itic

Car Rental Fleet Shortages & Tourism in 2010

February 2010

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0. Executive Summary

The Background

There is a major shortfall in the supply of rental cars for 2010. The car rental fleet is circa. 10,000 vehicles below its expected size – the fleet is about half the size it needs to be to prevent rental rates spiking. Already, the car rental price differential between Ireland and elsewhere is undermining the good value available in access transport, accommodation and other elements of the visitor's consumption bundle.

Unless the problem is fixed immediately we will:

- Lose substantial business in 2010 of up to €260mn and the associated tax take of €62mn. Even if only half of the potential visits at risk were cancelled the revenues loss and tax forgone would, respectively, be €120mn and €29mn
- Do lasting damage to Ireland's reputation. There are at least two dimensions of reputation risk arising, specifically:
  - The negative impact on a visitor's experience regarding rental car availability/price thereby generating negative word-of-mouth, and
  - The news-flow emphasising the rental fleet problems here can be used by competitor destinations against Ireland.

The Problem

The car rental business model is based on (a) rental firms' ability to resell cars to car dealers in the latter part of the year and (b) a VRT refund. Notwithstanding the economic crisis, the core problem in the car rental market can be traced back to three shocks originating in changes to the regulatory regime, these are:

1. Changes to VRT and annual road tax rates to assessment based on CO2 emission
2. The exclusion of current year ex-rentals from the scrappage scheme
3. The elimination of the VRT rebate, even though it raison d'être was to provide sufficient vehicles to meet tourist demand and to provide vehicles to tourists at more affordable rates.

These shocks are all the more damaging given the peculiarities of the car rental sector and Irish tourism, notably:

- The rental sector is very concentrated as four player hold 80% of the market
- We have a very concentrated short-term vehicle rental season
- The vast majority of American visitors are used to large automatic cars and are unable or unwilling, for safety reasons, to use lower emission manual cars when adjusting to driving on the 'wrong' side of the road
- Rental car are vital to the *regional* sustainability of tourism, with one-third of all overseas holidaying visitors renting a car during their stay.

The Solution

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. The window of opportunity will close unless immediate action is taken.

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 - Extending the Scrappage Scheme:** We could 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 may be more willing to enter into buyback contracts, thereby opening up an avenue of supply
- **Stage 2 - 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. The impact of removing the refund is likely to be a fall in demand as rental prices are certain to rise
- **Stage 3 - Introducing a Stimulus Programme:** The VRT refund was initially introduced to replace a prior existing grant. Any such new scheme would need to make a distinction between manual and automatic vehicles owing to the significant gap in the residual values of these cars.

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

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

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. 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.

1. Introduction

Background

This report highlights the major shortfall in the supply of rental cars for 2010. The fleet shortages in 2009, which were the subject of negative international comment, are set to worsen dramatically. Already, visitors looking for quotes on peak season car rentals are getting such high rental rates that the overall cost of a trip is becoming uncompetitive; undermining the good value to be had in access transport, accommodation and elsewhere.

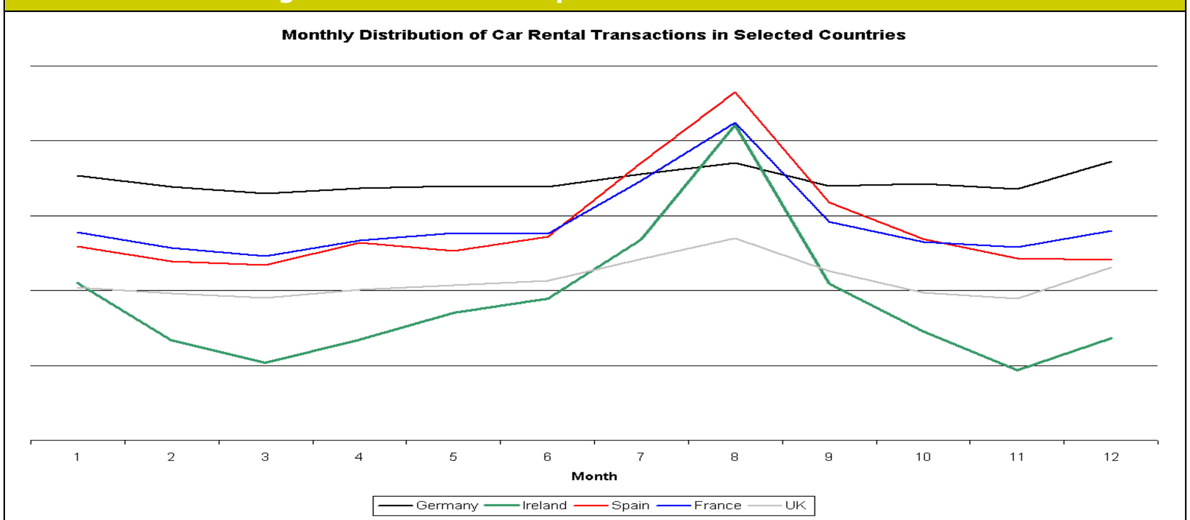
Unless the problem is fixed immediately we will:

