Pre-Budget Submission by the Irish Tourist Industry Confederation on Budget 2017

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SUMMARY OF RECOMMENDATIONS

ITIC Recommendation 1: Maintain Competitiveness

The major objective of the upcoming budget must be to retain and improve Ireland's competitiveness. This is vital for a tourism sector that employs 227,840 throughout the country and the government must ensure that enterprises do not face tax, labour cost, or regulatory increases in this key period of economic uncertainty particularly in light of the UK's decision to exit the EU.

1.1 Support the cost competitiveness of Irish tourism by **retaining the 9% VAT rate** on tourism services and the **continued suspension of the Airport Departure Tax**, already committed to in the *Programme for a Partnership Government*. Retention of the VAT rate is vital to the regional spread of tourism and is cost-neutral.

1.2 **Limit labour cost increases** and reform the current tax system to deliver any additional wage adjustments; to equalise the treatment of the self-employed, and to incentivise business and enterprise.

1.3 **Ensure the broader cost environment is supportive** of tourism business through:

- Not increasing excise taxes on tourism-facing goods
- the optimal functioning of the Integrated Single Electricity Market and ensuring that the rise in business insurance costs is addressed;
- the implementation of the Valuation Act 2015 and reviewing local authority rates with the view to reducing the rates burden on tourism businesses;
- supporting tourism enterprises' ease of access to credit by continuing efforts to boost bank competition and by supporting credible alternative sources of non-bank finance.

ITIC Recommendation 2: Invest in Product Funding

Current investment in tourism is wholly inadequate in the context of it being the country's largest indigenous sectoral employer with significant further potential. Tourism is predominately an export sector bringing much needed foreign earnings to all parts of the country and increased capital investment is vital to the industry's future as are innovative solutions to remedy supply bottlenecks.

2.1 Support ongoing product innovation, refreshment and development in tourism by **increasing capital investment in tourism to €60 million per annum** over the next five years. This amounts to only 1% of the sector's yearly export earnings and should be dispensed to suitable projects in a properly designed and resourced multi-annual fund.

2.2 With urgency, review the available options for making additional bedrooms available in Dublin for 2017-20, giving consideration to current restrictions on growth, the potential to leverage property in public ownership, and the development of a cross-agency approach to **promoting Dublin as an investment opportunity.**

2.3 **Ensure the delivery of tourism commitments** within the *Programme for Partnership* - specifically investment in the Wild Atlantic Way, the Greenways and rural walks scheme, and the feasibility of a Lakelands brand.

2.4 Ensure the delivery of other commitments to **infrastructural investment** specifically for road, airports, transport, town/village renewal and the delivery of high-speed rural broadband. Averaging 2.2% of GDP per annum, even with added expenditure identified within the *Programme for a Partnership Government,* the Exchequer contribution to the new capital plan is set to be the smallest since 1970.

ITIC Recommendation 3: Invest in Overseas Marketing & Tourism Resources

Spending by the Irish state on current tourism budgets has been in decline for some time. This is particularly evident in destination marketing budgets which have been eroded annually since 2008. As external trading events, such as Brexit, move against Irish tourism now is the time to re-invest in destination marketing and support tourism expenditure in key areas such as research, regional spread and feasibility projects.

3.1 **Commit an additional €7 million in Budget 2017 to Ireland's overseas marketing budget.** This to be part of a 3 year phased programme to restore overseas marketing funding to its pre-recession levels.

3.2 Reverse cuts in Fáilte Ireland's annual budget with a **€5 million injection** of resources to ensure; regional dispersion of visitors; business tourism goals; additional research spending; and seed funding for feasibility projects

3.3 **Monitor efficiencies of state tourism expenditure** by independently measuring effectiveness and return on investment.

1. BACKGROUND

Tourism is an important, resilient and growing contributor to the Irish economy. Over the last five years tourism added 35,000 direct new jobs to the economy, accounting for over one in four net new jobs created in the country over the period and bringing the total number employed to 227,840. It is responsible for €7.3 billion in annual revenue and contributed €1.8 billion in taxes to the Exchequer last year. In 2011, the Government, recognising it as one of the pillars that could provide increased employment and help to drive economic recovery, introduced a range of pro-tourism measures such as a reduced 9% VAT rate on tourism services, suspending the Air Travel Tax and supporting innovative initiatives such as *The Gathering*. It has also set a target for Irish tourism of 10 million overseas tourists yielding €5 billion annually by 2025, a target that ITIC think is eminently achievable and should be more stretching for an industry with such established potential.

The benefits of tourism far exceed its economic impact. It is one of the few industries that can sustain rural livelihoods, supporting business in parts of the country that otherwise have little employment opportunities. And this relates not only to tourism businesses but also to related industries such as transport, food, activities, heritage, crafts and entertainment. It also has a particularly low import element compared with other sectors and is environmentally sustainable.

The Irish tourism industry is primarily composed of small, family-run businesses that are insufficiently resourced to undertake major development or marketing investments. The markets within which the industry operates are also particularly vulnerable to many external factors that are outside the influence not only of individual enterprises but also of Irish policy makers. These include global economic conditions, geopolitical factors and extraneous events, the latest of which is the UK's decision to exit the EU. The recommendations made in this submission are therefore mindful of both the broader environment in which tourism industry operators do business as well as of the scale at which they operate.

The Irish Tourist Industry Confederation (ITIC) has been in existence since 1984 and is the national representative body for the tourism industry in Ireland, representing members from all the major private and commercial tourism organisations as well as from the principal representative bodies in tourism.

2. CURRENT POSITION

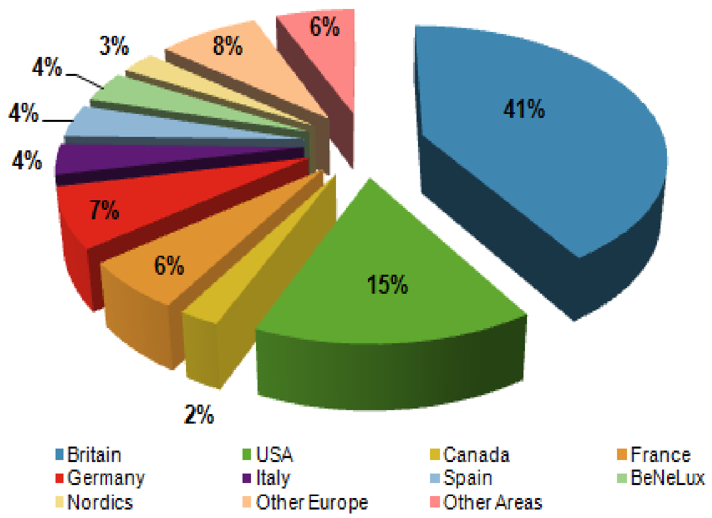
2.1 Tourism Performance

Tourism has been performing strongly in the last number of years, surpassing previous records. In 2015:

- 8.6 million overseas tourists visited Ireland (including day visitors), an increase of 14%;
- 7.5 million domestic trips were taken;
- earnings from overseas visitors increased by 17% to €5.5 billion (including Irish carrier receipts); and
- there was growth of 4.5% in expenditure on domestic trips to €1.5 billion.

