Submission

from the

Irish Tourist Industry Confederation

on

Budget 2013

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1. INTRODUCTION

Following three years of massive decline (24% in visitor numbers, 30% in revenue) modest growth returned in 2011. Early indications for 2012 suggested further growth would be achieved, but this optimism has been tempered by prevailing economic conditions in Ireland's main source markets. It now seems probable that overseas visitor numbers in 2012 will be slightly down on those of 2011.

The British market, source of the greatest number of visitors, remains Ireland's Achilles heel. The pace of economic recovery there remains slow and uneven, and legitimate fears exist that it may soon re-enter recession. The unstable global economic situation and continuing uncertainties in the Euro area, together with fiscal retrenchment and private sector indebtedness, continue to weigh heavily against recovery of consumer confidence in Britain.

Economic recovery in the United States is more grounded, but far from robust. High fuel costs and careful capacity management by airlines is resulting in much higher long haul air fares, which are having a dampening effect on travel to Europe.

Prospects from Continental Europe are negatively impacted by the precarious debt crisis which rages on. Economic slowdown, and the trajectory of the Euro crisis remain critical to global economic prospects.

The important domestic market remains flat, a victim of ongoing economic uncertainty, and particularly inclement weather conditions this year.

Against this background to have almost maintained last year's visitor numbers should be seen as a reasonable out-turn for 2012.

Modest though it is, it has enabled the industry to maintain employment numbers at about 170,000. Tourism continues to make a valuable contribution to the national economy, generating substantial export revenues and tax contributions. The priority is 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.

While recovery has been delayed and the main factors are external to Ireland, there is much the Government can do to assist the tourism industry survive through this unprecedented global economic recession. The Government initiatives aimed at helping to restore competitiveness – reduction in VAT and Air Travel Tax – and the visa relaxation aimed at stimulating demand from emerging markets – are welcomed by the industry.

Tourism has the capacity to play an important role in the regeneration of the domestic economy thanks to its labour intensive nature and regional economic impacts.

Like most other businesses, firms in the tourism sector have aggressively tacked their cost bases in order to remain viable. Enterprises have achieved significant reductions and passed these on to customers, but some problem areas remain. Many state-controlled or influenced costs in particular have not come down; local authority rates and energy costs remain a substantial burden.

In this context, ITIC makes the following recommendations with respect to Budget 2013.

1) **Tourism Marketing**

   As all tourism destinations compete for business in Ireland's main source markets, awareness is a key determinant in winning. Creating and maintaining this awareness is directly related to marketing investment, and it is crucial that current levels of investment are maintained in 2013. Increasingly visitor numbers are "events driven", and adequate provision should be made in Agency budgets to maintain a strong events calendar.

2) **Access to Credit**

   Credit conditions for business and households must improve. The provision of new credit will be a key determinant of economic growth in Ireland and vital to the sustainability of many tourism businesses. Additionally access to funding for businesses seeking to expand, particularly SME's, needs to be enhanced.

3) **Stimulate Domestic Demand**

   The tourism industry urges the Government to introduce measures which encourage consumers to return to more normal spending patterns, and to minimise those measures that depress demand for goods and services.

4) **Tourism data**

   Compared to other destinations the Irish tourism industry is poorly served by the detail and timeliness of official statistical information. As an island nation we spend more than most to attract people to come to visit, yet it is almost impossible to directly assess the effectiveness of this expenditure. If the CSO is not in a position to provide the necessary data within a reasonable timeframe, some other method needs to be found to provide basic performance and trend data.

5) **Support for the B&B Sector**

The B&B product is an essential part of the Irish tourism offering. It is available to the visitor in all parishes across the country and hosts over 2.5 million bednights annually. But the sector is in great difficulty. Over the past 5 years its annual bednights have dropped by 35% - due to market conditions and extremely aggressive pricing by hotels. The future viability of the B&B sector is in question, particularly in rural areas. The B&B accommodation stock has halved since 2000 with a 33% contraction since 2008 alone. Incentives are needed to attract new operators if its continued decline is to be arrested, such as the removal of VAT and tax liability for the first 5 years trading.