- <u>Lose substantial business in 2010 of up to €260.0 million and the associated tax take of €62.4 million. This could cause us to lose 3,380 tourism jobs</u>. Even if only half of the potential visits at risk were cancelled due to car hire shortages the revenues loss and tax forgone would be €120.0 million and €28.8 million respectively
- <u>Do lasting damage to Ireland's reputation </u>as a good value destination.

Nature of the Problem

The<u> car rental market in Ireland is unusually concentrated</u>, peaking in July-August, Easter and Christmas with mid-season conditions from May to September

Figure 1.1: Seasonal Spread of Car Rental Demand



Source: Car Rental Council of Ireland

Figure 1.1 illustrates how concentrated our short-term vehicle supply requirements are compared with other markets. These requirements impose uniquely unfavourable economic conditions on the car rental industry – it is <u>just not possible to procure</u>

short-term rental vehicles at costs that allow for competitive rental rates to tourists during the peak season in the current economic climate and within the existing regulatory regime.

The 2009 car rental supply problems were caused by the unprecedented disruption in the domestic used car market (as detailed in section 3). The problem is even worse this year. The legacy of past experience and the ongoing difficulties car dealers have in accessing funding are amplified by (a) the exclusion of current year ex-rental cars from the scrappage scheme and (b) the phasing out of VRT relief on rental cars.

Scale of the Problem

The 2010 car rental fleet is circa. 10,000 vehicles below its expected size even allowing for a lower level of demand – the fleet is about half the size it needs to be. As normal market rules apply, a 50% reduction in supply matched with a 0% - 5% reduction in demand means that peak season rental rates have jumped significantly this year.

Table 1.1: Car Rental Council's Estimates of Peak Season Total Fleet

Year	2006	2007	2008	2009	2010 est.
Fleet Size	30,905	29,768	27,971	17,500	12,500

Source: Car Rental Council of Ireland

As Table 1.1 points up, the fleet is less than half its normal expected size. However, the situation may get worse if Irish Car Rentals, who are currently in examinership, cease trading and withdraw their 2,000 cars from the rental market.

Table 1.2 illustrates the tourism industry's problem arising from a shortage of rentals. It shows actual direct rental rates (all in price, with insurance) quoted on-line on February 24th for a mid-sized car rented to a hypothetical American couple pricing a visit to Ireland against three other countries.

Table 1.2: One Week's Mid-sized Car Rental from Aug 7th 2010 for a US Visitor

Countries	Alamo	Europcar
Ireland	$811.09	$1,301.68
Denmark	$565.90	n/a
Scotland	$561.34	$865.01
France	$537.79	$439.55
Ireland's price premium over the cheapest option	**+51%**	**+196%**

Source: Delta Airlines' website

Table 1.3 presents a typical high season package for a visitor from Mainland Europe booked through DERTOUR, a leading European tour operator to Ireland with 40,000 visitors annually. It also shows the size of Ireland's car hire premium over competitor destinations, this time priced through a tour operator.

Table 1.3: A Week's High Season Holiday in Ireland for a European Visitor

Package Component	**Scotland (Category Opel Corsa)**	**Ireland (Category Opel Corsa)**	**Scotland (Category Opel Vectra)**	**Ireland (Category Opel Vectra)**
Avg Flight Cost	€290	€250	€290	€250
Avg Hotel Cost 3*	€490	€420	€490	€420
Avg Car Hire	€100 per person (per car 200)	€245 per person (per car 490)	€143 per person (per car 286)	322 per person (per car 644)
Car Hire Premium in Ireland		**145%**		**125%**

Source: DERTOUR

<u>The car rental price differential between Ireland and competing destinations</u> is such that it undermines the good value available in access transport, accommodation and other elements of the visitor's consumption bundle. This <u>is costing us tourism revenue and putting our reputation at great risk</u>.