Strong growth in demand is evident across all source markets, with much of this growth being driven by an increase in holiday travel. Britain is still by far the single largest overseas market for Irish tourism, accounting for two in every five visits, as illustrated in Figure 1. This means that anything that significantly impacts the travel market in the UK, such as weakened consumer confidence and sterling as a result of Brexit, has a knock-on effect on the tourism industry in Ireland.

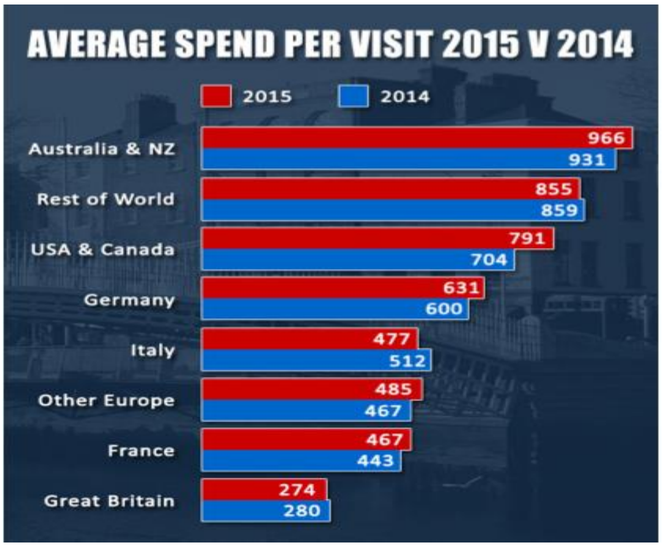
Figure 1: Market Origin of Overseas Visitors to Ireland, 2015[1]



[1] Source: Fáilte Ireland

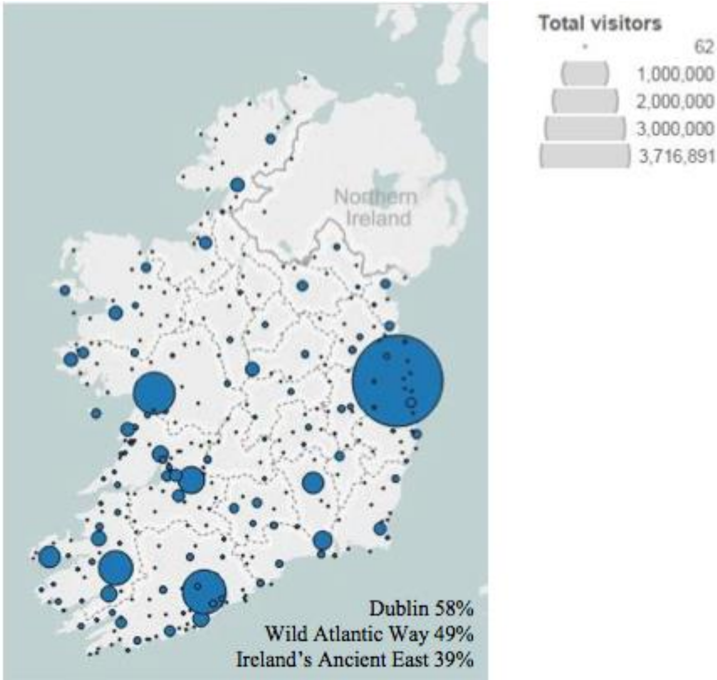
In all markets visitor revenue increased ahead of the growth in numbers, except in Britain where revenue growth lagged behind numbers by two percentage points. The average spend per visit has increased from €514 to €538. However, this average varies considerably according to the market of origin and purpose of visit. Leisure visitors spend more than business or VFR (Visiting Friends & Relatives) segments, and the highest spenders per trip are those from long-haul markets. As can be seen in Figure 2, British visitors have the lowest spend per visit despite the strength of the pound – this is largely attributable to shorter visits and the fact that many are visiting family and friends.

Figure 2: Average Spend Per Visit (€)



The recent strong performance of Irish tourism, and the resultant jobs growth, is a testament to the quality and competitiveness of the Irish tourism product as well as very favourable external factors. The uneven regional distribution of business though remains a central factor in Irish tourism as is clearly illustrated by the Figure 3, with the 'hot spots' attracting significant volumes of tourists while other areas - noticeably in the midlands, parts of the west and the north-west - clearly attract much smaller numbers.

Figure 3: Regional Distribution of Tourism, 2014[2]



2.2 Tourism Outlook

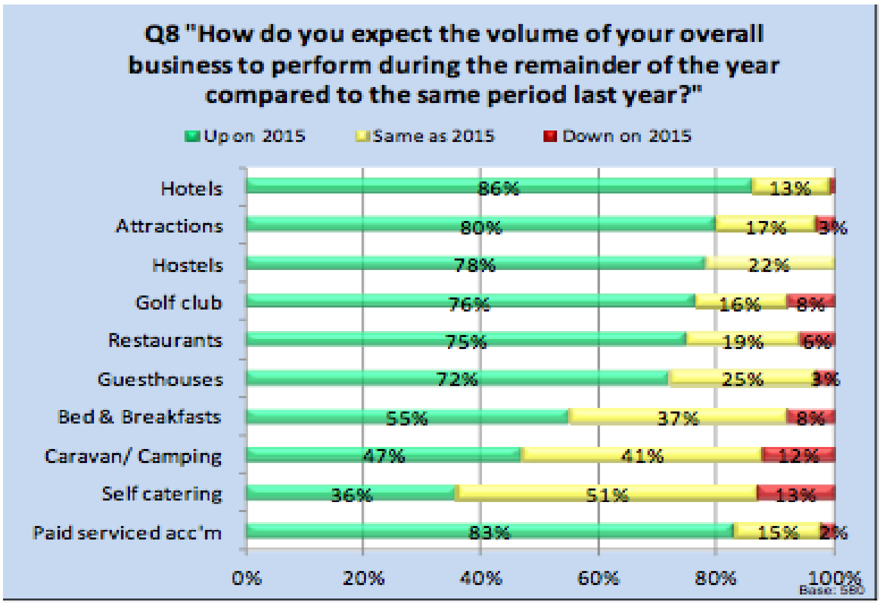
Early indications for 2016 are that strong growth is continuing. Arrivals in the first four months of 2016 increased by 16% over the same period in 2015, and this growth was seen from all market areas: North America (+20%), Mainland Europe (+14%) and Britain (+19%). It is unlikely that such a level of growth, due to capacity challenges amongst other things, can be maintained for the remainder of the year.

The Irish tourism industry is generally optimistic about the 2016 season, with 63% expecting an increase in business[3], although not all sectors are as positive - as can be seen from Figure 4.

Air capacity to Ireland is also expected to increase by 9% in summer 2016, when compared to summer 2015. In absolute terms, Britain is forecast to deliver the greatest volume of extra seats - approximately 27,000 seats per week or just over 60% of the growth. This though could be put at risk as a result of Brexit – Ryanair for example has recently announced a review of its London Stansted to Dublin frequency as a result of the Brexit vote.

