



Irish Tourist Industry Confederation

Budget 2016 Submission

June 24th 2015

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SUMMARY OF RECOMMENDATIONS

- The tourism industry has seen a return to strong growth, with an increase of almost 7% in tourism numbers and almost 12% in out-of-State revenue in 2014. Economic growth has likewise been positive, fuelled by low fuel prices and a weak euro. However, there is a need to use our current 'window of opportunity' to create a more sustainable foundation for long-term growth and to guard against cost increases.
- There is also an urgent need to invest in the development and refreshment of tourism product and infrastructure, as well as in marketing.
- ITIC recommends focusing on maintaining competitiveness, specifically in the areas of labour costs, business operating costs and the broader public sector cost environment. We also recommend providing tourism capital and marketing investment. Our recommendations to Government for Budget 2016 are:

Recommendation 1: Reform the tax and USC systems in order to facilitate pay adjustments and to treat entrepreneurs equally to PAYE workers.

Recommendation 2: Specifically, ensure utility costs are competitive and fairly applied, continue to monitor costs and take action to address unnecessarily high costs that might be influenced by public sector charges where they arise.

Recommendation 3: Establish a tourism capital programme, equivalent to at least 1% of annual export earnings from tourism, in each of the next five years. The prioritisation of projects must have a clear market focus on boosting visitor export earnings.

Recommendation 4: Tourism enterprises to be included as eligible for capital supports currently available to export business in other sectors of the economy. Government should take an innovative approach to maximising State-funded investment through the stimulation of investment from indigenous enterprises and FDI.

Recommendation 5: Increase the current levels of the Tourism Marketing Fund to support the substantial increase in marketing by tourism enterprises and improve Destination Ireland's visibility in the international marketplace.

1. BACKGROUND

Recent years have again shown the resilience of the tourism sector globally, as it continues to adapt in response to challenging circumstances. Globally, tourism and travel are widely accepted as important contributors to the economy. A recent World Travel & Tourism Council report¹ suggests that tourism is ranked in third place out of eight sectors in terms of job creation, ahead of automotive manufacturing, financial services and mining, and accounts for over 9% of global employment and GDP. It also forecasts that the sector will grow at an annual rate of 4% globally.

In Ireland, tourism accounts for roughly 4% of GNP, supporting over 200,000 jobs. But tourism also has a broader value. In many rural areas, it is the sole viable economic activity, providing local employment and contributing to better quality of life. Moreover, as it is small scale in volume, it is environmentally sustainable and contributes to greater appreciation of our natural and built heritage. Given tourism's value, understanding how best to respond to external changes and pressures is crucial. The tourism sector in Ireland, as with other sectors of the economy, is comprised mainly of small enterprises with very limited resources for investment. Therefore, the focus of the recommendations in this submission is on factors that support long-term sustainability, with the understanding that it will have a positive knock-on effect on Ireland's economy as a whole.

The Irish Tourist Industry Confederation, which has represented the sector for more than 30 years, includes members from all the major private and commercial tourism organisations as well as from the principal representative bodies. It is involved in research, communication, partnership building and providing input to Government on key issues which affect tourism. It also acts as a conduit between the sector and those in a position to make decisions that will affect it. Over the last year, ITIC has been an active participant in the process that led to the new Tourism Policy Statement: *'People, Place and Policy - Growing Tourism to 2025'*. As an important and relevant framework that pulls together key aspects of tourism growth and development, ITIC is keen to see it further developed. It sets a target for Irish tourism of 10 million overseas tourists yielding €5 billion by 2025. We believe these targets will require the support of a clear investment policy if they are to be achieved and the recommendations in this submission are made in this context.

¹ Source: www.wttc.org

2. CURRENT POSITION

2.1 Tourism Performance & Outlook

Tourism in Ireland is a strong and growing contributor to the Irish economy, worth in the region of €5.9 billion, of which €4.5 billion are strategically-important foreign exchange earnings. It also supports over 200,000 jobs. In the last year alone, approximately 5,000 new jobs were created in tourism and Fáilte Ireland is expecting that another 8,000 jobs will be created in 2015. This potential for job creation is expected to remain strong for the foreseeable future.

Growth in tourism has been strong in recent years. Last year saw significant growth of over 6% in the number of visitors from all main market areas. In particular, the number of North American visitors rose by 10% in 2014, with visitors from Britain - our largest main source market - increasing at a respectable 5%. Additionally, after a decline in 2013, last year saw growth of over 3% in domestic trips, to 7.3 million.

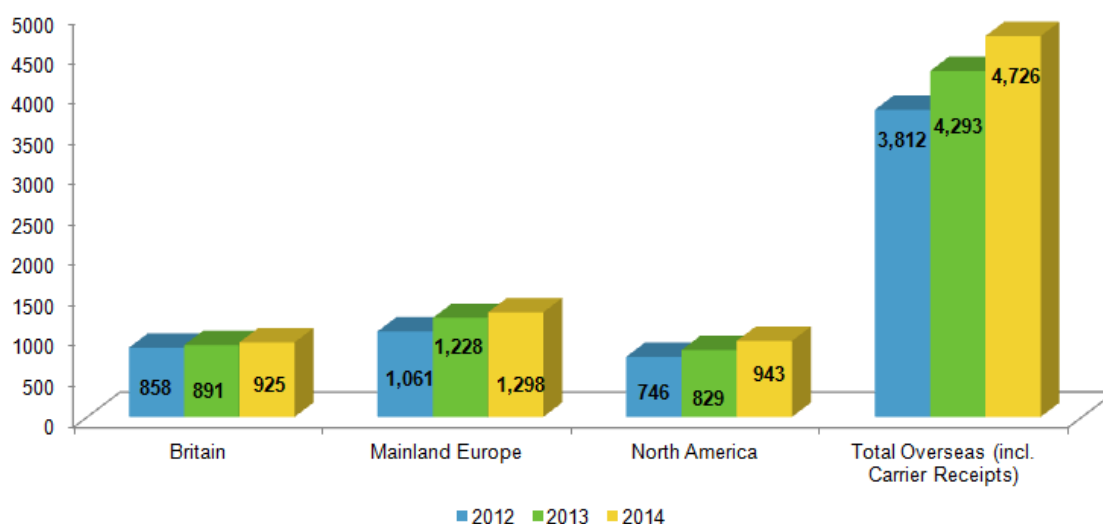
Table 1: Overseas Tourism to Ireland (000s)

