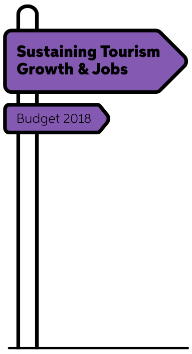
Budget 2018 Priorities

The need for competitiveness and investment in Ireland's largest indigenous industry



Pre-Budget Submission

by the Irish Tourism Industry Confederation

with supporting material by BDO Ireland

September 5th 2017

Contents

ABOUT ITIC

The Irish Tourism Industry Confederation (ITIC) represents the leading tourism interests and businesses throughout Ireland. Through independent research, analysis and interpretation ITIC aims to help the tourism sector realise its full potential.

As an industry, tourism is Ireland's largest indigenous sectoral employer providing 228,600 jobs throughout the length and breadth of the country. Nearly 9 million international visitors came to Ireland last year and the sector is worth €8.3 billion annually of which €1.91 billion is returned to the exchequer in direct tourist-related tax receipts.

Irish tourism is significantly exposed to Brexit and already tourism numbers from the UK are in sharp decline. ITIC estimates that Brexit will cost Irish tourism at least €100 million this year alone, and in order to maintain momentum and to sustain jobs and regional balance, the Government must make appropriate policy decisions and investment strategies in Budget 2018.

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Budget 2018 represents a key juncture for the Irish economy with strong recent growth at risk due to our nearest and biggest trading partner, the UK, set to exit the EU and Single Market. Ireland's tourism industry – the country's largest indigenous sector in terms of employment - faces considerable challenges with business from Great Britain, our largest source market of visitors, already in sharp decline. Last year Irish tourism was valued at €8.3 billion annually, a significant majority of which is generated by overseas tourists thus confirming tourism as a key export industry within the Irish economy. It is estimated that in 2016 tourism contributed €1.91 billion to the exchequer in terms of direct tax receipts.

In order to sustain tourism growth and regional jobs, and to help mitigate the impact of Brexit, the Irish Tourism Industry Confederation (ITIC) outlines 3 key areas that the Government must focus on in Budget 2018.

ITIC Recommendation 1

Cost Neutral
in 2018

Maintain Competitiveness & Sustain Jobs

A major objective of the upcoming budget must be to retain and improve Ireland's competitiveness. This is vital for a tourism sector that employs 228,600 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 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. Ireland's tourism VAT rate is in line with our European competitors and 56,700 new tourism jobs have been created since 2011. Fáilte Ireland surveys show that the industry offers much improved value for money than previous years.

2 **Limit labour cost increases** and reform the current tax system to deliver any additional take-home pay; to equalise the treatment of the self-employed; and to incentivise business and enterprise. For industries within the services sector, of which tourism is one, costs associated with labour are significant. Ireland currently has the 2nd highest monthly minimum wage in the Euro-zone and the absolute level of pay, wage inflation, labour regulations and the taxation system are key determinants of labour costs.

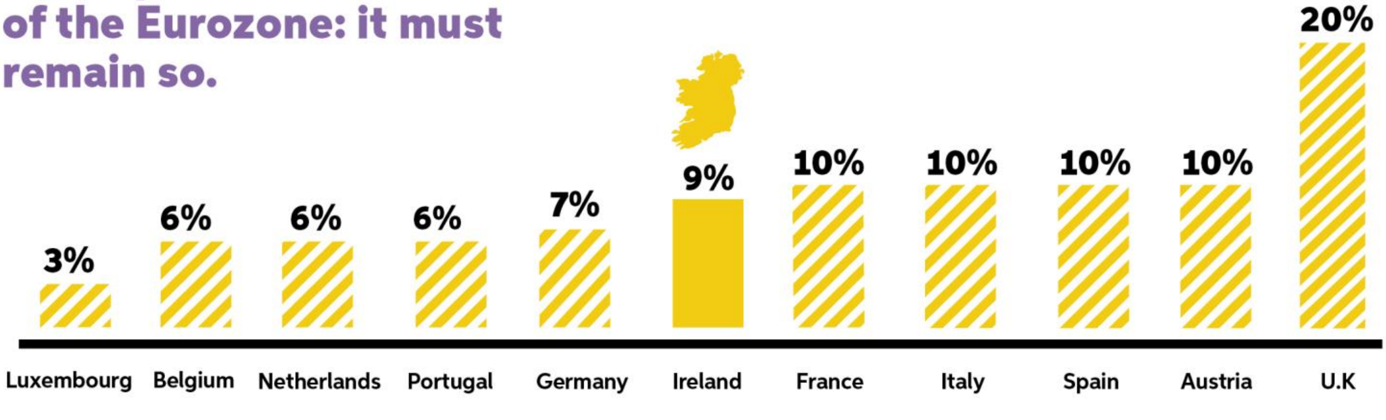
3 Ensure the broader cost environment is **supportive of tourism business** through:

- Reviewing excise taxes on tourism-facing goods.
- Ensuring that the cost of utilities and the rise in business insurance costs is addressed.
- Reviewing local authority rates policies to ensure that the rates burden on tourism businesses is fair and proportionate.

EU VAT Rates on Tourism Services

Ireland's tourism VAT rate is competitive with the rest of the Eurozone: it must remain so.

How Ireland compares



ITIC Recommendation 2

Cost: €20m
in 2018

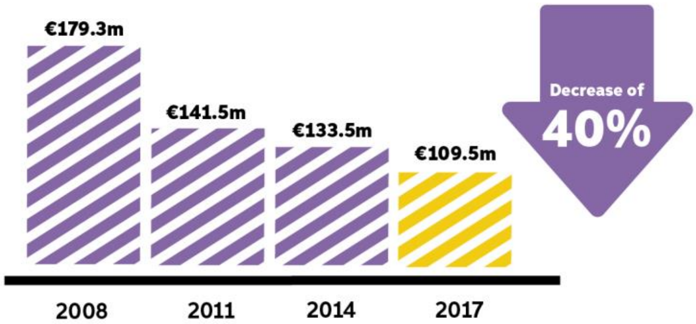
A €20 Million Investment in Tourism to Brexit-Proof Sector and Support Regions

Spending by the Irish state on current tourism budgets has been in decline for some time. In 2008 funding from the Government to Ireland's tourism agencies, Fáilte Ireland and Tourism Ireland, amounted to €179 million - in 2017 this has fallen by 40% to only €109 million. The return on investment in tourism is self-evident. Last year alone the exchequer benefitted to the tune of €1.91 billion in direct tourism-related tax receipts. With a challenging external environment, it is high time for the Government to honour commitments and start restoring funding to tourism by committing €20 million to agency budgets in October.

1 Commit an **additional €12 million in Budget 2018 to Brexit-proof the sector.** With 2 out of every 5 international visitor coming from the UK, Irish tourism is particularly exposed. Action is needed now to minimise and mitigate the impact of Brexit through increased overseas marketing budgets, market diversification funds, and training & skills supports for vulnerable tourism enterprises.