2. Quantification: The Impact on Tourism in 2010

Impact by Visitor Type

Tourism Ireland examined the potential impacts on tourism in 2010 from a shortage in the Republic of Ireland's rental fleet. With 12,000 cars available for hire in 2010, the analysis indicates that there will be a shortfall in the rental fleet of some 10,000 cars each month from May to September, with the highest impact in July and August. This will potentially affect 420,000 overseas visitors over those summer months - predominantly holidaymakers. <u>Estimates of the number of impacted visitors by purpose of visit are as follows:</u>

- <u>311,000 holidaymakers</u>
- <u>70,000 VFR visitors</u>
- <u>27,000 Business visitors</u>
- <u>12,000 Other visitors.</u>

It should be noted that 33% of all overseas holidaymakers hire a car while in Ireland, a figure that rises to 42% amongst holidaymakers from North America.

In the event that Irish Car Rentals, currently in examinership, ceased trading, only circa 10,000 cars would be available for hire in 2010. The fleet shortfall would then, most likely, extend into October and the total number of overseas visitors impacted will potentially increase to 530,000.

Tourism Revenue Loss Scenarios

Revenue losses will be dependent on how visitors react to the car-hire shortages. When faced with a lack of car hire, the question is, what will these "potential" visitors do? There are three likely scenarios:

- They will seek alternative travel arrangements in Ireland
- They will select a different destination which has a car-hire option
- They will bring their own car by sea rather than fly and drive.

If car hire is a critical element of their trip, they are likely to look at a different destination. We have nothing to base any hard assumptions on here, so have created four possible scenarios looking at the revenue loss associated with different percentages deciding against a trip to Ireland due to lack of car-hire facilities. Table 2.1 below shows revenue-loss scenarios if the fleet is reduced to only 12,000 cars in 2010. In the worst (and unlikely) scenario, we lose 100% of affected visitors, leading to revenue losses of €260.0 million in 2010. Holidaymakers are probably most likely to look elsewhere, as Business, VFR and 'Other' tend to be less discretionary. Holiday accounts for about 75% of the cars hired in the peak period.

Table 2.1: Revenue Loss Scenarios Caused by Car Rental Fleet Shortages

	2010		
Proportion of impacted visitors who choose not to come %	**Revenue Losses € millions**	**Tax Forgone / Exchequer Loss € millions**	**Jobs Lost**
100	€260.0	€62.4	3,380
50	***€120.0***	***€28.8***	***1,560***
25	€51.0	€12.2	663
10	€26.0	€6.2	338
	2009		
Proportion of impacted visitors who choose not to come %	**Revenue Losses € millions**	**Tax Forgone / Exchequer Loss € millions**	**Jobs Lost**
100	€100.60	€24.1	1,308
50	**€46.80**	**€11.2**	**608**
25	€20.00	€4.8	260
10	€11.30	€2.7	147

Source: Analysis by Tourism Ireland

Taking a 50% loss in tourism as a mid-point scenario, Table 2.1 shows that for 2010:

- The tourism industry would be €120.0 million worse off
- The government would lose €28.8 million in tax from visits forgone
- 1,560 jobs would be lost.

The revenue loss in 2009 was estimated to have been less as the problem was not as acute as it is this year.

If only 10,000 cars are available for hire in 2010 the potential revenue losses would increase within each scenario, reaching €320.0 million if 100% of impacted visitors choose to go to a different destination. The tax forgone and employment loss would increase correspondingly.

Reputational Damage

There are at least two dimensions of reputation risk which arise from the issue with rental car availability and price, specifically:

- The impact on the experience of the visit being negatively impacted by issues around hire car availability/price thereby generating negative word-of-mouth, and
- The news-flow emphasising the rental fleet problems can be used by competitor destinations as a point of competitive weakness for the island of Ireland.

In addition, given the particular positioning of the island of Ireland as the destination where you 'go where Ireland takes you', the restricted availability of cars both undermines our core message and proposition around spontaneity, and gives our competitors leverage.

The easy availability of a flexible modern fleet of hire cars is seen as part of the basic offering of a developed destination. In much the same way that visitors expect any given ATM to quickly dispense local currency in any first-world destination (that is where they have come from, and we have similarly positioned ourselves as one), they also expect that booking a rental car will be easily completed with either a short or long lead time. They also have a reasonable expectation that a destination positioning itself as a premium product delivers on a seamless premium product, hence the importance of a modern rental fleet.