<i>Market</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014**</i>	<i>% Change '13 v '14</i>	<i>% Change Feb-April '15 v '14</i>
Britain	2,799	2,722	2,870	3,018	5.2	10
Nth. America	904	940	1,039	1,148	10.5	20
<i>USA</i>	<i>811</i>	<i>833</i>	<i>924</i>	<i>1,010</i>	<i>9.3</i>	<i>-</i>
<i>Canada</i>	<i>93</i>	<i>107</i>	<i>115</i>	<i>138</i>	<i>20.0</i>	<i>-</i>
M. Europe	2,184	2,247	2,346	2,496	6.4	15
<i>Germany</i>	<i>411</i>	<i>437</i>	<i>466</i>	<i>539</i>	<i>15.7</i>	<i>10</i>
<i>France</i>	<i>381</i>	<i>384</i>	<i>409</i>	<i>422</i>	<i>3.3</i>	<i>15</i>
Rest of World	353	378	431	462	7.2	24
Total O/seas	6,240	6,286	6,686	7,124	6.6	14*
Nth. Ireland	1,416	1,264	1,574	n/a	-	-
Total Out of State	7,656	7,550	8,260	n/a	-	-
Domestic Trips	7,169	7,031	7,111	7,354	3.4	-

Source: Fáilte Ireland Preliminary Tourism Facts 2014, published May 2015; *CSO; **Preliminary estimates

While final estimates are not yet available for 2014, overseas tourism revenue (including carrier receipts) appears to have grown by 10% - significantly higher than the growth in numbers - as shown in Chart 1. Domestic trips contributed an additional €1.5 million in 2014.

Chart 1: Overseas Tourism Revenue (€m)



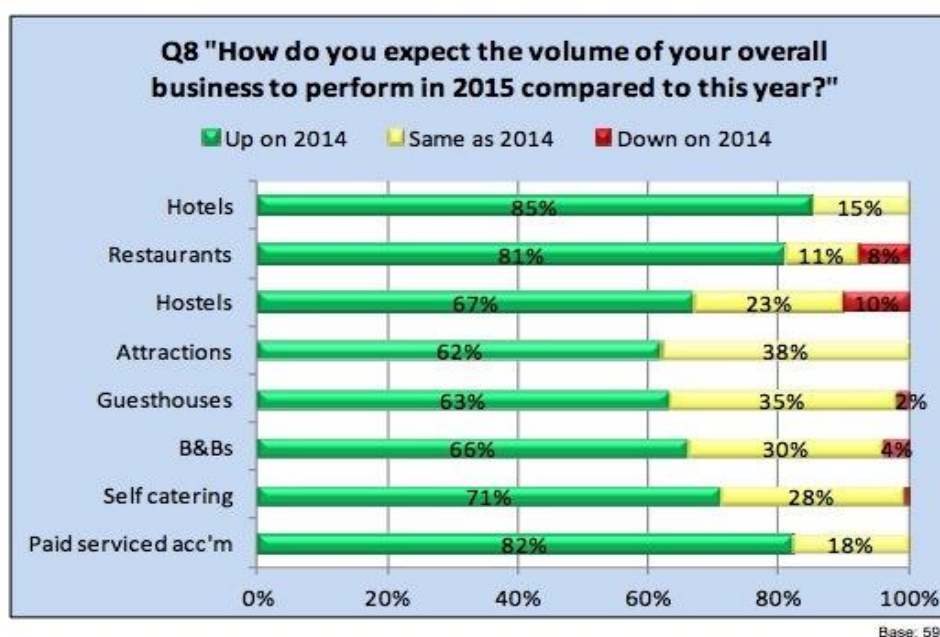
Source: Fáilte Ireland

Further evidence of the strong performance in 2014 may be found in the results of an annual survey of tour operator business conducted by CHL Consulting on behalf of the ITOA. This showed that there was a remarkable 21% increase in expenditure by overseas tourists generated by ITOA members.

The ITOA survey is also useful in profiling the advantageous regional distribution of tourism. In 2014, Dublin accounted for 38% of ITOA members' business (in value terms) while the remaining 62% was distributed throughout the regions. This distribution underlines the importance of tourism as an economic generator throughout the country.

As we saw in Table 1, Feb-April 2015 has already seen substantial year-on-year growth in visitor numbers of 14%. The industry is positive in its expectations for the full year, viewing the international economic marketplace as one that is conducive to sustained growth in demand. The industry's expectations are summarised in Chart 2.

