itic

Submission

from

Irish Tourist Industry Confederation

on

Budget 2012

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THIRD DRAFT

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Summary

Following three straight years of contraction, the statistics on tourist arrivals over the first 7 months indicate a welcome upturn in 2011. The performance of the Mainland Europe and North American markets is particularly encouraging.

This turnaround is all the more significant as there has been little improvement in the global economic climate, and the eurozone continues to struggle. Key factors underlying the improved tourism performance have been the

- limited cut-back to the Tourism Ireland overseas marketing budget by Government.
- increased price competitiveness by the industry, assisted and supported by Government's recent initiatives to
  - reduce VAT on tourism services to 9%
  - reduce the travel tax to €3.

Tourism makes a valuable contribution to the national economy, generating substantial export revenues and tax contributions, and providing employment to some 180,000 people. There is no doubt that the industry has an important role to play in resolving the national debt crisis. The priority is now to continue to strengthen the tourism sector's competitive position so that it can deliver increased consumer demand, jobs and tax revenues to government, even in the context of a difficult global economic environment.

In this context, ITIC makes the following recommendations with respect to the forthcoming budget. For further details on these, please refer to Section 5.

1) Tourism Marketing

- Continue to invest in overseas tourism marketing in the recognition that sustained marketing is necessary to maintain the momentum of recovery in the various markets.

2) Cost Competitiveness

- Reduce public sector and local authority charges imposed on tourism enterprises, including rates. Fundamentally, the goal should be to reduce charges by achieving efficiencies and cost savings in the public sector.

3) Access to Credit for Smaller Tourism Businesses

- Introduce a Government credit guarantee scheme supporting tourism enterprises' working capital requirements.

4) Stimulate Domestic Demand

- Introduce measures to encourage consumers to return to normal spending patterns, and avoid measures that serve to further depress market demand for goods and services.

5) Increase the Incentive to Work

- The social welfare system is in urgent need of reform so that it fulfils its role of protecting and supporting families and individuals in genuine need of such assistance rather than acting as a competitor in the labour market.

6) Facilitate Car Rental Supply to Meet Peak Season Demand

- Restore the Vehicle Registration Tax (VRT) deferred payment facility for the car rental sector.
- Introduce a VRT refund scheme in respect of registered car rental vehicles that are defleeted and immediately exported from Ireland.

1. INTRODUCTION

Following three years of declining visitor numbers, figures for the first seven months of 2011 indicate a welcome return to growth.

Results for this period show a significant rise of almost 14% in arrivals from Mainland Europe, while arrivals from North America and Britain were up by 13% and 9% respectively.

Anecdotal evidence from industry operators suggests that the upswing was maintained in the third quarter and, if this continues, the overall outlook for 2011 is for a significant improvement on 2010.

Although there are no comparable statistics available in relation to the domestic market, industry operators have indicated that, even if there hasn't been a return to growth, the market would appear to have 'bottomed-out', with the positive effect coming from the 'staycations' alternative to travelling abroad for many Irish people.

Further evidence of this turnaround comes from the sectoral employment statistics published by the CSO. The number employed in 'accommodation and food services activities' during the 2nd quarter of 2011 was about 4.5% up on the corresponding figure for the 1st quarter of the year.

However, this improvement must be seen in the context of particularly depressed demand in the same period in 2010 due to the impact of the 'ash cloud'. Moreover, the number of foreign arrivals is still 10% below the level recorded in 2009 and 24% below the peak achieved in 2007.

Nonetheless, this turnaround is all the more significant as there has been little improvement in the global economic climate. Indeed, with the continued turmoil in the eurozone arising from the difficulties in resolving peripheral countries' sovereign debts, the prospects for economic growth in Ireland's major tourism source markets have deteriorated.

ITIC believes that the reasons for this improved tourism performance in the face of a deterioration in the eurozone and global economic situations are due to the:

- limited cut-back to the Tourism Ireland overseas marketing budget by Government.
- increased price competitiveness by the industry, assisted and supported by Government's recent initiatives to
  - reduce VAT on tourism services to 9%
  - reduce the travel tax to €3.

The priority is now to continue to strengthen the tourism sector's competitive position so that it can deliver increased consumer demand, jobs and tax revenues to government, even in the context of a difficult global economic environment.

In this respect, ITIC acknowledges the Government's initiative in introducing the National Tourism Development Authority (Amendment) Bill which provides for an increase in the cap on spending on major projects to €150 million from the current limit of €65 million. Over the next few years, this will provide a welcome injection of investment to develop market-led necessary tourism infrastructure and visitor attractions.