Face-to-face word-of-mouth (WOM) and online word-of-mouth are increasingly important in destination marketing and consumers are more likely to highlight specific service deficiencies in word-of-mouth encounters: in particular where the service deficiency relates to what is seen as a hygiene factor, consumers are vociferous in their complaints. Therefore any perceived 'missings' in the range, availability, flexibility and cost of car hire in Ireland will be the focus of adverse WOM in our key source markets.

Issues around the availability of hire cars may be used against us by competitor destinations. Availability and price of hire cars is a well understood, easily reported and widely available international metric in tourism. To the extent that we are out of line with comparable destinations, it is possible for competitor destinations or intermediaries promoting alternative destinations to use these metrics to bias potential visitors away from choosing to holiday on the island of Ireland.

The marketing call to action for the island of Ireland 'Go Where Ireland Takes You' is predicated on easy and flexible internal travel, epitomised by the available hire car fleet. While all destinations clearly benefit from having a modern and flexible hire car infrastructure, it is especially important for the island of Ireland given that our positioning is based on the notion of 'spontaneity' and discovery. Specifically we exhort our visitors to 'Go Where Ireland takes You' and there is the opportunity for a joke at our expense if we cannot deliver on the promise of spontaneity and self-guided discovery.

3. Problem Identification: Three Shocks to the Rental Market

The Economics of Car Rental

As detailed in *Strategic Review and Outlook: The Irish Motor Retail Sector* by Peter Bacon & Associates (Nov. 2009), the economics of the car rental sector are based on two factors:

a. Rental firms' ability to resell cars to car dealers in the latter part of the year and
b. A VRT refund.

Traditionally, a car rental firm secured vehicles for its fleet by either entering into a short-term buyback contract with a car dealer or by buying cars themselves. Some 75% or more of the rental fleet was typically composed of cars secured on short-term buyback contracts in which car dealers undertook to buy cars back from rental firms at an agreed price at the end of the season. This was attractive for car rental firms as it removed an element of risk from their business and it suited car dealers as they got a stock of current year ex-rental cars to sell. The remaining 25% or so of cars directly purchased by car rental firms were generally larger cars with big engines which car dealers had difficulty in selling on. In fact, many of these cars also had automatic gear boxes which made them difficult to sell on at the end of their rental life, as explained on page 11.

A VRT refund was introduced with the stated objectives of providing sufficient vehicles to meet tourist demand and of providing vehicles to tourists at more affordable rates[1]. VRT was refunded on a scaled basis depending on the length of time a vehicle was in the rental fleet and other factors, as shown in Table 3.1. The vast majority of rental cars attracted a 15% to 20% rebate.

Table 3.1: VRT Rebate Rates Pre-2010

Engine Size cc	Rental Fleet Life Month	Rate of VRT Rebate %
<2,500	3 < 6	15
	6 < 12	20
	12 < 18	25
	18 < 24	30
	24 < 36	35
	36 and above	40
2,500 and above including automatics, estates, motor homes and minibuses	3 < 24	as above
	24 < 36	45
	36 and above	50

Source: Revenue Commissioners

The relationship between rental companies, finance providers and dealers that had underpinned the economics of the sector changed in the autumn of 2008 when

[1] Vehicle Registration Tax Statement of Practice (SP-VRT 1/98), Revenue Commissioners, April 1998.

buybacks came back on the market at significantly above their market value. The crisis was compounded by further changes in the regulatory regime.

Three Shocks to the Car Rental Market

The core problem in the car rental market can be traced back to three shocks originating in changes to the regulatory regime, these are:

4. Budget 2008's changes to VRT and annual road tax rates to assessment based on CO2 emission which hit car dealers' willingness to engage in short-term buybacks
5. The exclusion of current year ex-rentals from the scrappage scheme announced in Budget 2010 which makes short-term buyback unattractive for car dealers
6. The elimination of the VRT rebate driving up a vehicle's cost to rental firms.

While these three shocks are within the control of Irish policy makers, the credit crunch and general economic downturn provide a wider context. The role of large automatic cars in servicing the US market is also an important consideration.

Shock 1: Changes to VRT & Road Tax Rates

The 2009 car rental supply problems were caused by the unprecedented disruption in the domestic used car market with the introduction of a vehicle tax system based on CO2 emissions. Following the 2008 tourist season many used ex-rental cars were unsold after 'defleeting'. A high proportion of these vehicles had a higher book value than similar new vehicles, arising from the market volatility caused by the changes in the vehicle tax regime introduced in July 2008. For example, a VW Passat Diesel (Engine 1.9 Tdi) registered in January 2008 had annual road tax of €582 while one registered in July had annual road tax of €290. Over three years, a typical period of private ownership, this amounted to a difference in running costs of €876, effectively devaluing the January car by this amount in the eyes of the consumer. This resulted in significant losses for dealers and finance houses alike causing both to shy away from the buyback system.