2 Source: Regional Tourism Performance in 2014, published 2016, Fáilte Ireland
3 Source: Tourism Barometer, April 2016, Fáilte Ireland

Figure 4: Industry Expectations of 2016



For the longer term, the Government's *People, Place and Policy* document has established a target for Irish tourism of €5 billion annual revenue from 10 million tourists by 2025, based on tourism performance in 2013. However, given the current performance, this would mean an average annual growth rate of less than 2% to reach the revenue target. ITIC considers that, with the appropriate supports, a minimum of 4% annual growth should be achievable - and a more appropriate target for the industry. This would equate to annual €6.2 billion expenditure by overseas visitors and would support an additional 50,000 jobs nationwide.

2.3 Critical Factors in the Future Success of Irish Tourism

2.3.1 Overview

As with any business, those within the tourism sector are subject to a broad range of influences. In addition to factors over which the tourism industry has some control through pricing, quality, service and marketing, it is also subject to external influences. These include global economic conditions, geopolitical factors and extraneous events that influence consumers' ability and willingness to travel, and therefore affect the ability of tourism businesses to operate profitably.

In recent years, Irish tourism has been negatively influenced by international threats of terrorism, disease and global recession, as well as more recently reaping the short-term benefit of a relative weak euro against the pound and dollar. These are factors that are outside of the control of individual operators and many are outside of the influence of Irish policy makers, although the Government has a very important role to play in mitigating their effects.

Figure 5: Critical Factors Affecting Irish Tourism[4]

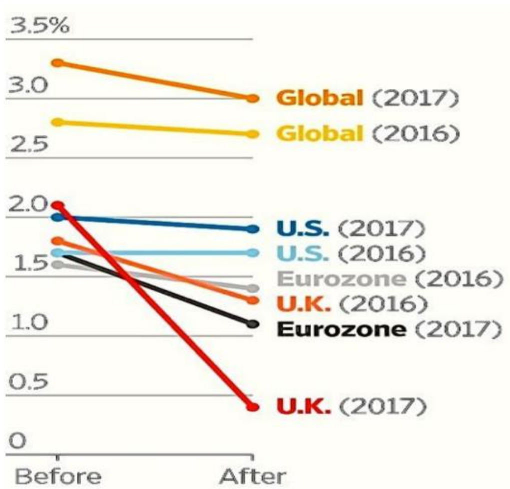
Figure 5 visually demonstrates the relative health of a number of critical issues for Irish tourism. The two key areas of access and consumer confidence are both considered to be strong at the moment, supported in Ireland by the appropriate tourism VAT rate and the suspension of the airport departure tax - although they will undoubtedly be affected by the very recent result of the EU Referendum in Britain (see Section 2.3.2). Exchange rates and competitiveness, along with brand investment, are considered somewhat weaker, and hotel capacity in the capital requires attention – see Section 3.2.

4 Source: Scaling New Heights Presentation, Tourism Ireland

2.3.2 Economic Conditions and Brexit

The economic climate of both Ireland and its source markets is a key determinant of travel. At the moment, the Irish economy is performing strongly and the outlook is positive, which is supportive of domestic travel and tourism. However, the global economy is not as robust, with the IMF describing general Eurozone mid-term growth prospects as 'mediocre', as a result of unemployment and debt.

Figure 6: Global Economic Growth Prospects Before and After Brexit[5]



Following the Brexit vote (see box overleaf), the IMF has revised its growth forecasts for the Eurozone downwards slightly from 1.7% for 2016 and 2017 to 1.6% and 1.4%[6], and there is general agreement that Britain's departure from the EU will have a negative economic effect on both Britain and on the EU. However, there is still a great degree of uncertainty regarding the final impact of Brexit and detailed economic forecasts have not yet been revised.

5 The Wall Street Journal
6 July 8th 2016

The upcoming budget will be introduced in the shadow of the UK referendum and its impending exit from the EU. **Brexit has significant implications** for Irish tourism both in the short term but also potentially the medium to long-term:

- **Economic uncertainty** has a negative effect on consumer spending, which is a significant determinant of expenditure on tourism. Many British economists predict a negative impact of between -2% and -7% on British GDP as a result of the vote[7] and there will likewise be a negative impact on the Irish economy due to Britain's importance as an export market. As a result, tourism demand from Britain is likely to be affected.
- **Currency fluctuations** affect price competitiveness and, with the loss of value of the pound, British visitors will find a holiday in Ireland more expensive than they have in recent years.
- Ireland's participation in the **visa waiver schemes** shared with the UK, that facilitate long haul travel from developing markets such as India and China, may be affected.
- The **border** between the Republic of Ireland and Northern Ireland may be hardened as a result of Brexit, with knock-on consequences for cross-border tourist flows.

ITIC and the tourism agencies have all considered the expected impact of Brexit and, while it is too early to gauge the implications with regard to limitation on travel and trade between Ireland and Britain, there is agreement that it is likely to have a negative impact on the competitiveness of Irish tourism in the British market and possibly on air capacity between the two countries as a result of a reduction in trade.

"Between mid-2013 and mid-2015, a very favourable exchange rate vis-á-vis sterling helped to boost the competitiveness of Irish exports to the UK. A sustained fall in the value of sterling would represent a significant challenge for enterprise, particularly for indigenous exporters who are focused on the UK market and compete against UK firms in other markets[8]."

On the assumption that it goes ahead, however, the withdrawal period is at least two years and it is unlikely that the full implications of the exit will be felt before 2018. **Therefore, our focus in this submission is to make recommendations that best support the tourism industry in competing internationally whatever changes take place, and the optimum approach by Government would be to 'do no harm' – i.e. not to make any abrupt policy changes that would jeopardize the business environment during a period of uncertainty.**

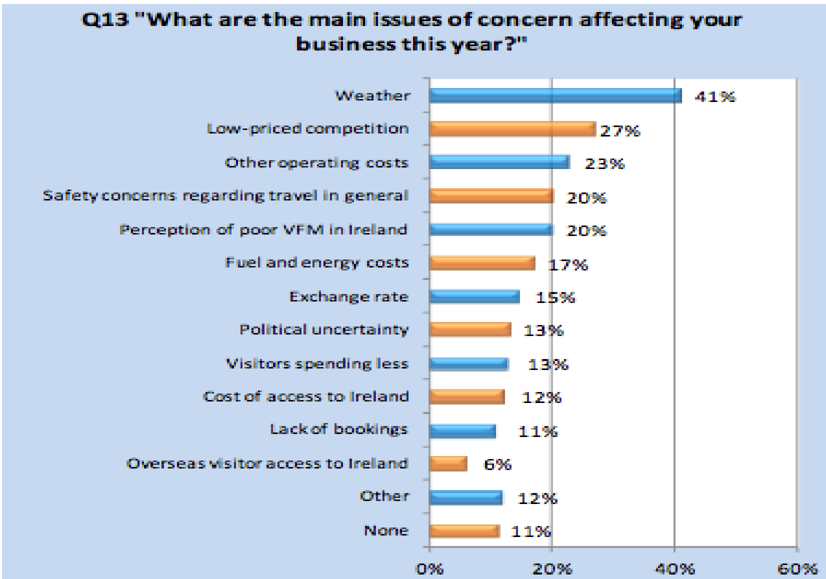
7 Source: Financial Times, June 2017
8 Cost of Doing Business 2016, National Competitiveness Council (CODB 2016)

2.3.3 Competitiveness

Competitiveness is a complex concept, encompassing many different drivers and relating more to perceptions of value than to actual price. Tourism relies predominantly for its international appeal on assets that are beyond its direct control (see Appendix 1 for a tourism adaptation of the National Competitive Council's competitiveness pyramid). Even within the sphere identified as 'primary product' there is much that is outside the ownership/management of the industry and yet on which it relies for competitive positioning – such as people, landscape and culture. This puts the industry at a disadvantage when compared with other sectors, such as manufacturing, where there is more direct control over the production process and where there may be greater opportunity for automation.