6) **Car Rental Support**

Affordable car rental is vital to support and compliment the growth in visitor numbers being sought in 2013. The extensive promotion of “The Gathering” will target a regional spread of visitors throughout the country. However anticipated Government action related to vehicle taxation will result in more expensive car hire next year. The high price of fuel with its significant taxation component is an additional deterrent to car rental. The proposed increases in the lower VRT bands and increases in Road Tax will have a disproportionate impact on the industry, and the industry requests the Government to ameliorate this impact by:

- Providing a partial VRT refund directly to tourists similar to the VAT reclaim system and based on the production of an approved car rental agreement for rentals of up to 2 weeks.
- Providing for a monthly road tax payment facility for rental vehicles.
- Introducing the vehicle export VRT refund scheme envisaged in the Finance Act 2012 and reducing the administration fee from €500 to €100

A strong domestic tourism market is a vital element in the recovery of the industry. While there has been an element of substitution of foreign trips with domestic visits, the Irish market has declined in each of the last 3 year. Restoring domestic demand should be a priority for Government.

ITIC fully supports the Irish Business and Employers Confederation (IBEC) *Action Plan for Recovery – 50 ideas to drive growth*. Specifically for tourism, six of the actions proposed by IBEC would have an immediate and beneficial impact on competitiveness and sustainability for the tourism sector:

Action 1: Establish a new state-backed investment bank

A range of initiatives are required to improve lending and access to capital for Irish tourism business. This will include the continued strengthening of the existing commercial banks, but there is also a gap in the Irish market for a state-backed enterprise or investment bank. This bank should be based on similar models in Canada, the US and Germany and would provide the certainty of source needed to fund growing and high potential businesses. It would also act as a catalyst to leverage funding from other equity and debt sources. The bank would be financed by the European Investment Bank and the National Pensions Reserve Fund. Investments should be made efficiently without huge friction cost by using information already available from existing state agencies and the banking network.

Action 2: Streamline wage-setting mechanisms: abolish the JLC system, modernise the REA system

The Joint Labour Committee system of setting wages for certain sectors through Employment Regulation Orders was archaic, inflexible, and led to wage levels which prevented the creation and maintenance of employment. That system has been found unconstitutional by the High Court. It should not be restored. Instead, the parallel system of Registered Employment Agreements should be modernised and rendered fit for purpose in order to allow wage levels to be set at a level where employers can afford to create jobs.

Action 3: Maintain sensible tax policies to support growth – extra taxes should be on property, not work or products

Government tax policy has a significant impact on economic growth. International evidence shows that raising necessary extra taxes from property is least damaging to economic growth. A meaningful residential property tax must therefore be fully rolled out, while taxes on work should not be increased. PRSI, effectively a levy on job creation, is a particularly damaging tax. New taxes which raise the cost of doing business must also be avoided.

The retention of the lower 9% VAT rate on most labour intensive tourism services for 2013 is a significant and welcome assist to the industry. Given that global economic conditions have conspired to produce an anaemic recovery for tourism in Ireland, sensible tax policies must be maintained until it becomes evident that recovery has gained traction.

Action 4: Reduce commercial rates in line with decline in turnover

The business sector contributes some €1.4 billion in commercial rates and a further €200 million in water charges to local authority revenue. Since the onset of recession, businesses operating in the domestic economy have experienced an average turnover fall of 25%, while local authorities generally have not reduced their charges to business. To lessen this burden, Government should reduce the annual commercial rates bill by €400 million.

Action 5: Optimise transport links with the rest of the world to support trade and tourism

For a small island nation connectivity with the rest of the world is crucial. The maritime and aviation sectors have critical roles to play in this regard. Government at both national and local level should support increased efficiency and additional throughput capacity at the major ports to cater for long-term projected growth, as well as the development of cruise tourism facilities. Improvements in roads connecting major ports to the motorway system should also be prioritised. Government should develop a national aviation policy built on the principles of cost and regulatory efficiency and competitiveness. The strategy should support business growth, including in the airfreight, aircraft maintenance and leasing industries, and contribute to growth and the creation of jobs in the tourism sector.

Action 6: Reimagine public services for the long term

Despite encouraging intentions, the transformation of the public sector has not happened at the pace and scale envisaged. Many of the proposed and achieved reforms have been dictated by previous agreements and by what would be palatable to employees and unions rather than what is required to have a world-class public service. The Croke Park Agreement, at the time a new and significant departure, is now over two years old. A fresh perspective with ambitious new proposals is required to deliver change that can help restore Ireland’s public finances while working towards the delivery of a world-class public service.