In 2009 the normal supply of new cars for the fleet through short-term buybacks from car dealers dried up due to the 2008 experience, a situation made worse by car dealers' inability to secure banks loans to fund their buyback programme.

Shock 2: Exclusion from the Scrappage Scheme

The problem is worse this year. The legacy of 2008's experience and the ongoing difficulties car dealers have in accessing funding are magnified by the scrappage scheme. Unlike a similar scrappage scheme in Germany and the Netherlands, Ireland's scheme excludes current year ex-rentals from relief of up to €1,500. As current year ex-rental vehicles fail to qualify for scrappage they are less attractive to the car dealers who are willing and able to enter into short-term buybacks. After all, why would dealers want to sell nearly new ex-rental cars at prices similar to brand new cars that qualify for scrappage allowances?

Shock 3: Elimination of the VRT Rebate on Rentals

The proposed change in the VRT rebate, with the refunds listed in Table 2.1 phased out over three years, is also negatively affecting the sector. Peter Bacon & Associates calculate that removing the rebate will cause the price of the new car to the sector to increase by some 8.5% as the majority of rental cars attract a 15% to 20% rebate (with a average cash value of €754). This would cause a permanent rise in rental prices and reduce demand, permanently damaging tourism.

Appendix 1 gives a third party assessment of the shocks detailed above. It presents an extract from the independent accountant's report on Irish Car Rentals Ltd and how regulatory regime changes contributed to the firm's financial difficulties.

Nature of Car Rental Sector

Some peculiarities of the car rental sector are worth keeping in mind when trying to understand the problems facing this sector and consequently the overall tourism industry:

- The car rental sector is very concentrated. The four largest firms account for 80% of the fleet. In the present economic climate, the rental market is very vulnerable to further reductions in supply should one of these firms cease trading. In fact Irish Car Rentals, with a fleet of 2,000 vehicles, is currently in examinership. The 2010 rental fleet could be reduced to circa 10,000 units – 12,000 units below its target size.
- Ireland has a very concentrated short-term vehicle rental season in comparison with other markets (see Figure 1.1). These requirements impose uniquely unfavourable economic conditions on the car rental industry
- The vast majority of American visitors are used to large automatic cars and are unable or unwilling, for safety reasons, to use lower emission manual cars when adjusting to driving on the 'wrong' side of the road. Most of these cars tend to be directly purchased by rental firms as they are difficult to sell on to private owners after their rental life making them unattractive as buybacks. The traditional difficulties in selling on these cars increased with the introduction of a CO2 emissions based tax system. For example, annual road tax on a Nissan X-Trail (2.0 automatic) is €2,100. It is easy to see the impact of such an annual road tax bill on the residual values of these cars and the knock on implications for rental rates
- Ireland needs a modern fleet of rental cars reflecting:
  - The fact that we have positioned Ireland as a premium tourism destination
  - Our rental cars are used extensively when hired out, with an average of 980kms covered per hire
- Rental car are vital to the regional sustainability of tourism, with one-third of all overseas holidaying visitors renting a car during their stay.

4. Problem Resolution

Immediate Action Required

We must act now - 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 immediate action is taken the window of opportunity will close, putting up to €260.0 millions of tourism revenue and €62.4 million in Exchequer earnings at risk. Even if only half of the potential visits at risk were cancelled due to car hire shortages the revenues loss and tax forgone would be €120.0 million and €28.8 million respectively.

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. We can be more certain of successfully closing the gap in our fleet 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.

The Solution

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

Stage 1: Extending the Scrappage Scheme

We could follow the example of Germany and extend Ireland's car scrappage scheme to cover current year ex-rentals. This would help to open up the short-term buyback as a potential solution. By allowing current year ex-rentals into the scrappage scheme, car dealers may be more willing to enter into buyback contracts with rental firms as such cars would not be coming back onto the market at the end of their rental life at a price disadvantage compared with the 'net of scrappage price' of new cars.

Stage 2: Postponing the Elimination of the VRT Refund

The original rationale for the VRT refund was to provide sufficient vehicles to meet tourist demand and to provide vehicles to tourists at more affordable rates. Yet the main argument put forward for its removal is that the refund is costly to administer, not that its rationale is no longer valid. The longer term impact of removing the refund is likely to be a fall in demand as rental prices rise (the price of a typical new car to the sector will increase by some 8.5%). However, the short term impact is increasing the perception of risk in the sector, thereby suppressing the supply of rental cars in 2010.