2 **€3 million** to be allocated to the development of a Midlands brand experience to complement the brand propositions of Wild Atlantic Way, Ireland's Ancient East and Dublin.

3 An increase in capital budgets of **€5 million to invest in new tourism products** of international appeal and scale and develop compelling new visitor experiences.



ITIC Recommendation 3

Cost Neutral
in 2018

Invest in a Multi-Annual Capital Programme

In order to realise the future potential of Irish tourism as an engine of economic growth and regional balance, the level of state capital support for the sector needs to increase significantly. The primary product of Irish tourism - landscape, heritage, interpretation - must be invested in. The current review of the Government's capital expenditure plan is an opportune time to allocate additional capital budgets to the Irish tourism sector.

1 Support ongoing **product innovation**, refreshment and development in tourism by increasing capital investment in tourism within the new 10 year Capital Plan to €60 million per annum. 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 Ensure and expedite the delivery of other commitments to infrastructural investment specifically **tourism-enabling infrastructure** such as roads, airports, coach parking facilities, public transport, town renewal and the delivery of high-speed broadband to rural areas.

3 The current allocation of only €106 million over a 6 year period is **wholly inadequate for tourism's needs**, amounting to just 0.4% of the state's current capital envelope of €27 billion.

Introduction & Current Tourism Performance

Budget 2018 represents a key juncture for the Irish economy with a strong recovery having been consolidated after a number of years of recession and austerity yet with positive momentum at risk due to our nearest and biggest trade partner, the UK, exiting the EU and Single Market. Ireland's tourism industry – the largest indigenous sector in terms of employment – is equally at a crossroads with recent growth under real pressure due to a downturn in tourism business from Great Britain, Ireland's largest source market of visitors.

In terms of taxation and expenditure decisions, Budget 2018 is critically important to the Irish tourism industry. With 228,600 people, according to the CSO and Fáilte Ireland, working in tourism and hospitality jobs throughout the country, last year the sector was worth €8.3 billion. The significant majority of this is generated by overseas earnings thus confirming tourism as a key export industry within the Irish economy. Furthermore it is estimated by Fáilte Ireland – the National Tourism Development Authority – that €1.91 billion was returned to the exchequer in 2016 in direct tourism-related receipts. Tourism is definitively and conclusively of great value to the exchequer in terms of revenue, jobs, and regional balance.

The Irish Tourism Industry Confederation (ITIC), the representative body for Irish tourism, in its pre-budget submission outlines 3 key areas that the Government must focus on to ensure Irish tourism is supported during this key period of uncertainty and to ensure that the full potential of the sector is realised:

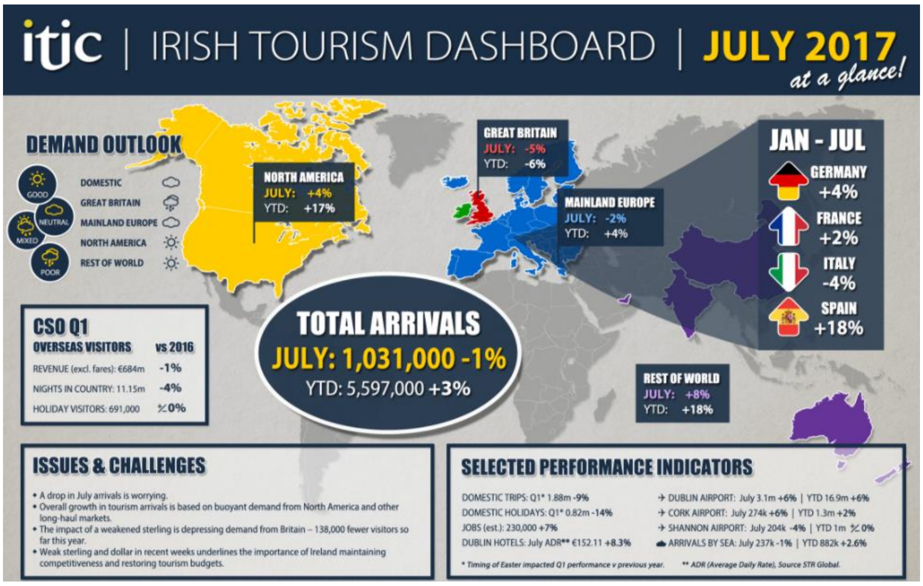
- **Retaining Competitiveness**
- **Increasing investment in tourism current budgets**
- **Committing to a multi-annual capital investment fund to deliver new tourism product and infrastructure**

ITIC believes that these measures are necessary to maintain Ireland's tourism economy in a period of great change within our competitive landscape.

In this pre-budget submission ITIC also includes a report by BDO, one of Ireland's leading advisory firms, published in July entitled "*Retaining the 9% tourism and hospitality VAT rate to maintain competitiveness and ensure growth and prosperity in Ireland's largest indigenous sector*". This can be found in Appendix 1 and outlines unequivocally the importance and merits of retaining the tourism Vat rate.

2016 was a record year for Irish tourism both in terms of visitor numbers and revenue, surpassing all previous records. Overseas tourist visits to Ireland grew by 8.8% to 8.74 million. However this growth has slowed significantly during 2017 due to a sharp Brexit-related slowdown in tourist numbers from Great Britain, Ireland's largest source market.

Central Statistics Office (CSO) statistics show that for the first seven months of 2017, the number of trips to Ireland by non-residents increased by 3% compared to the same period in 2016. However within this there is a sharp decline of 6% in British arrivals. This is captured in ITIC's latest monthly tourism dashboard.



2,087,100 British visits were recorded between January and July, compared with 2,224,900 for the same period last year – a reduction of 6%, or of 138,000 visitors, and an indication that the impact of Brexit is real and material for the Irish tourism industry. More detailed CSO numbers relating to the first quarter of 2017 show that the number of nights spent in Ireland by all overseas travellers decreased by 4.1% down from 11.6 million to 11.1 million for the same period in 2016. Total expenditure by overseas visitors also decreased for this period by 1.3% to €684 million.

Irish tourism thus faces a challenging period. Strong growth from North America and continental Europe cannot conceal the fact that the British market is in a downward trajectory and with weak sterling and continued Brexit uncertainty this is set to continue as the year progresses. ITIC estimates that Brexit will cost Irish tourism at least €100 million in 2017 with the most pain being felt within the border counties. It has thus become more important than ever that competitive and pro-tourism policies are adopted otherwise the industry is at risk of seeing recent strong gains reversed.

In Ireland, the tourism industry employs over 228,600 people with significant regional spread, having added more than 56,700 jobs since 2011 (see page 14). Tourism has been at the centre of Ireland's economic and jobs recovery in recent years. An external event now threatens the industry and it is incumbent on the Government to support the sector and help create a suitable environment for it to continue to grow.

ITIC is currently developing an industry strategy for growth to 2025 and beyond which will be ambitious and far-reaching. With international tourist arrivals globally set to grow steadily according to the WTO and domestic consumer spending also strengthening, there is significant potential for further employment and economic growth in tourism across Ireland if the right policies are pursued.