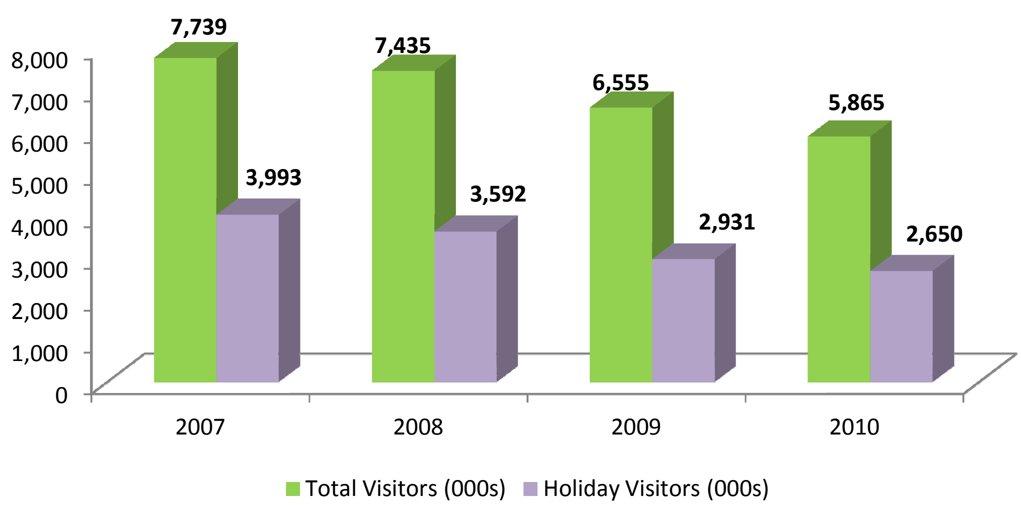
To ensure the sustainability of this investment, similar support for marketing initiatives is necessary to boost demand as well as tackling outstanding issues constraining further improvements to tourism's cost competitiveness.

2. RECENT PERFORMANCE AND OUTLOOK FOR 2011

2.1 Tourism in 2010

The economic recession has had a very severe impact on the Irish tourism industry. During the past three years, the number of overseas tourists has fallen by 30%. The drop in holiday arrivals has been somewhat greater, at 33% - see Chart 1.

Chart 1: Visitors and Holiday Visitors to Ireland, 2007-2010



Sources: ITIC / Fàilte Ireland.

Notwithstanding the unprecedented contraction, the Irish tourism industry is still a very important part of the economy. It generated almost €4.7 billion in revenues in 2010, of which €3.4 billion came from overseas. It provides employment to some 180,000 people, and delivers €1.3 billion in tax. The industry is particularly important as a source of employment and purchaser of goods and services in areas of the country where there is little activity in other sectors.

2.2 Outlook for 2011

There are encouraging signs of a turnaround in overseas visitor arrivals in 2011, as shown on Table 2.1.

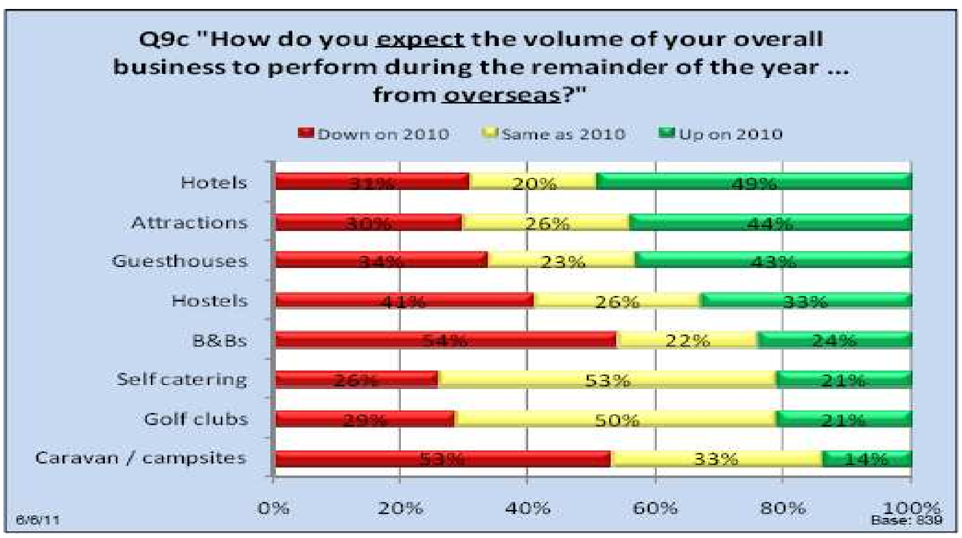
Table 2.1: Tourism to Ireland, Jan-July 2009-2011