The grounds on which the decision to phase out the VRT refund was justified should be revisited in light of how a CO2 emissions based tax vehicle system has effected the residual values of end of life rentals, particularly automatics. In the mean time, there is merit in *at least* postponing the planned reduction in the VRT refund for two years until the sector has stabilised.

Stage 3: Introducing a Stimulus Programme

The VRT refund was initially introduced to replace a prior existing grant. Such a grant scheme may need to be reactivated if parts 1 and 2 above are either deemed inappropriate or administratively inefficient. Any such scheme would need to make a distinction between manual and automatic vehicles owing to the significant gap in the residual values of these cars.

Box 4.1: Unworkable Solutions
Two potential solutions to supply shortage – using secondhand cars and using UK registered cars – are unworkable for differing reasons. These reasons are: **Using Secondhand Cars** - While there was an excess supply of secondhand cars last year, this is less of an issue now as motor dealers have managed down their stock - Dealers may be unwilling to place cars into the rental fleet as they could lose out on potential sales - Maintenance cost for rental companies increase with the age of their fleet - Many such cars are likely to be out of warranty - Such cars may not meet the car quality standards specified by the bigger brand rental firm - It does not fit with Ireland's positioning as a premium destination. **Using UK Registered Cars** - The use of foreign registered vehicles for internal rentals in the State is in breach of the VRT regulations. Such cars may only be rehired to a "person established outside the State with a view to its being taken out of the State". In all other cases the use of foreign registered cars by car rental firm operators in the State is an offence.

A Cost-Benefit Assessment of the Proposed Solution

Stage 1: Extending the Scrappage Scheme

The existing scheme provides for VRT relief of up to €1,500 on registration of a new car with CO_2 emissions of not more than 140g/km. If it was extended to cover current year ex-rentals not all of the fleet would qualify. For illustrative purposes, we assume that this results in an additional 2,000 cars to the 2010 fleet, which means that approx 3,000 cars qualify for the scheme (allowing for some of the 2010 fleet already registered this year). The scrappage cost of the 3,000 cars would be set against (a) the additional VRT and VAT on the 2,000 additional cars sold into the rental fleet and (b) the tax take from visitor spending.

Table 4.1: Stage 1 Extending the Scrappage Scheme – Illustrative Costings		
Scrappage Cost per Car	Number of Qualifying Cars	Totals
€1,500	3,000	€4,500,000
VRT & VAT per Car		
€5,893*	2,000^	€11,786,000
Net Exchequer Gain on the Rental Fleet		€7,286,000
Exchequer Earning from Visitor		€5,760,000
Total Gain to the Exchequer		**€13,046,000**

Note:
* SIMI data shows that the average car with CO2 emissions of not more than 140g/km attracts €2,944 in VRT and VAT of €2,949 for cars.
^ While the Stage 1 may cause 2,000 new cars to come into the fleet, 3,000 cars would qualify for scrappage as it is assumed that 1,000 2010 registered rental cars have CO2 emissions of not more than 140g/km.

Based on the most likely scenario of 50% trip cancellation due to car hire shortages and assuming that closing the fleet gap by 20% recovers 20% of tourism revenue loss, the net gain to the Exchequer from Stage 1 is €13.0 million.

Stage 2: Postponing the Planned Elimination of the VRT Refund

Postponing the planned phasing out of the VRT refund for rental cars until the sector has stabilised would result in a net gain to the Exchequer of €18.8 million in 2010 assuming:

- The most likely scenario of 50% trip cancellation due to car hire shortages
- Stage 2 of the proposed solution causes 2,000 to be added to the 2010 rental fleet
- It recovers 20% of the tourism revenue loss.

Table 4.2: Stage 2 Postponing the VRT Refund Elimination– Illustrative Costings		
VRT Relief per Car	Number of Qualifying Cars	Totals
€246*	3,500	€860,013
VRT & VAT per Car		
€6,927⁺	2,000^	€13,854,000
Net Exchequer Gain on the Rental Fleet		€12,993,987
Exchequer Earning from Visitor		€5,760,000
Total Gain to the Exchequer		**€18,753,987**

Note:
* While the average cash value of VRT relief is €754, only one-third of this amount is taken in the calculation as the relief is being phased out over three years, i.e. one-third reduction in relief in 2010, two-thirds reduction in 2011 and none thereafter.
⁺ SIMI data shows that the average car attracts €3,723 in VRT and VAT of €3,204, which is slightly more than in the case of cars with lower CO2 emissions.
^ While the Stage 2 causes 2,000 new cars to come into the fleet, 3,500 cars would qualify for relief as there are already 1,500 2010 registered cars in the fleet.