However a decline in Ireland's tourism economy is also a real risk unless the sector is supported through the appropriate expenditure and taxation levels in Budget 2018.

Brexit Implications on Irish Tourism

The Irish Tourism Industry Confederation (ITIC) has identified Brexit, the UK's departure from the EU, as representing the greatest challenge to face Irish tourism since the global economic recession of 2008. Back then the value of the UK market to Irish tourism fell by 23% in a short period of time and today's external environment represents a challenge of similar scale and magnitude. The Brexit impact has been felt already by Irish tourism with visitor numbers from Ireland's largest source market down 6% year to date according to the CSO release of 29th August 2017. Of more concern is the fact that spend by sterling visitors is down even more and ITIC estimates that the cost to Irish tourism of Brexit will be at least €100 million this year. This will impact on jobs and particularly regional economic growth and will worsen if appropriate policies are not established to mitigate and minimise the adverse and long term consequences of Brexit.

Since the Brexit vote in June 2016, the Irish Government has been working on policy and strategic responses to support export sectors such as agri-food, manufacturing, and FDI amongst others. However the tourism industry - a key sector that was valued at €4.3 billion in export earnings in 2016 and employs 228,600 people throughout the country - has seen no such policy support or strategic response.

Tourism, where Ireland is promoted overseas as an all-island destination, is uniquely vulnerable to Brexit and urgently needs a strategic framework, comparable to that being put in place for other exporters. The impact of Brexit is likely to mean adverse consequences on the movement of people, the liberalised common aviation market, and regulations governing the conduct of business – these can mitigated but only by well thought-out and appropriate strategic responses. The tourism euro is as valuable as the euro earned by any other export sector and more valuable in the context that tourism is one of the few industries that can provide regional balance and sustainable local employment.

Value of the UK Market to Irish Tourism

The British market is fundamental to the health of Irish tourism. 3.6 million of all international visitors to Ireland came from Britain last year representing 41% of visitor volume. €1.11 billion was spent by British visitors in Ireland last year, 22% of the tourism export economy.

Meanwhile 32% of all holidaymakers to the country came from Britain in 2016.

Furthermore 1.36 million trips were made by Northern Irish people to the Republic of Ireland, valued at €367 million in 2016.

Therefore total income from sterling spending visitors while in Ireland was €1.48 billion in 2016. *Source: Fáilte Ireland Tourism Facts 2016*

The number of British visitors over the first 7 months of 2017 is down 6%, nearly 138,000 fewer arrivals than in the same period a year ago. Spending by British visitors in the first quarter of 2017 fell by 7.5% as measured by the CSO, as Ireland became more expensive and less competitive having enjoyed the benefits of favourable exchange rates over recent years. The value of sterling against the euro has remained low and has been consistently been 15%-20% weaker since the Brexit vote. As a result the since British consumer finds Ireland 15%-20% more expensive and has modified their travel behaviour and expenditure.

Irish tourism has in fact suffered a double whammy as a result of the Brexit devaluation of sterling. Not only have the number, and value, of visits from Britain and Northern Ireland declined, but Ireland is also experiencing tougher competition for international tourists as Britain has become a more affordable destination for many markets.

Ireland losing share of UK outbound travel

Most recent data on outbound travel by UK residents records a 3% increase in the number of trips, with spending up 5%, over the first four months of the year compared with the corresponding period a year earlier. Within the period UK residents took more holiday visits (+2%) and trips to visit friends and relatives (VFR +5%), with the number of business trips almost unchanged. Outbound trips to European destinations increased by 2%, with trips to EU15 (countries that joined the EU after January 2004) up 3%, while travel growth to other world regions was more robust albeit on significantly smaller volumes.

UK travel data to April 2017

2017	UK travel abroad	UK travel to Ireland
April	+2%	-12%
January – April	+3%	-8%
12 months to April	+6%	+2%

Source: UK ONS & CSO

It is evident that Ireland is losing both volume but also market share of the outbound British travel market. The challenge facing many tourism businesses in Ireland is to remain competitive to halt the absolute and share decline from Britain, while simultaneously intensifying efforts to develop new sustainable growth markets.

UK reaping the benefit of weak pound

Britain is enjoying a bumper year in inbound tourism with arrivals in the first four months up 11% and revenue up 14%, thanks to the weakness of sterling. The bounce in demand is due mainly to a 26% increase in holiday visits which account for almost 40% of demand, while business trips (25% of demand) are down 4% while those visiting friends and relatives (VFR) is up 7%.

In addition to tourists from the euro zone, American, Australian, Canadian and Japanese tourist, amongst others, are benefiting from the drop in value of sterling since this time last year. European visitors are up 8% to the UK while visitors from North America and Rest of the World are up 16% and 24% respectively.

While visits from North America to Ireland have grown faster than to the UK over the period, the rate of increase from the larger mainland European market to Britain has outpaced the growth to Ireland, estimated at +10% compared to +3% to Ireland up to the end of April (most recent UK comparative figures).

Visitor growth rates to UK vs Ireland: January - April 2017

January – April 2017	Visitors to UK	Visitors to Ireland
Europe (Mainland + UK & Ireland)	+8%	-3%
North America	+16%	+26%
Rest of World	+24%	+20%
TOTAL	+11%	+2%

Source: UK IPS & CSO

It is evident that Britain is enjoying the benefits of its weakened currency and as such is posing an increasing threat to Ireland's competitiveness in several important source markets.

Visitors from UK critical to many businesses and employment in Ireland

While visitors from Britain and Northern Ireland reach into every part of the country, the relative importance of sterling spending tourists varies by region and by category of hospitality businesses.

Dublin attracts one third of the revenue spent by British visitors in Ireland, earning an estimated €368 million last year, with business visits and short break leisure trips key to this demand and the viability of many hospitality businesses in the capital. The South West region, highly popular with visitors from Britain, earned €200 million from the market last year, while other regions each benefitted from upwards of €100 million.

Top earning regions from British & Northern Ireland markets

	British	N. Ireland	TOTAL	Share of Sterling spend in Ireland
Dublin	€368m	€106m	€474m	32%
South West	€200m	€38m	€238m	16%
Border	€120m	€123m	€243m	16%

Source: Fáilte Ireland

In terms of dependency the Border counties are more heavily dependent on sterling spending visitors than any other part of the country. Just over 40% of tourism income in the border region comes almost equally from visitors from Britain and Northern Ireland. Most other regions rely on these two markets for close to 20% of their tourism earnings, with dependency in the South East highest at 26%.

The fall-off in demand and any reduction in average expenditure per visit from Britain and/or from Northern Ireland leave many businesses exposed with the Border counties relatively most vulnerable, while the absolute loss in revenue is likely to be felt most in Dublin and the South West. Any decline in demand will inevitably lead to loss of employment in the sector with the threat greater in regions outside the capital. As an example over 400 tourism and hospitality businesses catering to visitors in the Border region are facing a downturn in demand resulting in a threat to jobs and the viability of enterprises in the area.