Market	J-J 2009 (000's)	J-J 2010 (000's)	J-J 2011 (000's)	Increase 2010-2011 (%)
Britain	1,895,700	1,488,000	1,625,900	+9.3
Mainland Europe	1,423,600	1,124,700	1,279,300	+13.7
North America	577,300	526,300	594,700	+13.0
Rest of World	167,100	166,300	196,200	+18.0
Total	**4,063,700**	**3,305,300**	**3,696,000**	**+11.8**

Source: CSO, Overseas Travel, 23rd September 2011

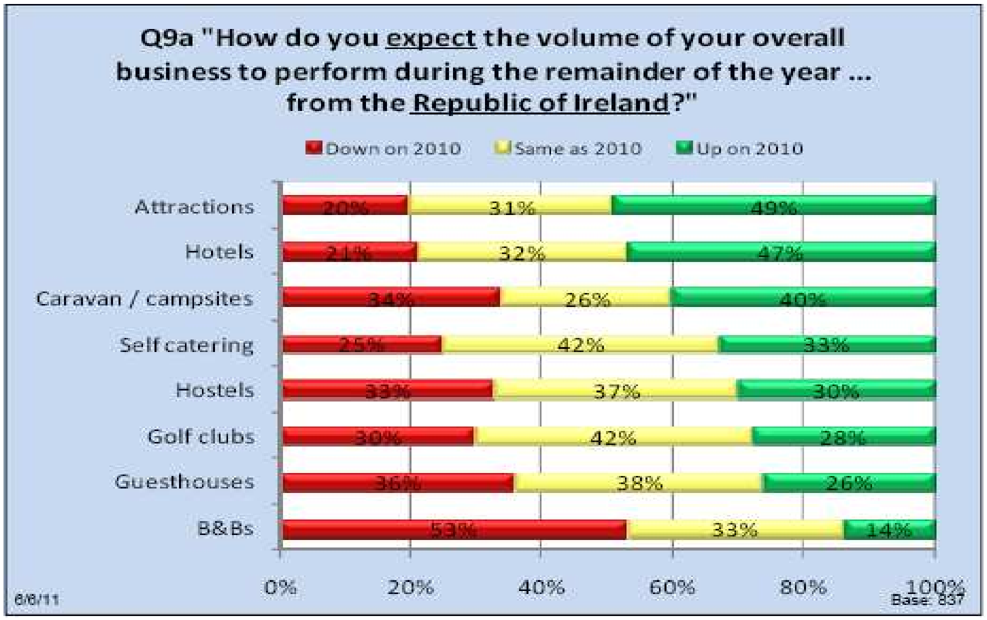
The feedback from industry operators indicates that this upswing has been maintained in the third quarter. Further, there is anecdotal evidence of a 'bottoming-out' in the domestic market suggesting that a further decline in this market is not foreseen. All-in-all, a more positive outlook for the sector as a whole, as illustrated on the following charts.

Chart 2: Expectations from Overseas



Source: Fàilte Ireland Tourism Barometer, May 2011

Chart 3: Domestic Expectations



Source: Fàilte Ireland Tourism Barometer, May 2011

3. FACTORS DETERMINING THE SUSTAINABILITY OF RECOVERY THROUGH 2012 AND BEYOND

Four factors will determine the sustainability of the tourism sectors' nascent recovery during 2011/2012 and beyond, viz

- macro-economic environment abroad and at home
- marketing awareness of Destination Ireland
- access transport capacity and fares
- cost competitiveness.

3.1 Macro-Economic Environment

In its recently published World Economic Outlook bi-annual report, the IMF says the prognosis for developed economies is "weak and bumpy expansion". The report warns that issues surrounding the US and eurozone economies could drag them into recession. Japan's economy has been reeling from the effects of the earthquake and tsunami, while in Germany, the fastest growing advanced economy, employment growth has levelled off and the eurozone crisis has dented business and consumer confidence.

The IMF predicts that global GDP will expand 'at an anaemic pace of 1.5% in 2011' and growth will not be much better than 4% in 2012 on factors such as '*major financial turbulence in the eurozone*'.

Recognising that Ireland's economy faces challenges from uncertainties in the region and weakening economic growth in major trading partners, the IMF's most recent projections for the Irish economy are for real GDP growth of 0.4% in 2011 and 1.5% in 2012.