Fáilte Ireland's regular Tourism Barometer tracks feedback from the Irish trade with regard to current business and short-term expectations. In 2016, the majority of concerns - other than the perennial issue of unreliable weather - clearly remain about factors that influence **cost competitiveness**, as can be seen from Figure 7.

Figure 7: Key Concerns Affecting Tourism Businesses 2016



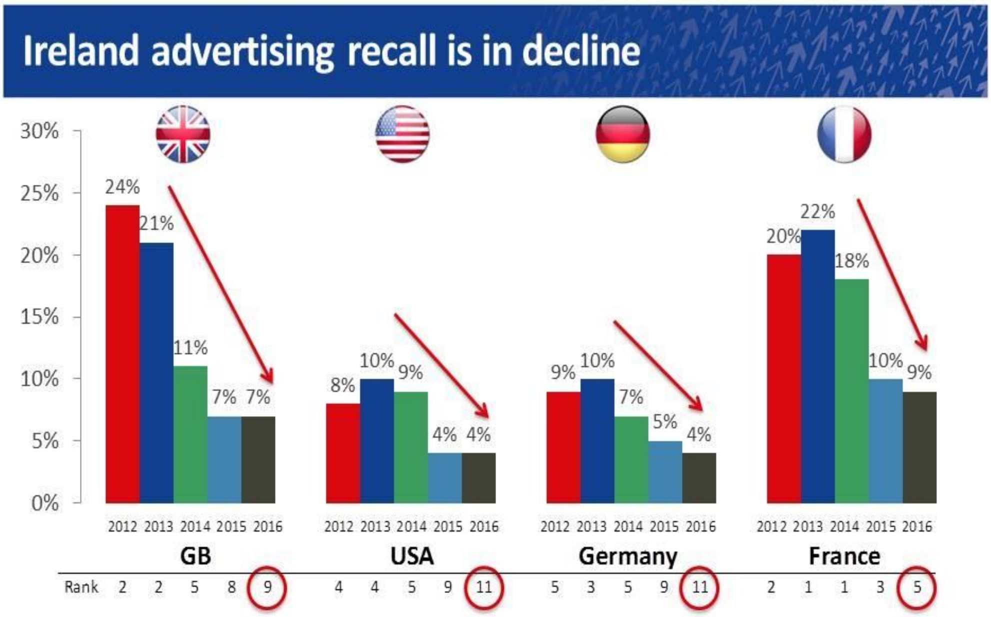
Further feedback from both industry in Ireland and overseas tour operators that sell Ireland as a destination highlights the additional issue of lack of capacity during peak season. This relates especially to hotel availability in Dublin but is also affecting other popular tourism destinations in the West and South West.

2.3.4 Destination Marketing

Regular tracking of advertising recall measures the ongoing impact on consumers of destination marketing campaigns in Ireland's key source markets. It is therefore of serious concern that 2016 data is now clearly showing that spontaneous consumer recall of Ireland's tourism advertising in key markets is in decline (see Figure 8), following several years of reduced investment in advertising.

> ***"Across all of our top 4 markets, Ireland now has the lowest levels of advertising recall and the lowest competitive recall rankings that we have seen since Tourism Ireland was established in 2002.[9]"***

Figure 8: Tourism Brand Ireland's International Share of Voice[10]



Given the importance of the British market in particular, and with new concerns regarding the economic future of the country, it is of particular importance that this dramatic decline in recall is reversed before it drops further. There is a direct correlation between share of voice achieved through advertising spend and eventual share of market, with brands that lose share of voice inevitably losing market share over time. Positive external factors that have supported Irish tourism in recent times look likely to change thus the state's commitment to marketing Ireland is more important than ever.

9 Tourism Ireland Budget and Advertising 31.5.16
10 Global Travel Insights survey, Tourism Ireland 2016

2.3.6 Summary of Key Issues

- **Uneven recovery** across the country and across sectors.
- **Competitiveness:** Exchange rate volatility; changing economic conditions in Britain affecting price of travel to Ireland; less buoyant economic conditions in key European markets; operating costs; perception of value for money.
- **Investment** required to address capacity constraints, particularly for business in urban areas during peak season, but also affecting other popular destinations and products.
- **Decline in Brand Ireland's share of marketing voice** internationally.

3. ITIC BUDGET RECOMMENDATIONS

Having considered the broader conditions affecting the tourism industry in Ireland, along with specific industry feedback, ITIC considers there to be an urgent need for Government to address three specific areas in Budget 2017 in order to support the continuing growth of tourism. These are:

1) Maintaining Competitiveness
2) Product Investment Funding
3) Destination Marketing & Tourism Resources

3.1 ITIC Recommendation 1: Maintaining Competitiveness

> ***"The openness of the Irish economy means the competitiveness of the enterprise sector is particularly vulnerable to negative economic shocks which are outside the influence of domestic policymakers. These include unfavourable exchange rate movements, higher interest rates or oil prices or reduced demand from our major trading partners. Cost competitiveness is a critical foundation to withstand economic shocks. [11]"***

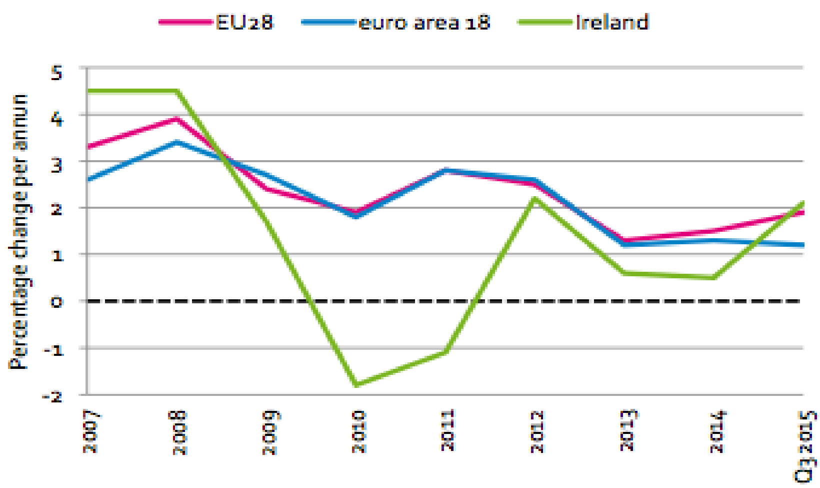
Competitiveness is influenced by a broad range of factors (see Appendix 1) and needs to be considered from a variety of perspectives, including the costs of doing business as well as overall price when compared to overseas competitors. There are serious concerns in the tourism industry about the escalation of costs which is impacting directly on international competitiveness. Issues of particular disquiet are highlighted in the following paragraphs.