Chart 2: Expected Performance of Tourism 2015



Source: Fáilte Ireland

This perspective is also borne out by ITIC's 2015 Industry Outlook Survey, with three out of five respondents expecting modest growth over the next two to three years and two in five expecting significant increases. The anticipated growth is supported by increases in air capacity amounting to an increase of 9% in the peak 2015 summer season over the same period in 2014.²

2.2 Economic Outlook

With unemployment dropping back to single digits for the first time in eight years, strong economic forecasts and a contracting Government deficit, it appears that Ireland as whole is economically up and running again, and is comparing favourably in current performance with other Eurozone members. The economic outlook for Ireland's two largest tourism source markets, the USA and UK, is much stronger than that for most of the Eurozone members.

² Source: Tourism Ireland

Table 2: Economic Conditions Across the Eurozone

Country	GDP Growth 2015	GDP Growth 2016	Inflation Rate 2016	Unemployment Rate 2016
France	1.1%	1.7%	1.0%	10.0%
Germany	1.9%	2.0%	1.8%	4.4%
Italy	0.6%	1.4%	1.8%	12.4%
Netherlands	1.6%	1.7%	1.3%	6.9%
Ireland	3.6%	3.5%	1.5%	9.2%
Eurozone Avg.	1.5%	1.9%	1.5%	10.5%
UK	2.6%	2.4%	1.6%	5.3%
USA	3.1%	3.0%	2.2%	5.0%

Source: European Commission, May 2015.

Some of the estimates in Table 2 above can be considered conservative, with the ESRI anticipating continuing declines in unemployment and forecasting a rate of 8.4% in 2016, which will support further growth in consumption. Private consumption - an indicator of consumers' ability and willingness to spend, and therefore relevant to tourism which is discretionary expenditure - is expected to rise over the next few years, before levelling out again after 2017, as can be seen below.

Table 3: Economic Forecast of Various Factors – Ireland

	2015	2016	2017	2019
Private Consumption	1.2%	2.8%	3.0%	2.9%
Consumer Prices	1.1%	1.6%	1.8%	2.0%
Exports of Services & Goods	5.4%	4.2%	4.4%	4.0%

Source: Ernst & Young

However, with the return to growth in consumption, and in the economy in general, and with the “significant improvement in the public finances”³, there is a need to be aware of - and responsive to - the forecast increase in consumer prices and the factors that create domestic cost pressures.

³ ESRI press release, 25 March 2015.

Recent growth in the Irish economy has benefitted from low oil prices and a weaker euro, the latter assisted by the ECB's Quantitative Easing programme⁴. It is likely that it will continue to do so in the short term, benefitting tourism to Ireland from outside the Eurozone. However, both of these factors are outside the control of Irish policymakers and businesses, which makes them unsustainable as a basis for growth. Current benefits may be quickly lost again once the situation changes unless this current 'window of opportunity' is used to make more lasting changes.

2.3 Critical Factors in the Future Success of Irish Tourism

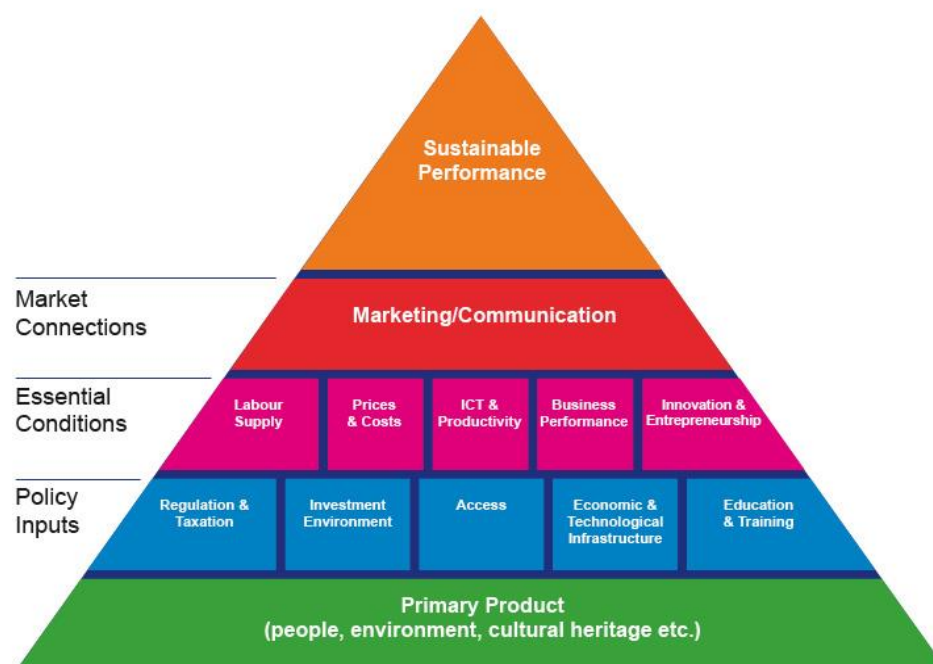
A detailed discussion on tourism competitiveness was included in our Budget 2015 submission, and it is worth revisiting some of the key points again here as it continues to be a critical factor in the success of the industry. Competitiveness is a complex concept, encompassing many different drivers and relating more to perceptions of value than to actual price.

In the 2007 ITIC report, *'Ireland's Competitive Position in Tourism'*, the National Competitiveness Council's (NCC) competitiveness pyramid was adapted to specifically reflect the key drivers of success in tourism. It remains an accurate summary of the broad array of factors that influence the ability of the Irish tourism sector and its businesses to succeed in the international marketplace.