This uncertain macro-economic outlook both at home and abroad means a difficult market environment for Irish tourism in which growth in visitor numbers both to and within Ireland will be achieved primarily through improved market share rather than any overall expansion of the market.

3.2 Marketing of Destination Ireland

In an increasingly competitive global market for the tourism dollar, awareness of Destination Ireland is a key factor. Awareness is, of course, directly related to the marketing funds at the disposal of Tourism Ireland.

Table 3.1: Tourism Services Budget, 2008-2011, (000's)*

Market	2008	2009	2010	2011
Fàilte Ireland	82,000	77,800	67,300	62,500
Tourism Ireland	20,000	19,400	18,750	17,000
Marketing Fund	50,000	47,250	44,250	41,500
Total	**152,000**	**144,450**	**130,300**	**121,000**

*Source: Irish Govt. Budgets Estimates, various years; * figures rounded*

Since 2008, the marketing budget has been cut-back by about 20%. The industry recognises the pressures on Government to reduce public sector expenditures arising from the imperative to reduce the budget deficit and stabilize the public finances. Nonetheless, there is a limit to which an enterprise (in this case, Irish tourism) can 'cost-cut' to achieve sustainable profitability. The industry feels that we are at the point where further cut-backs will endanger the recovery which has emerged this year.

3.3 Access Transport Capacity and Fares

Tourism demand is crucially dependent on having sufficient access transport capacity at competitive tariffs.

3.3.1 Air Access

For a number of reasons, total available capacity on direct scheduled air services to Ireland for the summer season 2010 was 6% less that it was in summer 2009, which was already 10% down on 2008 levels.

This year, total available capacity on direct scheduled air services to Ireland for the summer showed only a marginal change on last year – a 2% decrease in overall capacity from Britain, a 2% increase from Mainland Europe and a 6% increase from North America.

Looking ahead, a number of new services are expected to come into operation next year. Lufthansa will start a new Dusseldorf - Knock summer service on 17th May 2012, with three connecting services from Berlin, Frankfurt, Hamburg and Munich. In January 2012, Emirate Airlines will begin a new Dubai - Dublin service which will compete with Etihad's 10 flights per week from Abu Dhabi.

3.3.2 Sea Access

The HSS fast craft Dun Laoghaire - Holyhead service was suspended from September 13th until April 2012, while maintaining conventional ferry service to/from Dublin Port.

3.4 Cost Competitiveness

While, in the long term, prices are but one of many factors that influence the competitiveness of a tourist destination, the recession has meant that price-competitiveness is a major issue in the short to medium term. There is no doubt that consumers in Ireland and in our major source markets have become highly cost-conscious. The relative costs of holidaying in different destinations are exerting significant influence on purchasing decisions.

Over the last three years, Industry has made enormous efforts to improve competitiveness through cost cutting measures such as labour shedding and productivity. The efforts have paid off. According to the latest Hotel.com Add Price Index, Ireland is the cheapest destination in Western Europe for a room, and the fourth least expensive in Europe. The Czech Republic (€79), Poland (€76) and Hungary (€65) are the only three destinations in Europe with average prices cheaper than Ireland.

Dublin is now the best value capital city in Western Europe and prices in Dublin are significantly lower than other capital cities such as London (€134), Paris (€114) and Vienna (€100).

In achieving this improved competitiveness, Industry recognises the Governments recent initiative in reducing the VAT rate to 9%. Whereas it would be too simplistic to attribute the improvement in competitiveness to this measure alone, the publicity surrounding the initiative highlighted the increasing value-for-money to be had by both the foreign and domestic tourist in Ireland. Moreover, the real impact of this is more evident in the fact that industry has as a consequence of the lowered rate been able to pass on this saving to the consumer in its pricing for 2012, further improving international competitiveness. As contracting for 2013 will largely be completed by May 2012, it is critical that Government give an early indication of its intention to continue with the reduced V.A.T rate beyond 2012. This continuation is critical to the Industry, now in the early stages of recovery, which recovery must be nurtured in order to become sustainable.

However, much work remains to be done in underpinning the cost competitive improvements achieved to date. The EU Harmonized Index of Consumer Prices shows that the national annual rate of inflation (1%) is now running at a significantly lower rate than the EU average (3%), and this is helping our competitive position. However, there is a considerable distance to go: the report, '*Measuring Ireland's Progress*', issued by the CSO in September 2011, shows that Irish consumer prices were 18% above the EU average in 2010, and the fifth highest in the EU after Denmark, Finland, Luxembourg and Sweden.