3.1.1 Labour Costs

For industries within the services sector, of which tourism is one, costs associated with labour are a significant component accounting for between 72% and 86% of the overall cost of doing business, compared with 40%-57% in the manufacturing sector according to the National Competiveness Council. While labour cost growth has remained modest across Europe in recent years, it has grown by more in Ireland than elsewhere (see Chart 9), with evidence that, as the labour market tightens, upward pressure will increase.

[11] Source: Tourism Opportunity, ITIC 2016 - based on data from the World Economic Forum and the IMD World Competitiveness Scoreboard.

Chart 9: Growth in Labour Costs, 2007-Q3 2015[12]



The absolute level of pay, wage inflation, labour regulations and the taxation system are key determinants of labour costs. Currently **Ireland has the 2nd highest monthly minimum wage in the Euro zone** (€1,546 per month) and, following recent increases in the minimum wage in 2016, IBEC has stated that Ireland is now 7% ahead of the UK in this regard – a gap which has undoubtedly increased following the depreciation of the pound since Brexit. Increasing the minimum wage pushes up all hourly wages across all levels of employment, as relative increases are sought by other workers. Thus, minimum wage increases significantly add to the entire cost base for tourism enterprises that are heavily dependent on hourly paid workers. ITIC is of the strong opinion that no further increases in the minimum wage are necessary, and that the focus should be on increasing take-home pay for lower paid workers through adjustments in taxation.

There is also **no cap on employer social security costs** or a reduced rate above a certain income threshold, as there is in other countries, which means that as salaries increase, Ireland's competitive position is quickly eroded.

Moreover, as was highlighted in ITIC 2016 Pre-Budget Submission, although the Irish tax system is recognised as a progressive one, there remain inequalities that act as disincentives in business. In particular, as the majority of tourism business are family-run and part of the self-employed sector, they are currently treated unequally with their PAYE

[12] National Competitiveness Council: Cost of Doing Business 2016

counterparts, a point that is regularly highlighted by IBEC[13] and has also been noted by Government - *"High personal tax rates in Ireland discourage work and jobs[14]".*

3.1.2 Operating Costs[15]

Almost a quarter of Irish industry reported that 'other operating costs' were an issue for them in 2016 (see Figure 10). These include waste, water, energy, insurance and local authority rates.

Generally, Ireland is competitive in terms of telecoms and in terms of water and waste water costs, although there is still significant variation in the latter between different Local Authorities.

With regard to **electricity**, Ireland's prices are almost 6% higher than the euro area average, with nominal prices for SMEs increasing by 20% since 2010. On average, electricity accounts for approximately 9% of non-wage costs.

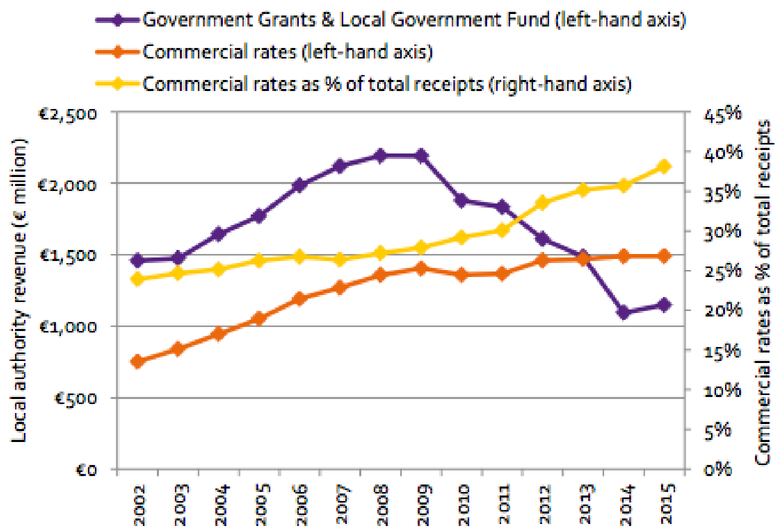
Taxes remain high on **motor fuel**, which is a concern for those in the transport areas of tourism - almost two-thirds of the total cost of diesel is accounted for by taxes, the third highest in the euro area. This impacts directly on the cost of coach travel in particular and therefore the overall price competitiveness of Irish tourism.

Insurance costs remain significant and renewal premiums have increased significantly for all tourism businesses. This is proving a burden on the tourism industry and every measure should be taken to address cost competitiveness in this sector

Local Authority rates, however, remain the most pertinent issue for tourism, particularly for hotels. Between 2002 and 2015, rates as a proportion of total Local Authority revenue, increased from 24% to 38% (mainly between 2002 and 2009), as is clearly illustrated by Figure 10.

13 Taxation of Entrepreneurship, IBEC
14 Programme for Partnership Government
15 Costs outlined in the section are provided by a range of official sources as presented in *Cost of Doing Business 2016*

Figure 10: Commercial Rates and as a % of Total Local Authority Revenue



3.1.3 The Broader Cost Environment

Apart from the specific costs of doing business in Ireland, the broader cost of living in Ireland is as relevant to tourists as it is to residents as a tourism experience includes transport, food and drink, entertainment and shopping. As an example the cost of insurance for tourism businesses adds to the end price that must be charged to a tourist – this is evident across a number of products and services and the car rental sector, which do significant business with tourists, also see that Ireland has one of the highest risk liability costs for car rental operations, approximately 3 times higher than France according to one operator that is pan-European. The Department of Finance is currently carrying out an insurance review and an option may be to explore benchmarking certain personal injury awards to a European norm to help re-enforce competiveness.

> ***"Ireland remains an expensive location in which to do business with a price profile which can be described as "high cost, rising slowly"[16]. Irish consumer prices remain over 20 per cent above the euro area-18 average".[17]***

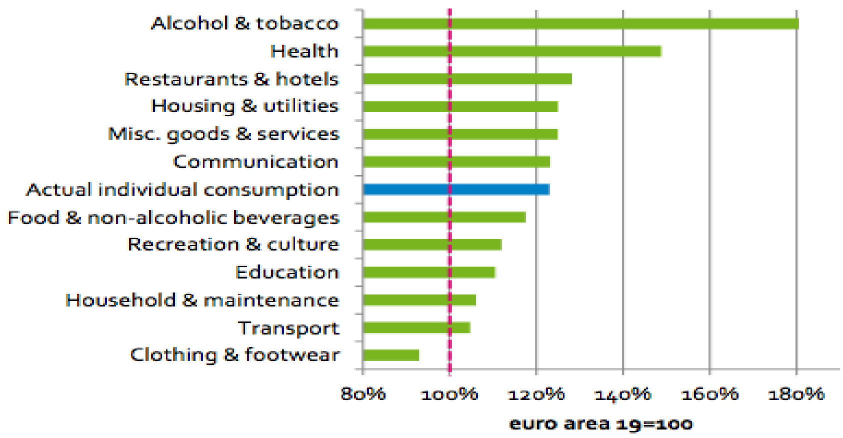
While there may be a variety of perspectives on competitiveness, it is difficult to argue with this stark expression of Ireland's price profile from the National Competitiveness Council or with the fact that Irish prices are above the euro area average for many items that would

16 IBEC & ITIC: Tourism Opportunity, January 2016
17 National Competitiveness Council: Costs of Doing Business in Ireland, April 2016

be relevant to tourists, as illustrated in Figure 11.