As can be seen in Chart 3, tourism relies predominantly for its international appeal on assets that are beyond its direct control. Even within the sphere identified as 'primary product' there is much that is external to the industry's control but on which it must depend for competitive positioning – examples are the fundamental factors of people, landscape and culture. This puts the industry at a disadvantage when compared with other sectors where there is more direct control over the production process and where there may be greater opportunity for automation. It also means that there are other sector-specific factors that are essential in creating and maintaining a buoyant tourism industry.

⁴ EY Eurozone Forecast, March 2015

Chart 3: Tourism Competitiveness Pyramid



Source: Ireland's Competitive Position in Tourism, ITIC (see Appendix 1 for a discussion on each layer of the pyramid)

As we discussed previously, there is much optimism across the tourism industry and the economy generally. And yet there are also some concerns. With the consequences of the recent recession still part of the everyday experience of many businesses, the industry is acutely aware that growth must not be taken for granted and that the country must put in place the necessary foundation for a permanently sustainable tourism sector.

Indeed, it is of concern to note that some of the factors that have created favourable growth conditions in recent years are considered to be uncertain in the near future. Table 4, from Tourism Ireland, identifies some of these key factors succinctly.

Table 4: Review of Growth Conditions for Tourism

Environmental Factors	2010 - 2014		2015 - 2025	
	Favourable conditions have helped growth	Status	Uncertain conditions; growth may be challenging	Status
Economic environment	Recovery in source markets		Stabilisation at lower growth level, with possible shocks	
Access	Improved connectivity, visa liberalisation		Possible connectivity capacity constraints	
Competitiveness	Relatively lower cost of doing business has favoured more competitive pricing		Labour cost and availability issues. Lower VAT rate is temporary. Accommodation capacity limited and rates increasing in hubs	
Appeal	Enhanced tourism product and strongly supported overseas marketing, raising the destinations' profile		Uncertain future for major capital investment. Decreasing overseas marketing resources.	

Table symbols: Green = positive; amber = cautious; red = negative.

Some additional points have also been raised:

- The industry is still challenged by rising operating costs, with fuel and energy costs remaining the highest individual concern.⁵
- There is pressure on margins as costs rise; Ireland's pricing is becoming uncompetitive in comparison to other destinations.
- The cost of travel into Ireland is increasing, particularly in peak season.

ITIC members themselves have identified the top supply side risks as follows:

- 1) Price competitiveness (cited by 66%)
- 2) Under-investment in tourism plant (61%) and infrastructure (54%)
- 3) The regulatory environment (49%)

Not all of the factors mentioned above are under the direct control of either businesses or policymakers but competitiveness and investment are two which can be directly influenced at Government level. It is here that ITIC feels the greatest impact can be made for the long-term benefit of tourism and the wider economy.

⁵ Source: Fáilte Ireland

3. RECOMMENDATIONS

Taking into account the broader economic circumstances outlined previously, along with the specific requirements of the tourism industry, ITIC has identified two broad areas which it recommends the Government address as priorities in Budget 2016. These are:

- 1) retaining competitiveness;
- 2) investing in tourism.

Detailed recommendations with regard to each are provided in the remaining sections of this submission.

Additionally, however, it is worth noting up front that there are some key growth measures already in place that are working and ITIC welcomes the Government's wise decision to retain the lower VAT rate for tourism. It has proven to have a significant positive effect on employment in the sector - which is a function of profitability – and it is an example of the inter-connectedness of the cost environment and the viability of the industry. It is estimated that, since its introduction in 2011, it has helped to create over 30,000 jobs.

3.1 Cost Competitiveness

3.1.1 An Introduction

“Ireland remains a high cost location. Addressing Ireland’s international cost competitiveness must, therefore, remain a key economic priority for Government.”

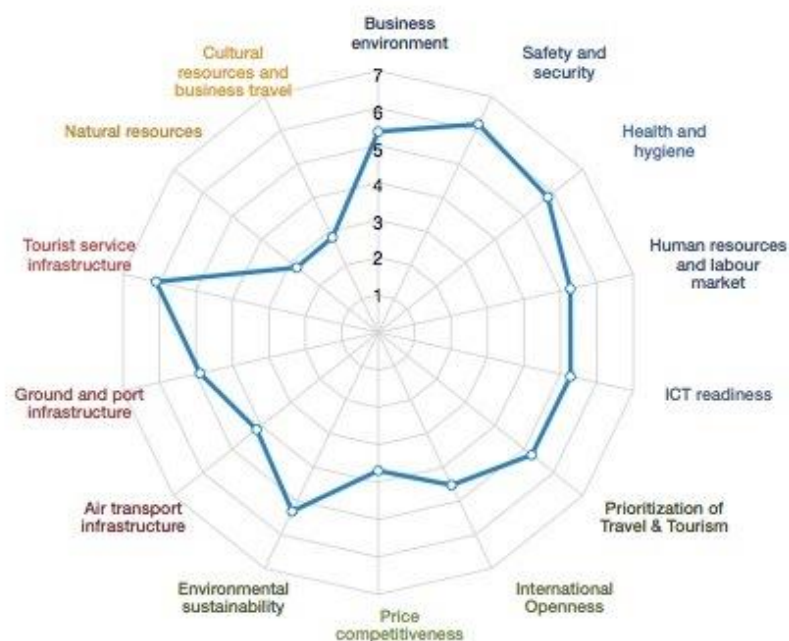
As we saw in the previous section, the aspects that help to create competitiveness for a business or sector are many and diverse, and value for money is an important factor for visitors in their experience of a tourism destination.