Stage 3: Introducing a Stimulus Programme

The VRT refund was initially introduced to replace a prior existing grant. Any proposed 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, with automatic cars getting a much bigger stimulus.

Table 4.3: Stage 3 Introducing a Stimulus Programme – Illustrative Costings

Grant per Car		Number of Qualifying Cars	Totals
- Manual	€1,500	3,600	€5,400,000
- Automatic	€3,000	400	€1,200,000
VRT & VAT per Car			
	€6,927	4,000	€27,708,000
Net Exchequer Gain on the Rental Fleet			€21,108,000
Exchequer Earning from Visitor			€11,520,000
Total Gain to the Exchequer			**€32,628,000**

This would result a net gain to the Exchequer of €32.6 million in 2010 assuming:

- The most likely scenario of 50% trip cancellation due to car hire shortages
- Stage 3 causes 4,000 to be added to the 2010 rental fleet of which 10% are automatics
- It recovers 40% of the tourism revenue loss.

Combining Stages 1, 2 & 3: Scrappage, Continued VRT Relief & Grants

Based on the examples shown in the previous tables, running all parts of the proposed solution together could yield a combined Exchequer gain of €62.2 million, which is far more than the gain from each stage on their own due to scale effects.

Table 4.4: Illustrative Costings for All Stages

Scrappage Cost per Car		Number of Qualifying Cars	Totals
	€1,500	7,000	€10,500,000
Tax Cost of Delaying VRT Reduction on Scrappage Cars			
	€194	7,000	€1,360,128
Tax Cost of Delaying VRT Reduction on Other Cars			
	€246	5,500	€1,351,449
Grant per Car			
- Manual	€1,500	9,000	€13,500,000
- Automatic	€3,000	1,000	€3,000,000
VRT & VAT per on Scrappage Cars			
	€5,893	6,000	€35,358,000
VRT & VAT per on Other Cars			
	€6,927	4,000	€27,708,000
Net Exchequer Gain on the Rental Fleet			€33,354,423
Exchequer Earning from Visitor			€28,800,000
Total Gain to the Exchequer			**€62,154,423**

This example assumes:

- Running all stages together fully closes the 10,000 vehicle gap in the fleet. Of the 10,000 additional cars:
    - 6,000 qualify for scrappage (plus 1,000 of the already registered 2010 rentals)
    - 4,000 do not qualify for scrappage
    - 10% are automatic and the rest are manual
- Scrappage cars generate less VRT and VAT for the Exchequer than an average car owing to their lower emissions
- Running all parts of the proposed solution together fully closes the rental fleet gap, salvaging 100% of the tourism business lost under the 50% trip cancellation scenario.

Appendix 1: Extract from the Independent Accountant's Report on Irish Car Rental Limited

"The Company has also been hit by a number of specific factors outside of its control. In particular, the following has a severe impact on the results and financial position:

- *In the year to end December 2009 there were c. 1 million less overseas resident visitor to Ireland compared to 2008 (Source: CSO). This significant drop in inward tourism to Ireland resulted in lower demand levels for short-term car hire in the Irish market.*

- *The viability of a car rental company is partly based on the availability of cars on a lease basis from finance houses for the peak summer period and the subsequent reselling of these cars as part of an arrangement between car rental companies, motor dealerships and finance houses. In the autumn of 2008 the motor dealerships buybacks came back on the market at a cost above the retail value leading to significant losses for both dealerships and finance houses (Source: Strategic Review and Outlook: The Irish Motor Retail Sector, Peter Bacon & Associates). As a result of these losses there was a shortage of cars available on short-term leases from finances houses/dealerships in order to gear up for the peak summer season in 2009 for the rental business.*

- *The phased abolition of VRT refunds on short-term car hire rentals and the changes in VRT rates. On 1 July 2008 the VRT chargeable basis changed from a system based on a vehicle's cc to system based on the vehicle's CO2 emission levels. This change resulted in a reduction in the value of most cars, including rental cars.*

- *The collapse in used car values in later 2008 and early 2009 due to the economic crisis and the devaluation of sterling."*

Independent Accountant's Report on Irish Car Rental Limited, BDO, Page 4, 5 Feb 2010.