A recent survey[1] among tourism operators indicated that in response to the question, "What are your main issues of concern, if any, affecting your business this year?" A significant proportion of respondents give crippling operating costs as a key issue of concern. 10% specifically mention energy, but aside from that, pretty much all costs associated with running a business in the tourism industry seem to be rising, including rates, insurances, food & drink, utilities and in some cases (especially hotels) wages.

[1] Fàilte Ireland Tourism Barometer, May 2011

4. HOW TOURISM CAN CONTRIBUTE TO RESOLVING THE NATIONAL DEBT CRISIS

To adhere to the EU/ECB/IMF conditions of the 2009 'bailout', Ireland must:

- grow GDP
  - so that the size of both the budget deficit and the public debt decrease as a proportion of national output.
- reduce the absolute size of the budget deficit through a combination of tax increases and expenditures reduction.
- generate jobs to stem increasing unemployment and emigration.

Tourism can make a significant contribution to realising these goals.

Contribution to GDP Growth

Tourism is primarily an 'export' - its earnings being an external stimulus to growth. This point has been emphasised in the recently published National Competitiveness Council's Report, in which it highlighted the fact that 'tourism is a significant source of export earnings and has an important regional employment and distributive effect'. In 2010, foreign exchange earnings from tourism represented just over 2% of GDP. Industry's projection for 2011 is that tourism's forex earnings will represent just under 2.5% of GDP. With the appropriate stimulus, tourism's contribution to GDP growth could be more significant in 2012 and beyond.

Increased Tax Revenues

Tourism can generate increased tax revenues for Government. In 2010, Industry estimates that Government's tax take from overseas tourism was about €940 million. For 2011, Industry expects the tax take to be €1,050 million - an increase of over 10%.

Job Generation

Overall, the tourism sector provides employment to some 180,000 people. While the last two years have seen a significant drop in the numbers employed, increasing visitor numbers, underpinned by Government's initiatives to improve competitiveness have meant the creation of more job opportunities in tourism, as suggested by the recently published CSO figures and sectoral employment during the 2nd quarter, 2011.

490 new jobs created by Irish restaurants

In the two months since the Joint Labour Committee Employment Regulation Order (ERO) were abolished in July almost 500 new jobs have been created, with three out of every five restaurants surveyed taking on more staff. The Restaurants Association of Ireland also reports that 93% of its members surveyed have passed on the VAT reduction.

5. RECOMMENDATIONS

5.1 Tourism Marketing

- **Continue to invest in overseas tourism marketing in the recognition that sustained marketing is necessary to maintain the momentum of recovery in the various markets:**

  2011 should see a welcome recovery in all overseas markets. However, it must still be recognised that even with the projected favourable outcome for 2011, overseas visitor numbers will still be more than 15% below the peak figure recorded in 2007

  Moreover, competition for the 'tourism dollar' is now more intense. Destination Ireland has gained a small competitive foothold in the major source markets. This is not the time to cut back on marketing - the battle for market share will demand well-resourced and well targeted campaigns to produce the results necessary to propel tourism forward as a key contributor to the Irish economy and employment.

5.2 Cost Competitiveness

- **Reduce public sector and local authority charges imposed on tourism enterprises, including rates:**

  Local authority charges have risen continuously and steeply over the past decade. Apart from substantial increases in rates, there have also been steep increases in other areas such as water and waste charges. For example, the Consumer Price Index shows that water supply, refuse and waste charges rose by 130% between December 2001 and December 2009 - overall inflation during the same period was just over 20%. While there has been some stabilisation in 2010 and 2011, there is a need to roll back the very large increases of recent years by at least 10%.

  The business community already contributes a very large share of local authority revenues. In rural area with low levels of industry, it is often the tourist businesses - hotels, restaurants etc. - that carry the main burden of local authority rates and other charges. In fact, the Irish Hotels Federation has shown that the 900 hotels in Ireland together pay 6% of the national rates bill. Given the circumstances in which the industry finds itself, there is no capacity to bear further increases in local authority rates and charges. Indeed, a reduction in rates with a 30% waiver pending completion of the countrywide revaluation by the Valuation Offices should be effected. Moreover, there should be greater transparency in the structuring of charges on businesses to ensure that there is clarity and equity in their estimation and levying.

Fundamentally, the goal should be to reduce charges by achieving efficiencies and cost savings in the public sector. Significant further adjustment is required beyond that realised to date.