- More than three-quarters of overseas visitors rate ‘good all round value for money’ as either very important or **important in considering Ireland** for a holiday. This rises to 83% for British visitors.
- Of the **disadvantages of a holiday in Ireland**, three of the top four most frequently mention relate to general cost: drink costs, food costs and the high cost of living.

While value for money is not entirely about price, the latter is obviously an essential component. Business costs are a fundamental determinant in price-setting and therefore affect overall value perception by consumers. Keeping costs as low as possible is very important in delivering value.

Every two years, the World Economic Forum releases its assessment of the competitiveness of 141 countries in the Travel and Tourism Competitiveness Report. The most recent, published in 2015, rates Ireland's general tourism competitiveness at 4.5 out of a possible maximum of 7, which places it in 19th place. This rating is based on 90 indicators grouped under fourteen different pillars, as shown in Chart 4.

**Chart 4: Rating of Irish Tourism's Competitiveness 2015
(7 = Best)**



Source: WEF Travel and Tourism Competitiveness Report 2015

Concern regarding costs appears in the National Competitiveness Council's (NCC) Cost of Doing Business in Ireland 2015. The *“Council is concerned that recent price falls in Ireland are at risk of being reversed as the economy returns to growth, demand increases and constraints emerge. Already there are warning signs: after a number of years of cyclical cost reductions... progress has stalled somewhat and domestically determined cost competitiveness is no longer improving”*.

In its report, the NCC recognises that recent improvements in relative cost competitiveness have been driven by external factors and that,

“...Ireland cannot depend on benign currency movements or other external factors beyond the direct influence of policy makers to protect our international cost competitiveness... any loss of cost competitiveness will have a major negative impact upon both our economic prosperity and our standard of living. In order to protect gains made to date, we must focus on the controllable portion of our enterprise cost base, and continue to take action to address unnecessarily high costs wherever they arise.”

Concerns in the tourism industry regarding costs have previously been articulated in Section 2 and can be grouped under three distinct headings:

- costs associated with employment;
- costs associated with running the business;
- and the broader cost environment within which tourism businesses have to operate.

It is within these areas that Government intervention is most urgently required.

3.1.2 Labour Costs

- **Recommendation 1:**
Reform the tax and USC systems in order to facilitate pay adjustments and to treat entrepreneurs equally to PAYE workers.

Given that tourism is a people-industry, it is highly dependent on labour and labour costs are typically the largest single component of the overall cost of doing business for tourism enterprises. Labour costs include wages and salaries, employer-paid statutory contributions and other employee benefits. In the hotel sector, for example, the Crowe Horwath 2014 Hotel Survey shows that payroll costs range from an average of 34% in Dublin to a high of 41%, varying by region and rating. While Irish labour costs were in decline over a number of years, they have been increasing, though marginally, since 2012. In addition, Ireland has the 4th highest national minimum wage in the Euro area.

With a return to growth in the economy, it is to be expected that workers will seek a commensurate increase in their pay. Calls to review public sector pay levels and the introduction of the Low Pay Commission all indicate the likelihood of upward movement

in labour costs. However, the way in which these changes are approached is vitally important in terms of the competitiveness of Irish business. A report on minimum wages by the OECD suggests that job losses are more likely when minimum wages are high to start with and labour markets are already weak. It warns against increasing legal minimums automatically.

Additionally, there remain inequalities in aspects of the Irish tax system that act as disincentives in business. These include the high marginal income tax rate, the higher rate of USC for those earning over €70,000, and the approach to taxation of entrepreneurs. These points have been highlighted recently by IBEC⁶.

*“There is no economic justification for maintaining penal income tax rates on these workers (**higher earners**)”.*

*“The Taoiseach... at IBEC’s CEO Conference acknowledged as much (**the unfair treatment of entrepreneurs**) by referring to the higher rate of tax for the self-employed as ‘discriminatory’. With the higher rate of USC, the lack of an equivalent to the PAYE credit and the higher rates of CGT...our tax system has gone in the opposite direction to much of enterprise policy.”*

Given these points, and the fact that a basic increase in pay is an additional cost to businesses, ITIC is convinced that the pay adjustments are best facilitated through reforms of the tax system, lowering of the USC and the removal of low-paid workers from the USC entirely.