Given that the cost of many tourism-related products - including restaurants and hotels - are significantly above the euro average, it is imperative that whatever steps possible are taken to prevent any further increases, and to reduce if possible, the costs in these areas. It should be noted, however, that price increases in the hotel sector in Dublin are being driven by a shortage of supply in the capital at a time when demand is at a record high.[18]

Figure 11: Irish Price Levels Relative to the Euro Area 2014



Excise on alcohol in particular has increased substantially in recent budgets including a full-year effect of €180 million in 2013 and a further €145 million in 2014. Irish excise taxes are among the highest in Europe and, according to Eurostat, Irish alcohol prices are now 75% above the EU average and are twice as high as similar prices in countries such as France, Germany and Spain. Budget 2017, particularly in light of Brexit, should focus on the need to retain competitiveness and there should be no further excise increases. Fáilte Ireland surveys consistently show that the cost of alcohol is one of the negative experiences for tourists and damage value for money perceptions of holidaying in Ireland. The likely increase in cross-border trade in certain goods that would inevitably result from price hikes caused by any additional taxes will cause damage to Irish businesses and must be guarded against.

In the context of competitiveness, **the retention of the 9% VAT rate** - already committed to in the *Programme for Partnership Government* - is critical in managing price, especially considering upward pressures as a result of capacity constraints. As Table 1 shows, the

[18] "Dublin is still relatively good value for money as reflected in our average daily rates but due to increasing demand, this is expected to creep up." PWC European Cities Hotel Forecast 2016 & 2017.

rate of tourism VAT is the correct one for Ireland as it puts the country on a level competitive basis with most other leading European destinations. **17 of the 19 Eurozone countries have VAT rates of 10% or lower, and only 2 have rates in excess of 10%.** It is also critical to point out that the Vat rate applies to all tourism and hospitality businesses across the country and is vital in assisting with regional and seasonal growth.

Table 1: VAT Rates on Tourism Services in European Tourism Destinations[19]

Country	Rate (%)	Country	Rate (%)
Luxembourg	3	Slovenia	9.5
Switzerland	3.8	Austria	10
Belgium	6	Finland	10
Netherlands	6	France	10
Portugal	6	Italy	10
Greece	6.5	Spain	10
Germany	7	Iceland	11
Malta	7	Latvia	12
Norway	8	Sweden	12
Turkey	8	Croatia	13
Poland	8	Czech Rep	15
Bulgaria	9	Hungary	18
Cyprus	9	Slovakia	20
Estonia	9	U.K.	20
Romania	9	Denmark	25
Lithuania	9		
Ireland	9		

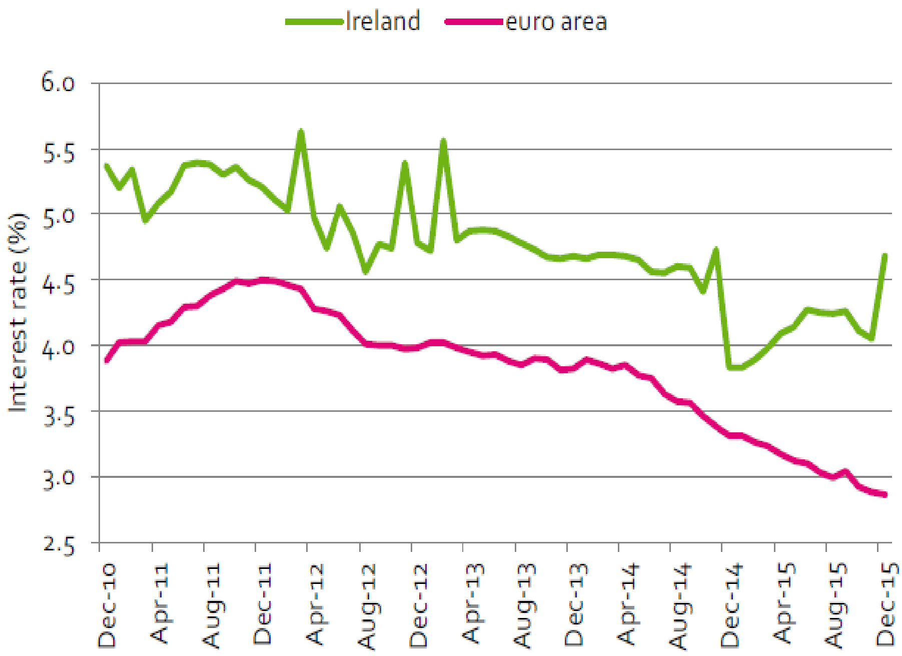
Previous research on behalf of Fáilte Ireland[20] has clearly demonstrated the positive effects of the VAT reduction in terms of employment, price pass on and value for money findings. The tourism Vat rate is cost-neutral due to the growth in overseas earnings for the exchequer and the strong additional employment in the sector has been a significant boost for the exchequer. IBEC also strongly recommends that the 9% Vat rate be retained as a permanent feature of the tax system as it supports an export industry that provides strong regional employment (see Appendix 2).

A further issue relating to the broader cost environment for many Irish tourism businesses continues to be the cost of credit. With tourism being a particularly seasonal business, many operators rely on bank finance as a means of balancing cash-flow during the year and Irish interest rates on business loans (new loans as well as revolving loans and overdrafts) have been consistently higher than other euro area rates.

19 Source: European Commission
20 An Analysis of the Impact of the VAT Reduction on Irish Tourism & Tourism Development, by Deloitte on behalf of Fáilte Ireland.

"…In November 2015 the interest rate in Ireland on a business loan of up to €250,000 was 6.56 per cent, compared with a euro area average of 3.15 per cent[21]."

Figure 12: Revolving Loans and Overdraft Rates for Non-Financial Organisations, 2010-2015[22]



21 CODB
22 Source: European Central Bank

ITIC Recommendation 1: Maintaining Competitiveness

1.1 Support the cost competitiveness of Irish tourism by retaining the 9% VAT rate on tourism services and the continued suspension of the Airport Departure Tax, already committed to in the *Programme for a Partnership Government*. This is more important than ever in light of the Brexit vote which has the potential to greatly impact on Irish tourism. Retention of the VAT rate is vital to the regional spread of tourism and is cost neutral as demonstrated by IBEC and independent economic analysis.

1.2 Limit labour cost increases and reform the current tax system to deliver any additional wage adjustments, equalise the treatment of the self-employed, and to incentivise business and enterprise.

1.3 Ensure the broader cost environment is supportive of tourism business through:

- Not increasing excise taxes on tourism-facing goods
- the optimal functioning of the Integrated Single Electricity Market and ensuring that the rise in business insurance costs is addressed;
- the implementation of the Valuation (Amendment) Act 2015 and reviewing local authority rates policies with the intention of reducing the rates burden on tourism businesses;
- supporting tourism enterprises' ease of access to credit by continuing with efforts to bring new banks into the Irish market to boost competition and by supporting credible alternative sources of non-bank finance.