Tourism industry facing loss at least €100 million

Demand from Britain this year, while down overall 6% in volume, has fluctuated dramatically on a monthly basis compared to the previous year. Typically the period January to May accounts for just fewer than 40% of annual demand, with a similar share arriving over the peak four months from June to September.

Based on historical trends it is reasonable to project that the expenditure by British visitors this year will decline at a rate sharper than the drop in volume, given the weakness of sterling.

The segment of demand more vulnerable to a sharp downturn is the holiday or discretionary travel segment of the market. Available data on the first quarter indicates that the fall off in holiday visits was steeper than 10%. Holiday visits increase over the peak months from June to September, both in absolute numbers and in share of the total travel demand. Holiday visitors are also more likely to be very conscious of the exchange rate and may compensate by trading down or curtailing the length of stay.

A loss of at least €100 million in the current year on revenues earned from British visitors this year would be a conservative projection, based on currently available data. This equates to a drop of at least 10% on the €1.1 billion in receipts from the British market last year. In addition, one could anticipate a downturn in demand from Northern Ireland, perhaps of the order of an additional €30 million.

A €12 million Brexit mitigation fund for Irish Tourism

Within this budget submission ITIC renews its call for an immediate €12 million Brexit fund to consolidate market share in Britain, to diversify into new markets, and to support vulnerable tourism enterprises. As has been stated tourism has not received the supports that other export sectors to date have secured. 18 months have now passed since the UK's vote to exit the EU and the implications are evident on Irish tourism in terms of a sharp downturn in British tourism which will impact on jobs and regional growth. Tourism now badly needs recent cuts in its budgets to be reversed and €12 million should be allocated to Brexit-proofing the sector as best as possible. The UK market-share needs to defended, new market diversification needs to be supported, and vulnerable tourism enterprises need to be supported in terms of skills and training.

Brexit's challenge to Irish tourism is both immediate and longer term

The impact of Brexit on Irish tourism is both immediate but also potentially long lasting. In the short term sterling's weakness highlights the critical need for Irish tourism to remain competitive and it is incumbent on the Government not to impose any additional tax or regulatory burdens. Appropriate policy responses must be put in place to allow Irish tourism businesses cope with the immediate challenges of Brexit and a mitigation fund as outlined in this pre-budget submission is vital in this regard. In the longer term the new EU-UK deal must reflect the strategic importance of tourism to the Irish economy. ITIC's position on behalf of all tourism businesses, employing 228,600 people nationally, is that the following key areas must be addressed to mitigate against adverse consequences.

A new EU-UK deal: Irish tourism priorities

Priority Area A — **The preservation of the Common Travel Area (CTA) and a soft border**

Priority Area B — **The retention of liberalised aviation access between the UK and the EU**

Priority Area C — **The support of an all-island approach to tourism marketing**

Priority Area D — **The harmonisation of regulatory standards across the island of Ireland**

ITIC's in-depth analysis of the Brexit impact on Irish tourism can be accessed via its website or the below links:

http://www.itic.ie/wp-content/uploads/2017/03/Brexit-Irish-Tourism_A-Call-for-Action.pdf

http://www.itic.ie/BREXIT-BULLETIN-JULY-2017/index.html

Budget Recommendations

ITIC Recommendation 1

Maintain Competitiveness & Sustain Jobs

Cost Neutral
in 2018

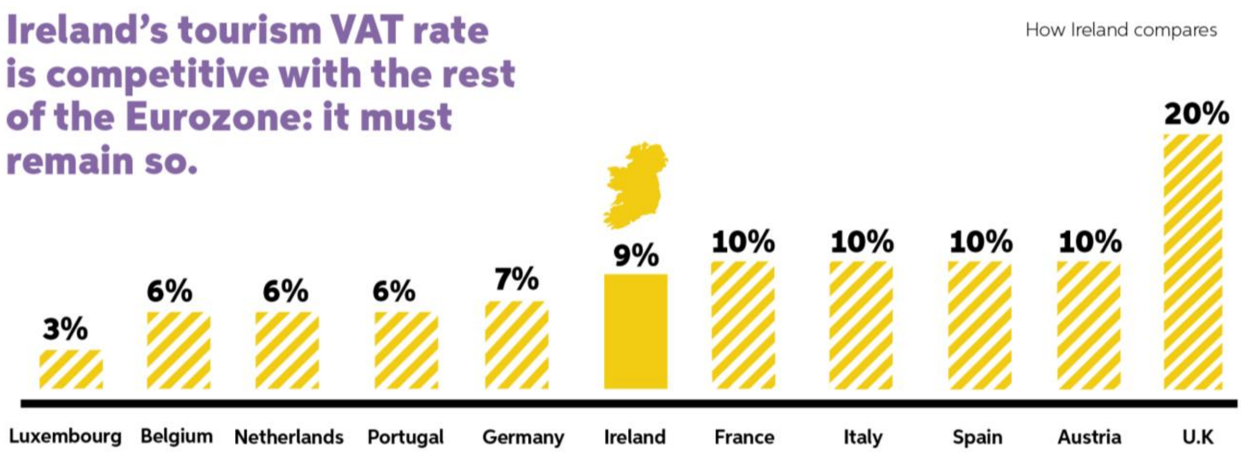
A major objective of the upcoming budget must be to retain and improve Ireland's competitiveness. This is vital for a tourism sector that employs 228,600 throughout the country and the government must ensure that enterprises do not face tax, labour cost, or regulatory increases in this key period of economic uncertainty particularly in light of the UK's decision to exit the EU. This includes:

i. Supporting 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*.

Ireland's tourism VAT rate is in line with our European competitors and 56,700 new tourism jobs have been created since 2011. Consistently Fáilte Ireland surveys show that the industry offers much improved value for money than previous years. A report by BDO, one of Ireland's leading financial advisory firms, published in July and attached as an appendix to this submission, clearly shows the importance of retaining the Vat rate particularly in the context of jobs, regionality, competitiveness and exchequer returns.

In 2011 when the tourism Vat rate was at 13.5% the tourism industry returning €1.265 billion to the exchequer in direct tax receipts. In 2016, due to the increase in volume of tourism and with the Vat rate at 9%, the tourism industry returned €1.911 billion to the exchequer, an increase of €646 million over a 12 month period comparison. It is clear that the 9% Vat rate has reduced cost from the system, stimulated demand and resulted to significant increase to the exchequer in direct tourism tax receipts.

Crucially Ireland's tourism Vat rate is aligned with the rest of the Eurozone. 17 of 19 eurozone countries have tourism Vat rates of 10% or less thus Ireland is competitive. To alter Ireland's tourism Vat rate upwards would damage the industry's competitiveness at a critical time of British tourism decline and weakening exchange rates.



Partly as a result of the Vat rate introduction, tourism has grown significantly since 2011 and there have been 56.700 jobs created within the sector since then. As evidenced by the table below these jobs have been spread throughout the country with the majority outside of Dublin.