⁶ Source: IBEC Priorities for the Spring Statement

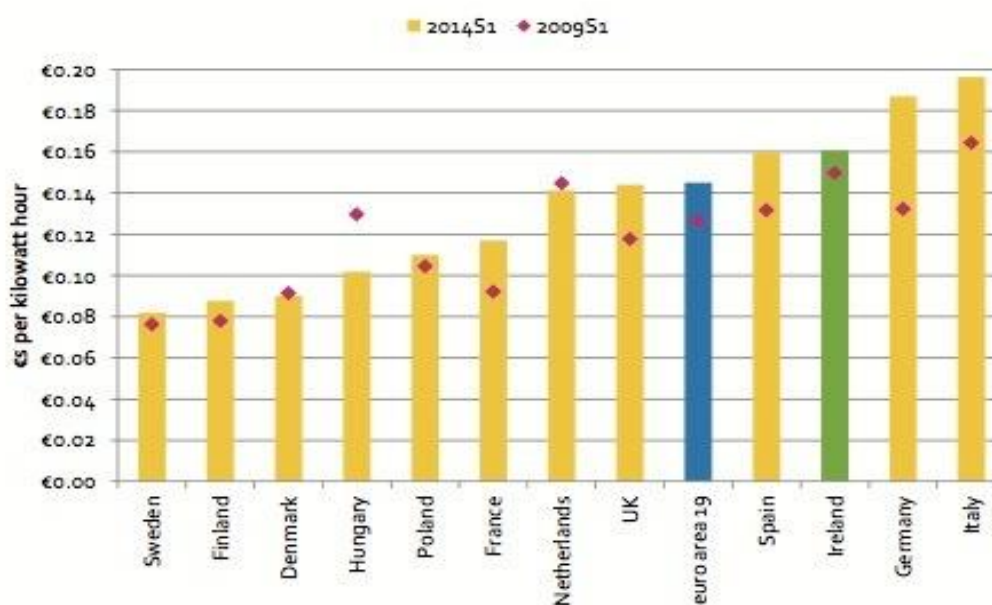
3.1.3 Operating Costs

- **Recommendation 2:**

Ensure utility costs are competitive and fairly applied, continue to monitor costs and take action to address unnecessarily high costs that might be influenced by public sector charges where they arise.

Of the variety of operating costs with which tourism businesses have to contend, utility costs are the ones most frequently identified as being a particular burden and are a significant component of non-wage costs. Ireland is the sixth most expensive location for electricity of the 28 EU economies, although there has been some reduction in fuel prices in the last year⁷. Indeed, on a global scale, the EU itself is among the most expensive locations for electricity. With upcoming changes to the all-island electricity market, it is important the proposed regulatory redesign of the market doesn't encourage a prices to rise again.

Chart 5: Industrial Electricity Prices for SMEs (excl. VAT)



Source: Eurostat

⁷ from IBEC, April 2015 - <http://www.ibec.ie/IBEC/Press/PressPublicationsdoelib3.nsf/vPages/Newsroom~competitive-energy-prices-crucial-to-future-recovery-22-04-2015?OpenDocument#.VWTU6Os-Bz9>

In addition, **water costs**, although competitive from an international perspective, continue to vary significantly by local authority, as shown in a previous submission. Costs vary from a low of just over €1.50 per cubic metre in Kildare to a high of double that amount in Wicklow⁸. This is a situation which can hardly be considered conducive to the creation of a fair and open competitive business environment and while we expect it to balance out in the near future, it is hoped that any rebalancing will not mean an automatic increase to the higher pricing levels.

Apart from these two significant cost elements, there are other costs that have been identified by the NCC. The **cost of diesel** is 5.5% higher than the euro average, affecting the coach market in particular. And the **high interest rates** for overdrafts and revolving loans - which are 42% above average - are of particular relevance to tourism with its seasonal business pattern. Both of these have also been highlighted by ITIC in the past.

3.1.4 The Broader Cost Environment

The tourism experience is broad-based and encompasses many aspects of Irish daily life. The broader cost of living in Ireland is as relevant to tourists visiting the country as it is to tourism businesses and Irish residents. Food and drink, for example, accounts for more than a fifth of tourist spend in Ireland, with shopping, sightseeing/entertainment and transport accounting for almost two fifths.

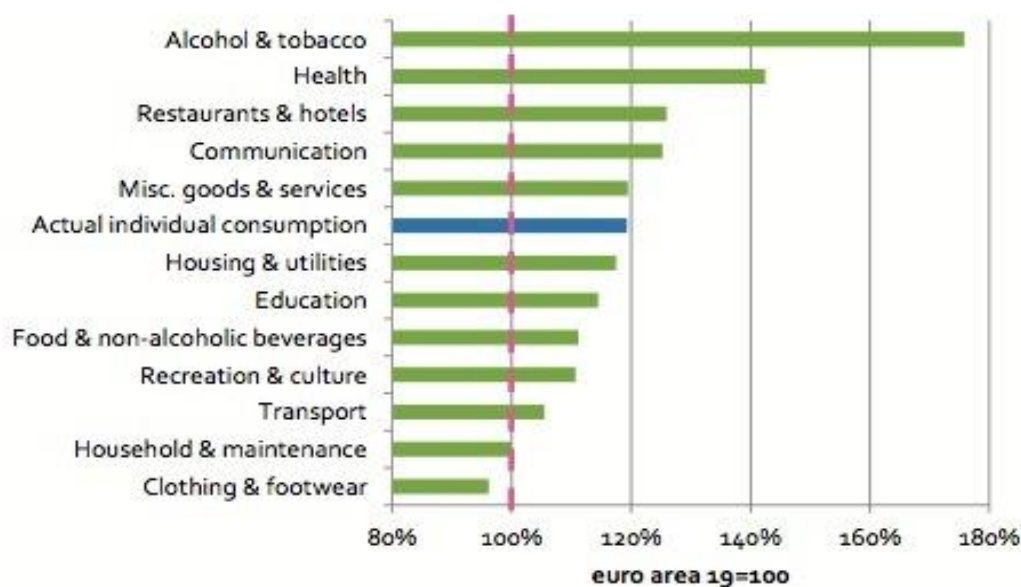
As a result, and also of crucial importance to the general economy, *“it would be prudent... to minimise those costs that we have some degree of control over.”*⁹

One particular aspect of the broader cost environment is identified by the NCC in its 2015 report when it identifies Ireland as the 3rd most expensive location in the euro area for consumer goods and services, something that impacts all businesses. *“Irish prices were 16.8% above the euro area average, and prices were above the euro area averages for 10 out of 12 categories of goods and services.*

⁸ Source: Local Government Management Agency

⁹ The National Competitiveness Council's Cost of Doing Business in Ireland 2015

**Chart 7: Irish Price Levels Relative to the Euro Area 19, 2013
(incl. indirect taxes)**



Source: Eurostat

The above average ratings for alcohol as well as for food and non-alcoholic beverages are of particular concern to the tourism industry as these are essential aspects of the visitor experience.