3.2 ITIC Recommendation 2: Product Investment Funding

Product differentiation, innovation and investment are key factors in maintaining a competitive positioning for Ireland in the international marketplace and in ensuring that Ireland continues to meet changing consumer needs and expectations. However, as mentioned earlier, the Irish tourism industry is mainly composed of small and medium sized enterprises that lack the resources necessary for substantial product investment. Moreover, much of what is considered core tourism product (such as heritage and cultural resources) is in public ownership. Investment by Government in infrastructure and natural and built heritage attractors through the Office of Public Works, National Parks and Wildlife Service, local authorities, Fáilte Ireland and other state agencies can be a powerful stimulus to wider economic activity. Significant cuts in the budgets of these agencies, as has been the case in the last decade, have seriously detrimental impacts on the visitor experience.

In this regard, it is welcome news that the Programme for a Partnership Government has added €100 million to the original €106 million identified for tourism in the *Infrastructure & Capital Investment Programme 2016-21*. This additional funding is earmarked for the Wild Atlantic Way, the Greenway network, the rural walks scheme and development of the Lakelands brand. It will support an improved regional distribution of the benefits of tourism - as it is intended will the extra €10 million for regional airports and the review of the Western Rail Corridor.

However, this **level of investment** still remains significantly below the level of investment in the agri-food business - the other significant low-import domestic industry in Ireland – as shown in Table 2 which is an excerpt from the state's *Infrastructure & Capital Investment Programme 2016-21.*

Table 2: Enterprise Supports, €m
(excluding additional funding announced in Programme for Partnership)[23]

	2016	2017	2018	2019	2020	2021	Total
Jobs, Enterprise & Innovation	495	525	490	500	500	500	3,010
Agriculture, Food & the Marine	217	208	208	208	208	208	1,257
Tourism	14	13	13	15	25	26	106
Total	712	733	698	708	708	708	4,267

ITIC is of the view that capital support for tourism projects should be increased to €300

[23] Building on Recovery: Infrastructure and Capital Investment 2016-2021, Dept. of Public Expenditure & Reform

million over these 5 years or €60 million per annum - this amounts to less than 1% of annual export earnings generated by the tourism industry and should be dispensed to suitable projects in a properly designed and resourced multi-annual fund. ITIC has published a previous paper on how this money might be invested and will build on this in its submission to next year's mid-term review of the *Infrastructure & Capital Investment Plan*.

One particular area of concern with regard to product development is the **shortage of capacity in Dublin hotels**. After a period of market contraction during the recession, resulting in financial difficulties for the hotel sector and the subsequent period of deleveraging through banks and NAMA, the hotel industry has seen little investment in eight years with the result that there has been no net addition to capacity to cater for the strong growth now being experienced. The cost of acquiring city centre sites for new builds, combined with a difficulty in securing finance, the increasing cost of construction and the long lead development time, makes alternative uses for land (e.g. office development) more attractive for developers than investment in hotels. Essentially this means that the most attractive option for developers is the acquisition and/or expansion of existing hotels.

While it is estimated by a Fáilte Ireland-commissioned report that an additional 5,500 hotel rooms are proposed for development in Dublin by 2020, it is accepted that:

> ***"…this is a snapshot taken of the prospective pipeline as of late March 2016, and that the overall picture is very fluid with projections changing from week to week, with new projects added, existing ones becoming unlikely or clearly abandoned, or the likely scale of projects changing, due to planning decisions or other factors[24]."***

In other words, there is no certainty that this level of capacity will be delivered. Of this number, just over 2,100 are associated with specific planned developments - 1,150 rooms are proposed as part of significant new developments and 980 as extensions to existing hotels – with the balance being speculative. Even during the peak years of the Celtic Tiger, the delivery of this volume of hotel rooms took place over a period of seven years and with the support of generous tax incentives[25]. Furthermore, even were this level of new rooms to be delivered, the bulk of development would not come on stream until 2018 onwards and it may still not be sufficient to meet demand, as can be seen from Figure 13.

[24] Dublin Visitor Accommodation 2015-2020: Report to Fáilte Ireland, Fitzpatrick Associates June 2016

[25] 5,700 new hotel rooms were delivered between 2000 and 2007; Source: Impact of Closure of Ballsbridge Hotels, by CHL Consulting on behalf of the ITOA,2007

Figure 13: Estimated Accommodation Surplus/Shortfall Under Various Demand Scenarios[26]

N.B. The surplus/shortfall scenarios above are based on the assumption that the full level of proposed capacity will be delivered (i.e. 6,100 bed spaces by 2020) and does not take account of lower levels of new capacity coming on stream.

Room rates in Dublin have increased significantly recently. This is a testament to the fact that over the last 5 years visitor numbers to Dublin have increased by 33% at the same time – due to the legacy of the banking and property crash – that the number of bedrooms in the city fell by 6%. **Rate increases in Dublin are a direct result of demand outstripping supply and it is imperative that additional hotel stock is added to the system as soon as possible.** In this regard ITIC propose that a cross-agency proactive approach is taken between Dublin City Council and Fáilte Ireland to position and market Dublin to investors and hotel chains as an attractive location. It is perhaps useful to note the approach that was taken in Belfast where the City Council launched a *Hotel Investment Prospectus*, outlining the business case for investing in hotel development in the city[27]. The prospectus produced as part of the promotion clearly articulates the profile of hotel guests in the city, the market gaps and the current revenue per room. It offers prospective investors advice and assistance from the City Council on advancing projects.

Separately, apart from tourism-specific products and services, tourism also relies considerably on **enabling infrastructure** that serves a wider audience - roads, an inter-modal public transport network, and increased runway capacity at Dublin airport, for

[26] Source: Fitzpatrick Associates; 'accommodation' refers to all registered accommodation in Dublin; the surplus/shortfall is based on the supply level required to maintain 2014 bedspace/bednight ratios.
Scenario 1: Reaching demand of 10.51mn nights in 2020; Scenario 2: 10.59mn nights in 2020; Scenario 3: 11.21 mn nights in 2020; Scenario 4: 11.86 mn nights in 2020.

[27] Belfast Hotel Prospectus – A Fantastic Time to Invest.

example. As a result, Government support for infrastructural development is essential, at a broad national level as well as specifically for tourism, and the intention to improve investment in roads and in town/village renewal as outlined in the *Programme for a Partnership Government* is welcome. The Exchequer contribution to the current 5 year *Infrastructure & Capital Investment Programme* is inadequate for a country with demographics and growth such as Ireland.

The recommendations contained in the report on the Hospitality Sector by the *Expert Group on Future Skills Needs* should be quickly implemented, and businesses should be assisted with developing and executing appropriate apprenticeship and training programmes. A particular issue for many rural-based tourism operators, who are hampered both in terms of online marketing and in their inability to meet consumer expectations, is the availability of high speed broadband. Given the regional imbalance in tourism, it is essential that basic aspects of business do not continue as a further impede growth.

ITIC Recommendation 2: Product Investment Funding

2.1 Support ongoing product innovation, refreshment and development in tourism by increasing capital investment in tourism to €60 million per annum over the next five years. This amounts to less than 1% of annual export earnings generated by the tourism industry and should be dispensed to suitable projects in a properly designed and resourced multi-annual fund.

2.2 With urgency, review the available options for making additional rooms available in Dublin for 2017-2020, giving consideration to current restrictions on growth, the potential to leverage property in public ownership and the development of a cross-agency approach to the promotion of Dublin as a hotel investment opportunity.