Impact of total job creation in tourism Q2 2011 to Q1 2017
(ITIC estimates derived from CSO and Fáilte Ireland data)

Regions	Q2 2011	Q1 2017	Jobs Growth
Border (Cavan, Donegal, Leitrim, Monaghan, Sligo, Louth)	18,900	25,800	6,900
Midland (Laois, Longford, Offaly, Westmeath)	11,100	11,550	450
West (Galway, Roscommon, Mayo)	17,700	23,700	6,000
Dublin (City and County)	43,350	70,650	27,300
Mid-East (Kildare, Meath, Wicklow)	17,850	20,850	3,000
Mid-West (Clare, Limerick, Tipperary North)	15,600	18,150	2,550
South-East (Carlow, Kilkenny, Tipperary South, Waterford, Wexford)	17,400	23,100	5,700
South-West (Cork, Kerry)	29,700	34,800	5,100
Total Tourism Jobs	**171,600**	**228,600**	**57,000**

The ongoing suspension of the Airport Departure Tax (or Airport Passenger Duty) is also critical to be retained. This has incentivised many airlines to commence new routes to Dublin and other national airports. In a very price-elastic context, where low cost carriers hold significant market share, any change in this policy would be very detrimental. Ireland, as an island destination, requires liberalised, easy and cost-efficient air access and the zero-rating of the Airport Passenger Duty is vital in this regard.

ii. **Limit labour cost increases** and reform the current tax system to deliver any additional take-home pay

For industries within the services sector, of which tourism is one, costs associated with labour are significant. Ireland currently has the 2nd highest monthly minimum wage in the Euro-zone and the absolute level of pay, wage inflation, labour regulations and the taxation system are key determinants of labour costs. The recent decision by the Low Pay Commission recommending an increase in the minimum wage by 30 cent to €9.55 per hour from January 2018 confirms Ireland's minimum wage rate being one of the highest in the EU.

Within this budget submission ITIC also urges the equalisation of treatment of the self-employed of which there are many within Irish tourism and a pro-incentive regime to stimulate small and medium sized enterprises.

iii. Ensure the **broader cost environment is supportive of tourism** business through a series of measures.

Tourism enterprises are in the large part small to medium sized businesses, often family owned and run. Margins are tight in what is still a very seasonable sector with most of the business coming within a 6 month period. In this context ensuring that the broader cost environment is supportive of tourism and hospitality business is vital. This can be done in a number of ways including:

- Reviewing excise taxes on tourism-facing goods to ensure that international competitiveness is improved. Figures from the Vintners Federation of Ireland show that only Finland has a higher average alcohol excise as an example.

- Ensuring that the cost of utilities and the rise in business insurance costs is addressed. With profit margins tight for very labour intensive businesses such as the tourism and hospitality sector it is critical that inflation in other business costs is managed carefully. This is particularly evident in the cost of utilities and the cost of business insurance. The latter - from car rental to accommodation - has seen sharp increases in recent times that are not sustainable and which must be addressed.

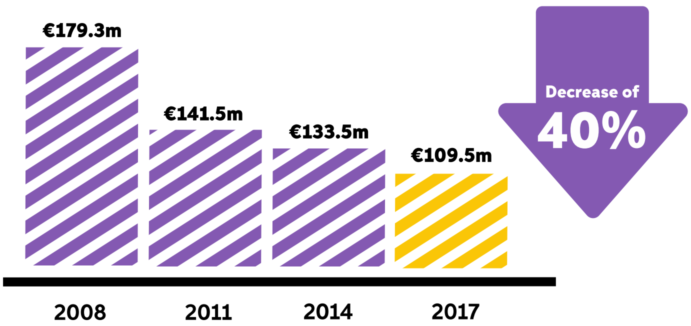
- Reviewing local authority rates policies to ensure that the rates burden on tourism businesses is fair and proportionate. Local authorities have a significant impact on business conditions and cost competitiveness in their locality through commercial rates and other charges. Reducing the burden of commercial rates would support job creation and boost local employment, particularly in the SME and community.

ITIC Recommendation 2

Cost: €20m
in 2018

A €20 Million Investment in Tourism to Brexit-Proof Sector and Support Regions

Spending by the Irish state on current tourism budgets has been in decline for some time. In 2008 funding from the Government to Fáilte Ireland and Tourism Ireland amounted to €179 million, in 2017 this has fallen by 40% to only €109 million.



The return on investment in tourism is self-evident. Last year alone the exchequer benefitted to the tune of €1.91 billion in direct tourism-related tax receipts. With a challenging external environment, ITIC calls for the Government to honour commitments and start restoring funding to tourism by committing €20 million to agency budgets in October. This to be allocated in the following fashion:

i. Commit an **additional €12 million in Budget 2018 to Brexit-proof** the sector. With 2 out of every 5 international visitor coming from the UK, Irish tourism is particularly exposed. As outlined in previous pages action is needed now to minimise and mitigate the impact of Brexit. Ireland's share of the British tourism market needs to be defended, overseas publicity budgets need to be increased to generate market diversification, and vulnerable tourism enterprises must be supported on the ground through increased training and skills resources.

ii. **€3 million to be allocated to the development of a Midlands brand** experience to complement the brand propositions of Wild Atlantic Way, Ireland's Ancient East and Dublin. ITIC research shows that the regional dispersion of tourism is imbalanced and the Midlands received the lease tourism footfall or spend. That is partly down to a lack of tourism product in the area as well as a lack of branded identity for the region. The Government, in its agreed manifesto, has committed to developing a Midlands brand and this should be pursued without delay. It is vital though that the development of such a branded experience is both in keeping with what the region has to offer and not at the expense of the Wild Atlantic Way, Ireland's Ancient East or Dublin. New additional budget is required to develop the Midlands brand experience.

iii. An **increase in capital budgets of €5 million** to invest in new tourism products of international appeal and scale and develop compelling new visitor experiences. Fáilte Ireland's capital budget is inadequate for a sector that is so important to Ireland's economy and so vital to regional balance. In that context an additional €5 million should be allocated to Fáilte Ireland in 2018 for investment in new tourism product and infrastructure. Developing new experiential things to do of scale and international appeal is vital if Irish tourism is going to remain a compelling tourism experience for the domestic market and overseas visitors.

ITIC Recommendation 3

Invest in a Multi-Annual Capital Programme

Cost Neutral
in 2018

In order to realise the future potential of Irish tourism as an engine of economic growth and regional balance, the level of state capital support for the sector needs to increase significantly. The current review of the Government's capital expenditure plan is an opportune time to allocate additional capital budgets to the Irish tourism sector. The Government is due to announce a 10 year programme of capital and infrastructural investment and tourism, being Ireland's largest indigenous sector in terms of employment and with significant growth potential, needs to receive a step change in funding over that period. This recommendation will not impact on Government spending in 2018 and instead is to fall within the timeframe of the new capital plan.

i. **Support ongoing product innovation,** refreshment and development in tourism by increasing capital investment in tourism within the new 10 year Capital Plan to €60 million per annum. 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.

ii. Ensure and expedite the delivery of other commitments to infrastructural investment specifically **tourism enabling infrastructure** such as roads, airports, coach parking facilities, public transport, town renewal and the delivery of high-speed broadband to rural areas.

iii. The allocation of tourism capital funds within the current 6 year plan of only €106 million over is **wholly inadequate** for tourism's needs, amounting to just 0.4% of the state's capital envelope of €27 billion. As the revised plan becomes a 10 year infrastructural agenda, the provision for tourism needs to both increase in absolute and share terms.