3.2 Investment in Tourism

3.2.1 The Importance of Investment

In Section 2 we reflected on the various factors that influence Ireland's competitiveness, the underlying basis of which is the primary tourism product itself - the environment, cultural heritage, people, etc. The vast majority of overseas visitors consistently rate the natural environment, the history and culture and the availability of plenty to see and do as very important in considering Ireland for a holiday.¹⁰ As was mentioned, most of these 'products' - as well as other factors within the pyramid in Chart 4 - are outside of the direct ownership of the tourism industry and therefore require external intervention in order to make improvements.

¹⁰ Fáilte Ireland's Visitor Attitudes Port Survey 2014

The case for State investment in tourism has been clearly articulated on numerous occasions and is based on various market failures together with the benefits that can be delivered by public intervention. But some key points are worth re-stating:

- Tourism is an important Irish export sector, contributing substantially to job creation and supporting rural economies.
- Along with Agri-food, the tourism sector is one of the top indigenous sectors with export potential that can assist in balancing the high Irish dependence on FDI.
- Internationally, tourism is a consistent growth industry with global demand forecast to grow at an average of 3% per annum¹¹. Irish tourism is expected to grow at a higher rate of at least 5% per annum.
- The Government's People, Place and Policy framework sets specific tourism targets for 2025 and a new Product Development Plan is required to support them.
- A modern, competitive and productive tourism sector requires investment in new and improved visitor products and experiences.

Key players in tourism, through ITIC's own recent survey, also identify the need to invest in tourism plant and infrastructure. In fact, after concern about rising costs, under-investment in both of these areas was considered a risk to future growth by well over half of the respondents. And perhaps with good reason. Millward Brown, in a competitive benchmarking exercise for Tourism Ireland, confirmed that our main source markets still consider Ireland weak in terms of being an action-packed destination with lots to do.

Apart from the case for investing in tourism itself, the timing for long-term investment in the Irish economy is right from a national economic perspective. IBEC also identifies this current period as a 'window of opportunity'.¹²

"We need to dramatically ramp up capital spending if we are to avoid the mistakes of the past, when significant infrastructure gaps constrained growth... At the moment, however, we're not investing nearly enough. Record low interest rates offer a once in a generation chance to invest ambitiously in the country's future."

¹¹ UNWTO Forecast 2010-2030

¹² IBEC Priorities for Spring Statement 2015

3.2.2 Capital Investment

- **Recommendation 3:**

Establish a tourism capital programme, equivalent to at least 1% of annual export earnings from tourism, in each of the next five years. The prioritisation of projects must have a clear market focus on boosting visitor export earnings.

- **Recommendation 4:**

Tourism enterprises to be included as eligible for capital supports currently available to export business in other sectors of the economy. Government should take an innovative approach to maximising State-funded investment through the stimulation of investment from indigenous enterprises and FDI.

Despite its proven relevance in economic terms, State capital investment in tourism is significantly less than its investment in the agri-food sector, the other important indigenous export sector.

Apart from the low level of State investment in tourism itself, other critical aspects of the tourism product have also been underfunded. The OPW, for example, which is responsible for approximately 70 historic sites, has suffered large cuts in its capital programmes over the last ten years. The annual capital investment programme has dropped from €17 million in the mid 2000s, to just €350,000 in the last two years.

Ireland requires a dynamic investment environment which will include new developments as well as redevelopments and refreshment of existing tourism infrastructure, products, services and facilities. The Government has a key role to play in public sector investment. ITIC is proposing a capital budget that equates to at least 1% of tourism's annual export receipts - not less than €250 million over the period 2016-2020 - that will be used to support sustainable projects in the public and private sector. Projects would be required to meet a number of criteria, including:

- enhancing local attractions, facilities and amenities in a tourism area;
- the ability to attract additional visitors; and
- the capability of operating without recourse to operational subsidy.

ITIC's submission on the Multi-Annual Capital Expenditure Programme 2016-2020 identifies an indicative list of desirable projects, which range from the fast-track completion of the Wild Atlantic Way to a small town renewal programme and support for new university tourism research projects.

3.3 Marketing

- **Recommendation 5:**
Increase the current levels of the Tourism Marketing Fund to support the substantial increase in marketing by tourism enterprises and improve Destination Ireland's visibility in the international marketplace.