Appendix 2: Support Material on Illustrative Costings

Stage 1: Extending the Scrappage Scheme			
Scrappage Cost per Car		Number of Qualifying Cars	Totals
	€1,500	3,000	€4,500,000
VRT & VAT per Car			
	€5,893	2,000	€11,786,000
Net Exchequer Gain on the Rental Fleet			€7,286,000
Exchequer Earning from Visitors			€5,760,000
Total Gain to the Exchequer			**€13,046,000**

Actual Fleet Size	Target Fleet Size	Gap Fleet Gap		% of Fleet Gap Closed by Stage 1	
12,500	22,500	10,000		20%	
- of which reg'ed in 2010 and qualifying		- of which reg'ed in 2010 after Stage 1 activated			
1000		2,000			
VAT per qualifying car	€2,944	VRT per qualifying car		€2,949	
Based on the 50% Trip Cancellation Scenario				Rev Loss	Tax Loss
				€120,000,000	€28,800,000
				% of Loss Avoided	20%

Stage 2: Postponing the Planned Reduction in the VRT Refund			
VRT Relief per Car		Number of Qualifying Cars	Totals
	€246	3,500	€860,013
VRT & VAT per Car			
	€6,927	2,000	€13,854,000
Net Exchequer Gain on the Rental Fleet			€12,993,987
Exchequer Earning from Visitors			€5,760,000
Total Gain to the Exchequer			**€18,753,987**

Actual Fleet Size	Target Fleet Size	Gap Fleet Gap		% of Fleet Gap Closed by Stage 2	
12,500	22,500	10,000		20%	
- of which reg'ed in 2010		- of which reg'ed in 2010 after Stage 2 activated			
1500		2,000			
VRT per typical car	€3,723	VRT Relief			20%
VAT per typical car	€3,204	- of which being scheduled for removal this y			33%
Based on the 50% Trip Cancellation Scenario				Rev Loss	Tax Loss
				€120,000,000	€28,800,000
				% of Loss Avoided	20%

Stage 3: Introducing a Grant Scheme			
Grant per Car		Number of Qualifying Cars	Totals
- Manual	€1,500	3600	€5,400,000
- Automatic	€3,000	400	€1,200,000
VRT & VAT per Car			
	€0	4000	€27,708,000
Net Exchequer Gain on the Rental Fleet			€21,108,000
Exchequer Earning from Visitors			€11,520,000
Total Gain to the Exchequer			**€32,628,000**

Actual Fleet Size	Target Fleet Size	Gap Fleet Gap	% of 2010 Reg Fleet	
12,500	22500	10,000	40%	
Check	€18,500		- of which manual	
			3600	
			- of which auto	
			400	
Based on the 50% Trip Cancellation Scenario			Rev Loss	Tax Loss
			€120,000,000	€28,800,000
			% of Loss Avoided	40%

Stages 1, 2 & 3			
Scrappage Cost per Car		Number of Qualifying Cars	Totals
	€1,500	7,000	€10,500,000
Tax Cost of Delaying VRT Reduction on Scrappage Cars			
	€194	7,000	€1,360,128
Tax Cost of Delaying VRT Reduction on Other Cars			
	€246	5,500	€1,351,449
Grant per Car			
- Manual	€1,500	9,000	€13,500,000
- Automatic	€3,000	1,000	€3,000,000
VRT & VAT per on Scrappage Cars			
	€5,893	6,000	€35,358,000
VRT & VAT per on Other Cars			
	€6,927	4,000	€27,708,000
Net Exchequer Gain on the Rental Fleet			€33,354,423
Exchequer Earning from Visitor			€28,800,000
Total Gain to the Exchequer			€62,154,423

Number of qualifying cars					
- caused by Stages 1, 2 & 3		10,000	% manual	90%	% auto 10%
- no. eligible for scrappage		6,000			
- existing 2010 rentals with qualifying CO2 emissions		1,000			
- other 2010 rentals eligible for VRT relief		500			
VRT per typical car	€3,723	VRT Relief		20%	
		- of which being scheduled for removal this year		33%	
VAT per typical car	€3,204				
VRT per scrappage car	2944	VRT Relief		20%	
		- of which being scheduled for removal this year		33%	
VAT per scrappage car	2949				
Based on the 50% Trip Cancellation Scenario		Rev Loss	Tax Loss		
		€120,000,000	€28,800,000		
		% of Loss Avoided	100%		