ITIC has made a detailed submission to Government on the need for more capital spend for tourism, as well as prescriptive areas of investment, and this can be accessed here: **http://www.itic.ie/wp-content/uploads/2017/05/ITIC_Tourism-Submission-to-Capital-Review_Full-Report_May2017.pdf**

Conclusion

Within this pre-budget submission, ITIC – the representative organisation of Irish tourism – makes the case for appropriate investment and taxation policies for the sector. Tourism is at a key juncture and decisions in Budget 2018 are critical. Last year Irish tourism was valued at €8.3 billion, employing 228,600 people throughout the country, and returning €1.91 billion to the exchequer annually. Never before have so many international tourists come to Ireland; this year Ireland is likely to welcome 9 million international visitors - in that context tourism is very much an export industry generating very valuable overseas earnings for the country.

Tourism is Ireland's largest indigenous sector in terms of employment; 1 in every 9 people that work in Ireland do so within tourism and hospitality and, as outlined within this submission, it is an industry that has significant regional benefits.

However recent strong growth in tourism is now under pressure as we enter a period of great uncertainty due to international external pressures as a result of Brexit. Already visitor numbers and spend from our largest source market, the UK, are in decline and this is set to continue as the year progresses.

ITIC estimates that Brexit will cost the Irish tourism sector at least €100 million in 2017 and it is urgent that the Government, in the upcoming budget, support Irish tourism through pro-competitive policies and appropriate investment decisions. The retention of the tourism Vat rate and other competitive policies are vital and an appropriate investment regime is requited to support Ireland's largest indigenous sector. There has been a 40% cut in tourism budgets over the last 7 years and those cuts must be reversed and this can be commenced on October 10th with a €20 million investment in tourism agency budgets. This will help mitigate against the impacts of Brexit and allow Irish tourism to reach new inbound markets. Likewise a step-change in capital funds is required so that the Irish tourism product remains fresh, appealing and compelling.

The Irish Tourism Industry Confederation is currently formulating a strategy to 2025 and, given the right environment and policies, ITIC is confident that the sector can grow significantly during this period and provide a further 60,000 jobs. However this is predicated on appropriate national policies relating to taxation and expenditure and ITIC urges the Government to adopt pro-tourism policies, as outlined within this submission, in Budget 2018.

Appendix 1

Report by BDO from July 2017 on the importance of retaining the 9% tourism Vat rate to support competitiveness and regional growth

Retaining the 9% tourism and hospitality VAT rate to maintain competitiveness and ensure growth and prosperity in Ireland's largest indigenous sector

July 2017

Irish Tourism Industry Confederation
Ground Floor, Unit 5
Sandyford Office Park
Dublin 18

BDO Ireland
Beaux Lane House
Mercer Street Lower
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itic

In association with BDO

9 reasons why 9% matters

The Irish Tourism Industry Confederation (ITIC) represents the leading tourism interests throughout the country. Tourism is at a key juncture with certain markets performing solidly but with a sharp decline in Ireland's largest source market, that of Great Britain. This is direct result of the impact of Brexit, consumer uncertainty, and sterling's devaluation. In that context, decisions taken in Budget 2018 will be vital and in particular the need to retain the current 9% tourism VAT rate. ITIC has worked with BDO, one of Ireland's leading advisory firms, to define 9 reasons to retain the 9%:

Employment

The introduction of the 9% VAT rate in 2011 has, according to the Central Statistics Office & Fáilte Ireland, helped the tourism sector create an additional 57,000 jobs nationwide as a result of the increase in international visitors to Ireland. The tourism economy has improved significantly with the support of successful Government policies such as the tourism VAT rate.

Regionality

Tourism supports jobs nationwide - it is the only industry that can provide jobs in all parts of the country. The majority of the jobs created by the tourism industry nationwide since 2011, have been outside Dublin. Tourism is vital for regional balance and growth, and the VAT rate is a critical component of regional success.

Competitiveness

The tourism VAT rate is right-sized for Ireland; 16 out of 19 eurozone countries have tourism VAT rates of 10% or less, therefore Ireland is competitive. Any change to Ireland's tourism VAT rate would consciously damage our competitiveness at a critical time for the industry.

Growth

Tourism is an export industry, bringing in much needed overseas earnings from international visitors to our shores. Spending by international visitors when in Ireland last year was €4.6bn - this is good for the national economy, regional balance, and for jobs. Let's not jeopardise it.

Revenue

Fáilte Ireland estimate that for every €1 of tourist expenditure, 23c is generated in tax revenue for the exchequer. This means that since the introduction of the 9% tax VAT rate, the value of direct tourism related tax receipts to the exchequer has increased from €1.265bn in 2011 to €1.911bn in 2016. This is an additional €646m in 2016 than in 2011. Increasing the VAT rate runs the real risk of dampening demand.

Cost of Business

The National Competitiveness Council report has stated that Ireland is an expensive location to run a business with regards to labour, property, energy, water, waste, communications and business services. From a tourism perspective, and what is a largely open-sector, retaining competitiveness is key to continued growth. In that regard, the tourism VAT rate must be retained.

Brexit

41% of all international visitors that come to Ireland do so from Britain which is Ireland's largest source market. Visitors from Britain are down 7% year to date and the Brexit effect is estimated to cost Irish tourism at least €100m in 2017. Such a period of uncertainty demands stability and competitiveness and the retention of the tourism VAT rate is critical.

Value for Money

There have been significant improvements in the Value for Money (VFM) rating as measured by Fáilte Ireland of the Irish tourism product in recent years. This improvement in VFM has been largely brought about by an agile, competitive tourism industry and the reduction in the VAT rate. Any change in the VAT rate would add cost to the system and damage Ireland's value rating.

Programme for Govt.

A commitment to retain tourism's 9% VAT rate was included within the Programme for a Partnership Government which was agreed by the Government and main opposition party. Tourism is Ireland's largest indigenous sectoral employer – providing 1 in 9 jobs nationally both in urban and rural areas – and it cannot be taken for granted.

"The majority of the 57,000 jobs created by the tourism industry nationwide since 2011 have been outside Dublin and in the regions".