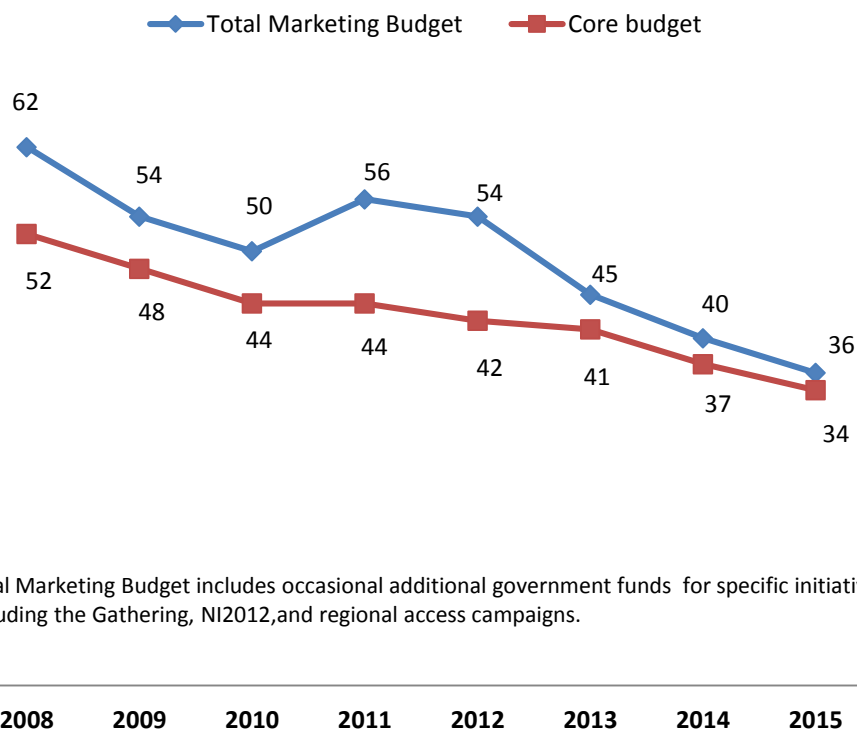
Destination marketing is a critical factor in raising awareness of Ireland internationally and in ensuring the country remains within the consideration set of potential tourists.

While the industry invests significantly in marketing - with ITOA members estimated to have spent €8.08 million in 2014, an increase of almost 32% on 2012 - this is primarily tactical in nature, focusing on advertising, overseas sales-related travel and inspections. It is well recognised that State investment in marketing is required in order to harness and co-ordinate private sector investment and due to market failure at the destination level.

The industry remains concerned at the lack of funding available to tourism agencies for destination marketing. Maintaining a relevant level of marketing visibility in the main overseas markets is essential in ensuring Ireland continues to be part of the 'consideration set' among prospective consumers and while, as mentioned earlier, Ireland is currently benefitting from the unusual circumstances created by a weak euro against the dollar and a drop in oil prices, any drop in marketing activity will have a significant negative impact on future growth. This is recognised by ITIC members, who identify '*ensuring adequate investment in destination marketing*' as a priority action in the 2015 Survey.

Indeed, the evidence shows that there has been an under-investment in marketing spend. As can be seen in Chart 9, the total marketing budget has declined from a high of €52 million in 2008 to an estimated €32 million in 2015.

Chart 8: Tourism Ireland Marketing Budget



Total Marketing Budget includes occasional additional government funds for specific initiatives, including the Gathering, NI2012, and regional access campaigns.

Source: Tourism Ireland

This represents a decline of -38%, and while many European NTOs have seen a decline in marketing budgets since the recession, Ireland’s cutbacks have been substantially higher than the average decline of -25% among the 21 European NTOs¹³. In a highly competitive and cluttered international marketplace, increased national investment in destination marketing is absolutely essential.

¹³ Source: Tourism Ireland.

4. APPENDICES

Appendix 1:

Elaboration on the Tourism Competitiveness Pyramid

A1. ELABORATION ON THE TOURISM COMPETITIVENESS PYRAMID

Primary Product: Market research over the years has consistently shown that the main attractors for visitors to Ireland and our principal competitive advantages with regard to product are Irish people, scenery, the natural environment and our cultural heritage. These attractors constitute the primary tourism product. They can be defined as Ireland's factor endowments in tourism insofar as they are inherited assets. The national responsibility is to protect and preserve these assets, to enhance them if possible, to educate residents and visitors about them, and to enable access. They are the foundations of the tourism industry and maintaining the integrity of these factors will continue to be an essential factor in delivering on Irish tourism's full potential and those that are felt to be at greatest risk are included in the following recommendations.

Policy Inputs: These are key areas in which policy inputs are required to enhance the competitiveness of Irish tourism and are similar for other industries, except that access is highlighted because of its critical importance, and explicit recognition is also given to the investment environment. The latter relates to investment by both the public and private sectors as well as the policy measures required to stimulate and support investment in tourism development.

Essential Conditions: The factors on this layer of the Tourism Competitiveness Pyramid are largely the same as for other, non-tourism, sectors and are considered pre-requisites to successfully competing in business. The use of information and communications technology, however, has been made explicit in the tourism model, as has entrepreneurship and innovation.

Marketing/Communications/Distribution Channels: A layer of the Tourism Competitiveness Pyramid is allocated to these closely related factors because of their distinctive features in tourism. Firstly, national destination marketing is largely funded by Government through the principal tourism marketing and development agencies, Tourism Ireland Ltd. and Fáilte Ireland and is a profitable activity for the State in terms of the substantial tax revenues earned from tourism. It also fills a large gap which a fragmented industry, mainly composed of numerous small and micro enterprises, cannot fill.

A second distinctive feature of tourism marketing is the physical distance between suppliers and buyers at the initial point of purchase. The 'transactability' of the tourism product therefore depends heavily on the use of various distribution channels, including tour operators, travel agents, global distribution systems and, increasingly, the internet. The importance of distribution channels therefore means that they need to be explicitly featured in the model since they have a significant impact on competitiveness.

Sustainable Growth: this is the apex of the pyramid, and the ultimate objective of national competitiveness in tourism. It is heavily dependent on successful management and delivery with respect to each of the competitive factors highlighted on the supporting layers. Sustainability in this context encompasses economic, social, cultural and environmental sustainability. While it is impossible to insulate Irish tourism against external shocks, such as terrorist attacks, climatic factors or economic upheaval in major source markets, performance and growth are ultimately dependent on the ability of Irish tourism to remain highly competitive in the long term.



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