiently attractive to incentivise carriers and stimulate market activity.

Any scheme should apply to both low cost and full service airlines. ITIC fully endorses the use of incentives to carriers to secure new routes. However, such incentives should apply to all airlines to ensure a 'level playing field'.

Action Sought

A combination of marketing support to the industry and incentive schemes to air carriers in relation to access charges will serve to stimulate the extra capacity required.

In terms of priority, ITIC are keen to ensure that increased activity in the key markets of North America, UK and Continental Europe are targeted. This approach is consistent with core intent of the Tourism Ireland Ltd's marketing strategy.

The measures being requested are:

- Reduced access costs or improved incentives for
 - New routes; and
 - Developing routes.
- Marketing support for
 - 'above the line' advertising in key market gateways;
 - CRM (customer relationship marketing) campaigns with target and niche market groups; and
 - joint Trade Promotions
- In the USA, the re-instatement of air access in regions such as Baltimore/Washington, should be encouraged, as well as the development of additional services from the west coast and Canada.
- In the UK, the need to increase services between main gateways and Shannon and Cork is important.
- In Continental Europe, additional access from key markets is required and carriers are likely to respond to measures that reduce the cost of access from markets mentioned above as well as in Spain and the Nordics.

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In addition to the foregoing schedule of marketing initiatives the tourism industry support the reduction of airport fees and charges as a mechanism to develop traffic. Aer Rianta's 'Discussion Paper on Airport Charges for 2002' (October 31st, 2002) provides for incentives for new route development, namely zero charges for 3 years at Dublin and 4 years at Shannon and Cork.

While the industry welcomes this programme, together with Aer Rianta's provision of marketing support, 'determined on a case-by-case basis', it would propose that the scheme has some limitations not necessarily in the best interest of tourism. Therefore ITIC would propose that such a new route development incentive scheme should

- apply to routes which have been discontinued in the aftermath of September 11th (as currently proposed, the concession would appear to apply to 'routes not served within the previous 12 months');
- provide for a greater scaling of incentives depending on the priority of the route, frequency and/or capacity being introduced (as currently proposed the only variable is that of duration based on choice of Irish Airport);
- make a greater contribution towards spatial distribution by providing a significantly enhanced incentive for new services to Cork and Shannon; and
- not discriminate against new seasonal routes of importance to in-bound tourism (as currently proposed the incentive scheme would only apply to 'year round services').

3.3.2 Sea Access

During 2001 the ferry companies suffered a drop of between 15% and 20% on in-bound tourists most noticeably from the British market following FMD. In previous years, sea routes have been losing market share to air services as a result of the increased number of new routes and the growth in short and city break holidays.

Rather than scale back services however the past five years have seen the ferry companies investing significant capital in increasing the quality and capacity of both conventional and fast craft vessels on all Irish Sea routes.

In the summer season, there are now up to 70 sailings daily between Britain and the Republic of Ireland. This represents the potential to carry 30,000 visitors into Ireland each day.

This figure becomes more meaningful when one considers the enormous tourism potential of our nearest neighbour. In the last 3 years, just 5% of British holidaymakers have travelled to Ireland.

This leaves an enormous potential market of people who have never been despite the easy access and close proximity.

In terms of the critically important British holidaymaker market the importance of sea access is clear. Of the 1.15 million British holidaymakers arriving in 2000, 50% arrived by sea and 50% by air.

In addition, a key stated government objective is widening the spatial and seasonal spread of visitors thereby increasing the benefits of tourism expenditure to the under performing regions of the country. The promotion and marketing of sea access is perfectly fitted to achieving this objective. There are three reasons for this:

- Longer Stay - visitors arriving by sea spend an average of 10 nights in Ireland. This is almost double the average length of visitors arriving by air who stay for just 5 nights.
- Higher Spend - visitors arriving by sea spend more on average than visitors arriving by air - a total of €317 per visitor versus €285, excluding fares.
- Greater Geographical spread - naturally having their own car, visitors arriving by sea can and do travel all around the country giving a wider distribution of benefits.

From an economic and financial perspective, visitors arriving by sea are just as valuable to the country than those arriving by air.

Despite accounting for just 38% of all holidaymakers, those arriving by sea account for 45% share of expenditure by all holiday visitors to Ireland.

Action Sought

Recent turmoil in airline industry has meant that people are looking at ferry options in a completely new light. The marketing campaign would focus on the many benefits of travelling by sea into Ireland:

- Bring everything you need for your stay - particularly useful when angling, golfing, camping or any other activity where a car would be useful or essential;
- Taking car can offer great value for money particularly for groups;
- Huge number of options on some of the biggest and most modern ferries in the world;
- Having your car means you can easily travel to anywhere in Ireland;
- The relatively low cost of petrol in the Republic of Ireland.