9 VAT %

In association with BDO

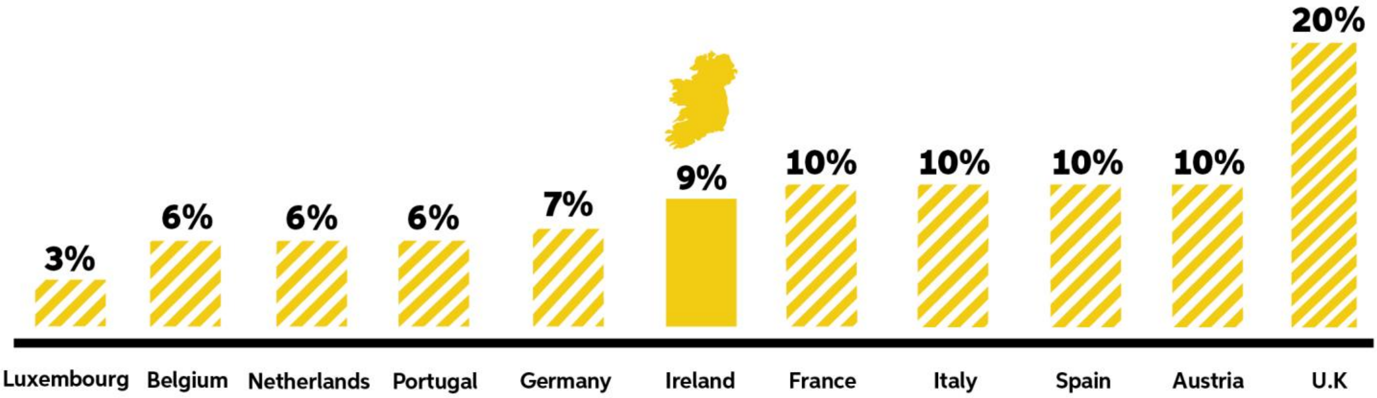
Impact of total job creation in tourism Q2 2011 to Q1 2017 (ITIC estimates derived from CSO and Fáilte Ireland data)

Regions	Q2 2011	Q1 2017	Jobs Growth
Border (Cavan, Donegal, Leitrim, Monaghan, Sligo, Louth)	18,900	25,800	6,900
Midland (Laois, Longford, Offaly, Westmeath)	11,100	11,550	450
West (Galway, Roscommon, Mayo)	17,700	23,700	6,000
Dublin (City and County)	43,350	70,650	27,300
Mid-East (Kildare, Meath, Wicklow)	17,850	20,850	3,000
Mid-West (Clare, Limerick, Tipperary North)	15,600	18,150	2,550
South-East (Carlow, Kilkenny, Tipperary South, Waterford, Wexford)	17,400	23,100	5,700
South-West (Cork, Kerry)	29,700	34,800	5,100
Total Tourism Jobs	**171,600**	**228,600**	**57,000**

EU VAT Rates on Tourism Services

The Tourism VAT rate is right-sized for Ireland; 16 of the 19 Eurozone countries have VAT rates of 10% or lower.

* How Ireland compares



ABOUT ITIC

The Irish Tourism Industry Confederation (ITIC) represents the leading tourism interests and businesses throughout Ireland. Through independent research, analysis and interpretation ITIC aims to help the tourism sector realise its full potential.

MEMBERS

Aer Lingus
AIPCO
(Association of Irish Professional Conference Organisers)
AVEA
(Association of Visitor Experiences & Attractions)
B&B Ireland
Car Rental Council of Ireland
CIE Tours International
Coach Tourism & Transport Council
Convention Centre Dublin
Dublin Airport Authority
Dublin Institute of Technology
Dublin Port Company
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Fáilte Ireland (Associate Member)
Guinness Storehouse
Heritage Island
House of Waterford Crystal
Incoming Tour Operators Association-Ireland
Inland Fisheries Ireland
Ireland's Blue Book
Irish Boat Rental Association
Irish Caravan & Camping Council
Irish Ferries
Irish Heritage Trust
Irish Hotels Federation
Jameson Visitor Centres
Office of Public Works
Restaurants Association of Ireland
Shannon Group plc
Stena Line
Tourism Ireland (Associate Member)
Vintners' Federation of Ireland

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Contents

1. Introduction

2016 was a record year for Irish tourism both in terms of visitor numbers and revenue, surpassing all previous records. Overseas tourist visits to Ireland grew by 8.8% to 8.74 million. However this growth has slowed significantly during 2017 due to a sharp Brexit-related slowdown in tourist numbers from Great Britain, Ireland's largest source market.

Central Statistics Office (CSO) statistics show that for the first half of 2017, the number of trips to Ireland by non-residents increased to 4,565,000, an increase of 4% compared to the first half of 2016.

However, 1,745,300 British visits were recorded between January and June, compared with 1,865,000 for the same period last year – a reduction of 6% and an indication that the impact from Brexit is continuing to be felt by the tourism industry here.

CSO numbers relating to the first quarter of 2017 show that the number of nights spent in Ireland by overseas travellers decreased by 4.1% down from 11.6 million to 11.1 million for the same period in 2016. Total expenditure by overseas visitors also decreased for this period by 1.3% to €684 million.

Irish tourism now finds itself at a key juncture and competitive and pro tourism policies need to be adopted, or the sector is at risk of seeing a reversal of the recent strong gains that have been made by the industry.

In Ireland, the tourism sector now directly employs over 228,000 jobs, having added more than 56,700 jobs since 2011.

As international tourist arrivals globally continue to grow steadily according to the WTO and domestic consumer spending also strengthens, there is enormous potential for further employment and economic growth in tourism across Ireland if the right policies are pursued.

Beyond the very obvious direct impact, tourism reaches into and impacts upon many other sectors of the economy having a very significant multiplier effect. The sector's wide reach also stimulates entrepreneurship and growth of micro, small and medium sized enterprises (MSMEs) throughout Ireland.

Ireland operates in a global tourist market, and maintaining competitiveness will be vital to sustaining and growing Ireland's tourism sector.

Prior to the introduction of the reduced VAT rate of 9% in 2011, Ireland had lost competitiveness as exemplified by weak Value for Money ratings reported in Fáilte Ireland's annual Overseas Holidaymakers Attitudes surveys.

The 13.5% VAT rate had placed Ireland's tourism VAT rate at the upper end of the scale for other EU member states. However since the introduction of the 9% rate, VAT on tourism products and services in Ireland is now much closer aligned to many of our European competitors, resulting in lower prices and enhanced competitiveness, which in turn has stimulated recent demand and employment growth in the sector. 16 out of 19 Eurozone countries have tourism Vat rates of 10% or less thus Ireland is in a competitive position. Crucially Ireland's Value for Money ratings have improved considerably as evidenced in Chapter 9.

Direct tax receipts to the exchequer have also improved considerably since 2011 and the introduction of the 9% Vat rate. Back in 2011, according to Fáilte Ireland, direct tourism tax receipts amounted to €1.265 billion whereas in 2016 receipts were €1.91 billion.