5.3 Access to Credit for Smaller Tourism Businesses

- **Introduce a Government credit guarantee scheme supporting tourism enterprises' working capital requirements:**

  As tourism is a highly seasonal industry, businesses have to pre-fund many operational costs before realising the revenue streams. (These operational costs range from food & beverages, utilities, local authority rates and other charges). As a consequence, tourism operators need access to credit from the banks particularly when the business is expanding.

  However, as is well publicised by various industry associations (e.g. ISME, SFA), the main banks (although largely owned by Government) are not providing this facility to the extent required, and in fact, credit supply remains restrictive, as highlighted in the recent National Competitive Council's Report.

  New figures[2] from the Central Bank have confirmed that bank lending to small businesses continued to fall in the second quarter of 2011. Lending to small firms outside the property and financial sectors declined by 3.3%, or €891 million, over the second quarter, bringing the decline over the year to the end of June to 9.9%.

  Lending to hotels and restaurants and the wholesale and retail trade fell the most over the year to the end of June.

  Industry recommends the introduction of a Government credit guarantee scheme which would provide the necessary financial 'comfort' to the banks to facilitate the tourism sectors' short/medium term credit needs. A business loan guarantee scheme should be introduced by Government, based on similar schemes in operation in the

[2] Simon Carswell, 22nd Sept, 2011

UK and elsewhere, whereby at least 50% of qualifying loans to viable businesses are guaranteed and borrowers pay a small (2%) premium to support the scheme.

5.4 Stimulate Domestic Demand

- **Introduce measures to encourage consumers to return to normal spending patterns, and avoid measures that serve to further depress market demand for goods and services:**

  Tourism is a part of the services export sector, and exports will be a vital platform for future economic growth. However, the domestic market also has an important role to play in delivering a balanced economic recovery and also as a significant source of demand for many sectors of the economy, including tourism.

  While unemployment and reduced incomes have impacted directly on consumer demand, there is also clear evidence that many people have changed their expenditure patterns and have substantially increased their savings. It is desirable for economic recovery that some of these savings are released. Potential measures include:

  - Rebuilding confidence among consumers in the future of the economy through regular and accurate communication of improvements in Ireland's position.
  - Promoting a return to more normal levels of activity in the property market, including home improvements.
  - Ensuring that proposed budgetary measures that will impact on consumers – especially VAT increases and new taxes – are carefully assessed with regard to their potential for curtailing demand.

5.5 Increase the Incentive to Work

- **The social welfare system is in urgent need of reform so that it fulfils its role of protecting and supporting families and individuals in genuine need of such assistance rather than acting as a competitor in the labour market.**

  The tourism industry is a large employer. However, many jobs are at very moderate skill levels and the continuing intense pressure on prices means that labour costs must be carefully managed. One of the competitors for labour is now the social welfare system which was hugely expanded during the boom years.

There is no doubt that the recession, with its accompanying stream of business closures and job losses, is the primary cause of high unemployment. In these circumstances, social welfare has a vital role to play in providing essential support to individuals and families. However, social welfare was not intended to be an alternative to work, but that is effectively what it has become. This situation must be changed, not just in the interests of the tourism sector but in the interests of the economy as a whole. Reform is urgently required.

5.6 Facilitate Rental Car Supply to Meet Peak Season Demand

- **Restore the VRT deferred payment facility for the car rental sector.**
- **Introduce a VRT export refund scheme.**

The special car rental VRT refund scheme, introduced in 1993, was terminated on 30th September 2011. A perhaps unintended knock-on effect of this termination is that a provision for deferred payment of VRT specifically in relation to vehicles entering the short term car hire fleet has also been terminated (Section 136 (6)(b) of the 1992 Finance Act). The termination of this provision will not increase VRT receipts, but will impact severely on cashflow and funding requirements among car rental companies. As a result, their capacity to purchase new vehicles for the peak tourism months will be seriously impaired. As there is no loss to the State, we request that the VRT deferment facility for the short term car rental sector be restored.

The recommendation to introduce a VRT export refund scheme for the car rental sector arises from the difficulty of selling defleeted vehicles into the domestic car market. This has led to a sharp reduction in new car purchases by the car hire sector, as motor distributors, dealers and financial institutions are not confident that defleeted rental cars can be readily resold at a profitable price. As a result, they are not supportive of supplying the additional new cars required for the peak tourist season. Our recommended solution is that a VRT refund scheme be put in place in respect of registered car rental vehicles that are defleeted and immediately exported from Ireland.