2.3 Ensure the delivery of tourism commitments in the *Programme for a Partnership Government* - specifically investment in the Wild Atlantic Way, the Greenways and rural walks scheme, and the Lakelands brand.

2.4 Ensure the delivery of other Programme commitments to infrastructural investment - specifically for road, airports, public transport, town/village renewal and the delivery of high-speed broadband to rural areas.

3.3 ITIC Recommendation 3: Destination Marketing & Tourism Resources

The level of investment in destination marketing for Ireland has decreased dramatically in recent years with the result that Ireland has lost a substantial share of voice in key overseas markets, as we saw in Section 2.3.4. In 2008, the level of Government investment in Tourism Ireland's core activities peaked and has since been declining, as can be seen in Table 3.

Table 3: Government Investment in Tourism Ireland[28]

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Core Funding	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget
DTTAS Funding (€ 000s)	53,639	51,155	48,982	47,248	45,831	44,294	42,523	40,750	39,536
DETI - Funding (£ 000s)	16,421	15,750	15,797	15,323	14,849	14,375	13,800	11,690	11,690

In parallel, the overseas marketing funding available through Fáilte Ireland also peaked in 2008 and since then the total budget for overseas marketing has fallen from €62.3 million to €42.5 million per annum, a reduction of nearly €20 million. There is clear evidence that, as shown on page 12 of this submission in section 2.3.4, that advertising recall of brand Ireland is in serious decline. This brand damage needs to be reversed as a priority particularly in light of the weakening of our main market as likely to happen as a result of the Brexit vote.

In the *Tourism Action Plan 2016-2018*, there is welcome recognition of the need to restore Ireland's share of voice by "*restoring overseas tourism marketing funds to pre-recession levels on a phased basis…from 2016"*. As the current "Confidence & Supply" arrangement between the two leading political parties is to cover 3 budgets ITIC argues that the €20 million restoration should be during this period thus in 2017 Budget €7 million additional funds should be committed to the overseas marketing budget. Ireland's share of voice, a direct result of marketing expenditure, is more important than ever particularly in light of Brexit. ITIC also welcomes the intention to improve efficiencies in marketing spend through independent evaluation[29].

Fáilte Ireland, the National Tourism Development Authority, has also seen significant budget cuts and these should be reversed with a particular focus on key areas such as regional dispersion of visitors; business tourism goals; additional research spending; and

[28] Source: Tourism Ireland
[29] Action Point 8, Tourism Action Plan 2016-2018, DTTAS

seed funding for feasibility projects. With reference to Fáilte Ireland's commitments under the Programme for Government, additional funding of €5m is required for 2017 to ensure that key policy objectives are achieved. Additional funds are also required for the further development of the current experience brands: *Ireland's Ancient East*, *Wild Atlantic Way* and *Dublin – A Breath of Fresh Air*.

ITIC Recommendation 3: Invest in Overseas Marketing & Tourism Resources

3.1 Commit an additional €7 million in Budget 2017 to Ireland's overseas marketing budget. This to be part of a 3 year phased programme to restore overseas marketing funding to its pre-recession levels.

3.2 Reverse cuts in Fáilte Ireland's annual budget with a €5 million injection of resources to ensure; regional dispersion of visitors; business tourism goals; additional research spending; and seed funding for feasibility projects.

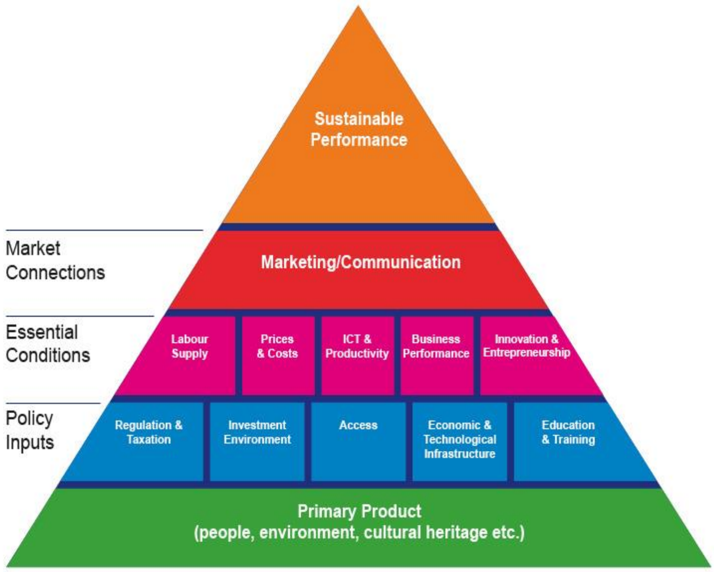
3.3 Monitor efficiencies by independently measuring effectiveness and return on investment.

4. APPENDICES

Appendix 1:

The Tourism Competitiveness Pyramid

A1. 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.

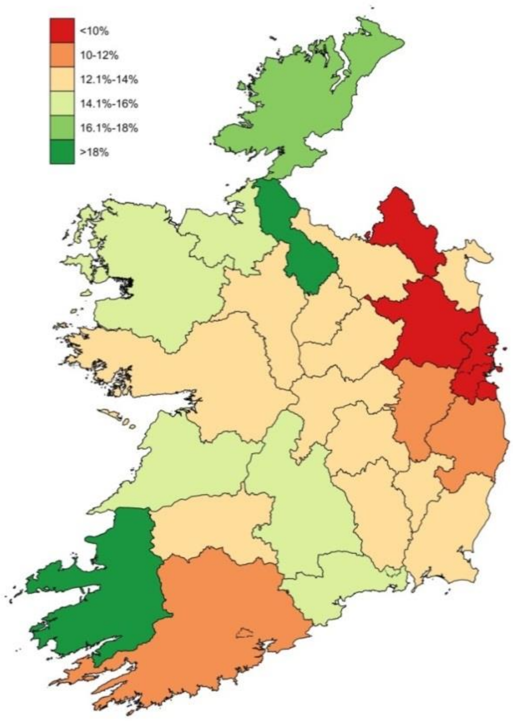
Appendix 2:

Excerpt from IBEC pre-budget submission on tourism Vat rate

Issue 5: The 9% tourism VAT rate

As part of the Jobs Initiative announced in May 2011, a new 9% rate of VAT on selected categories of largely hospitality goods and services was introduced for a temporary period running from July 2011 to December 2013. This scheme has since been extended. Various analyses of the employment and Exchequer impact of these measures showed that the measures has been very successful and have delivered strong employment gains and retention and substantial return for the exchequer. This industry is now at substantial risk given the implications of Brexit for exchange rates in the immediate and freedom of movement in the longer term.

Figure 5: Regional tourism dependency ratio, % of total enterprises



Source: McFeely & Delaney, 2013, Ibec calculations

Ibec recommends
The 9% VAT rate should be retained as a permanent feature of the tax system. The tourism sector will if anything need more support to ease it through a period which is likely to be particularly volatile.

How Ireland will benefit
The 9% VAT rate is a crucial support for an exporting industry which provides strong regional employment and is increasingly facing higher cost and competitiveness pressures from elsewhere.

Exchequer cost/benefit
Cost neutral