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It is proposed that the marketing activities would include:

- Consumer advertising campaigns;
- Consumer Direct Marketing campaigns; and
- Joint Trade Promotions (as appropriate).

Mirroring our proposal for air access, the industry also supports a commensurate and proportional decrease in port fees and charges for sea access.

3.4 Business Relief Measures

As many businesses within the sector are facing severe financial difficulties a number of business relief measures are being sought as an integral component of the Tourism Recovery Plan. Furthermore, such initiatives can have a significant beneficial effect on maintaining the competitiveness of the Ireland product.

ITIC, while welcoming the reduction in employers PRSI in the recent Budget, are seeking the following business reliefs.

3.4.1 Double Tax Allowance for Marketing Expenditure
Recognising the need for increased marketing investment to meet the challenging conditions, an incentive to increase overseas marketing expenditure is proposed.

The double tax allowance for overseas marketing expenditures would facilitate the industry in expending its marketing drive.

It is proposed that the government should introduce such an allowance against CPT for a period of at least 3 years for annual tax returns due after January 2002.

3.4.2 Local Authority Rates Relief

The impact of FMD and the tourism downturn has been relatively more severe on small to medium size businesses which characterise the tourism sector.

In order to maintain competitiveness with similar businesses in Northern Ireland, Scotland, Wales and England, a measure similar to that introduced in the UK, is sought in respect of rates due on commercial property.

ITIC proposes that the Minister for Finance should allocate to the Department of the Environment an amount of money to enable local authorities to grant a rebate of 25%, on rates for

2001 where turnover in respect of the last quarter is down not less than 15% on the comparative period in 2000. A similar relief should apply in respect of the first half of 2002 and be allowed as a rebate against 2002 local authority rates.

3.4.3 Value Added Tax Competitiveness

In order to improve competitiveness and stimulate demand a number of measures are being sought in regard to VAT as it applies to the hospitality sector.

With increased competition and greater transparency in European prices, due to the introduction of the Euro, and the growing role of the Internet, Irelands lack of competitiveness due to its VAT regime is becoming more apparent.

VAT on hotel accommodation in Ireland, currently at 12.5%, is the second highest in the Eurozone, after Germany. Popular mainland European holiday destinations such as Italy, Greece, France and Portugal each have VAT rates of between 5% and 10% on hotel accommodation.

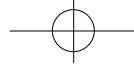
Ireland's competitiveness is further eroded in the conference and corporate sector when we are the only country in the Eurozone with a VAT rate of over 10% where VAT is not allowed as an input for registered businesses.

Hotel and restaurant costs are a valid and necessary expense for any businesses and yet VAT on such expenses are not allowed as inputs. Ireland should follow the example of many other EU countries and allow the VAT element of such legitimate business costs as inputs by registered businesses. Countries that allow such inputs include Austria, Denmark, Germany, Hungary, Finland, Netherlands, Spain, Switzerland and UK all of which are in competition with Ireland.

ITIC proposes that the government effect the following changes in VAT as it pertains to the tourism and hospitality sector;

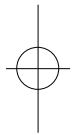
- Reduce the VAT rate for hotels and restaurants to less than 10%
- Allow VAT on hotels and restaurant costs as inputs by registered businesses, in line with most European countries.
- Raise the 7-year-old income threshold for liability to VAT from €25.000 to €38.000 for small and medium sized enterprises engaged in tourism.

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3.4.4 Specific Measures for Individual Sectors
In addition to the above ITIC recommends to the government a number of specific measures to improve the competitiveness and relieve the hardship on sectors within the industry. These proposals include:

- Allow tax write-off against income to the value of refurbishments to self-catering and rural holiday homes (similar scheme to Section 19 of the 1984 Finance Act applying to stately or heritage homes), to encourage rejuvenation of rural areas, while maintaining/improving standards of existing properties.
- It is proposed that the sector be treated as an essential part of the public transport infrastructure and should be given similar Excise Duty treatment to other modes of passenger transport.
- Introduce a non-dated registration system for tourism coaches - in order to correct the anomaly that exists when competing with the registration systems of other countries including the UK.
- Allow 50% initial Capital Allowances on the purchase of touring coaches in order to stimulate investment.
- Introduce Vehicle Registration Tax rebate in respect of motor vehicles used solely for hire under short-term self-drive contracts, together with full refund of Road Tax payable on cars used for short-term self-drive contracts.
- Elimination of the 2% levy on insurance premiums.



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