Not only has tourism's improvement been notable in terms of visitor numbers, revenue and employment, after many years of inactivity, many elements of the tourism sector are once again seeing increasing levels of construction and new development taking place. Throughout Ireland, local authorities currently have plans for over 121 new tourism projects at an envisaged capital cost of €180.8m, while in Dublin it is estimated that there are approximately 11 new hotels at various stages of the planning and development process, which will add much needed capacity to the Dublin market, at an envisaged capital cost in the region of €440 million to €500 million.

Once again, tourism is at the forefront of the growth and recovery currently taking place in the Irish economy.

The recovery in tourism has been driven by a competitive and quality tourism product supported by a number of important policy measures such as the 9% tourism VAT rate, which has proven to be one of most successful job creation initiatives in modern times with the positive impact on tourism exceeding all expectations.

As this document outlines, it is clear that changes to the VAT regime have had a very positive impact on Ireland's tourism sector. However as recent experiences have shown, the sector and wider economy are very susceptible to external market factors and shocks. In order to maintain competitiveness and ensure growth and prosperity in Ireland's tourism sector, this report aims to demonstrate the positive impact the reduced VAT rate has had on the tourism sector and the wider economy and calls for policy certainty on this measure in order to help the sector to realise its full potential as a key employer and driver of economic activity.

2. Employment

Tourism is a major component of the Irish economy, accounting for more than one out of every ten jobs in the country according to the CSO and Fáilte Ireland.

The sector's wide reach also stimulates entrepreneurship and growth of micro, small and medium sized enterprises (MSMEs) throughout Ireland.

As outlined below, when viewed on a regional basis, the growth in tourism volumes and revenue in recent years has provided additional jobs throughout the country.

Further evidence of this employment growth on a county by county basis is included in Appendix 1, which is based on information presented by the Restaurants Association of Ireland (RAI) in their Report- Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016).

Research conducted on behalf of the Drinks Industry Group of Ireland, by Anthony Foley of the DCU Business School, found that the total multiplier effect of a job in the accommodation and food services sector is 0.46. This suggests that for every direct job in the sector a further 0.46 of an indirect job is supported by the sector.

As a highly competitive industry, the demand for the services of the tourism and hospitality sector is price sensitive. Research has shown that the demand for tourism related goods is relatively price elastic. This means that consumer demand increases by proportionately more than the percentage reduction in prices in the tourism sector[1].

Therefore any increase or decrease in the price of goods and services in the sector has a significant impact on consumption and as a consequence the demand for labour.

According to the most recent Quarterly National Household Survey (QHNS) Quarter 1 2017, there are currently 152,200 people directly employed in the accommodation and food sectors in Ireland. This represents an increase of 37,800 on the numbers employed at the time of the introduction of the reduced VAT rate.

Accommodation and Food Service Activities (000's)	*Q2 2011*	*Q1 2017*	*Diff*
Border	12.6	17.2	4.6
Midland	7.4	7.7	0.3
West	11.8	15.8	4
Dublin	28.9	47.1	18.2
Mid-East	11.9	13.9	2
Mid-West	10.4	12.1	1.7
South-East	11.6	15.4	3.8
South-West	19.8	23.2	3.4
Total	114.4	152.2	37.8

[1] Measuring the Impact of the Jobs Initiative: Was the VAT Reduction Passed On and Were Jobs Created? Brendan O'Connor

All regions and counties have benefited to varying degrees, with the greatest increases, outside of Dublin, taking place in the Border, South-East and South-West regions, with the smallest growth taking place in the Midlands region.

When these figures are factored up to take account of the total numbers employed in the tourism sector, it is estimated by Fáilte Ireland that there is a total of 228,000 employed in a variety of roles throughout Ireland's tourism industry. This represents an increase of 56,700 on the numbers employed in 2011.

Total Tourism (000's)	*Q2 2011*	*Q1 2017*	*Diff*
Border	18.9	25.8	6.9
Midland	11.1	11.6	0.5
West	17.7	23.7	6
Dublin	43.4	70.6	27.2
Mid-East	17.9	20.9	3
Mid-West	15.6	18.2	2.6
South-East	17.4	23.1	5.7
South-West	29.7	34.8	5.1
Total	171.6	228.3	56.7

The increase in employee numbers, represents an increase of approximately 33% over the period and compares to an increase of only 12.5% in overall employment nationally between Q2 2011 and Q1 2017.

The increase in employment since the reduction in the VAT rate, while not wholly as a result of the reduced VAT rate, does follow similar experiences in other EU member states where similar policy approaches were implemented, pointing to a strong correlation between a reduction in VAT and employment creation.

For example, when Sweden reduced its VAT rate on restaurant services from 25% to 12% in 2012 it was observed that over the period 2012 and 2013, employment increased by 8% and 6% respectively in the restaurant sector. The rate of growth in the control industry group was 1% and 3% respectively[2].

In Germany, between 2009 and 2016 - i.e. 6 years after a reduction in the VAT rate from 19% to 7% in the accommodation sector - an additional 46,666 jobs had been created. This corresponds to an increase of 18.5%, which is in excess of the 14.6% recorded in the economy as a whole over the same period[3].

Employment created in the tourism sector in Ireland since the introduction of the reduced VAT rate has not only generated considerable revenues for the Exchequer in additional PAYE and PRSI taxes, but has contributed to significant social welfare savings.

In the Restaurants Association of Ireland's Job Creation Report for Q4 2016 it is estimated that in the period Q2 2011 to Q4 2016 social welfare savings accruing as a result of the number of new jobs

[2] The control industry group comprised of businesses operating in the retail, cleaning, and call centre sectors.
[3] Report on the benefits of low VAT on job creation and competitiveness in the European Union

created in the accommodation and food services sectors amount to €672 million, with the value of payroll tax receipts from direct employment equal to approximately €160 million[4] (see Appendix 1).

One of the key features of the tourism sector is that it has a national spread and provides numerous employment opportunities all over the country, where opportunities for other employment are often limited.

The current national tourism strategy document, *People, Place and Policy - Growing Tourism to 2025*, prepared by the Department of Transport, Tourism and Sport sets out key targets for Irish tourism; specifically and with regards to employment, the plan looks to increase employment in the sector to 250,000 by 2025. Based on the current estimates of employment in the sector, it is clear that Ireland is on track to over-achieve this objective.

In the context of boosting employment and economic activity throughout the regions, ensuring the on-going health and prosperity of the tourism sector is vital. The retention of the reduced VAT rate can contribute to the realisation of these objectives.

[4] Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016)

3. Revenue

According to Fáilte Ireland total tourism revenue has increased from €5.164bn in 2011 to €8.3bn in 2016. This represents an increase of 61% over the period and includes carrier receipts and expenditure by same day visitors.

Revenue (€m)	2011	2012	2013	2014	2015	2016
Britain	858	858	891	927	1,018	1,110
Mainland Europe	1,111	1,061	1,228	1,301	1,555	1,658
North America	677	746	829	940	1,200	1,337
Other Overseas	273	292	368	428	493	533
Total Overseas	2,919	2,956	3,316	3,596	4,266	4,638
Northern Ireland	297	292	305	334	338	367
Total out-of state	3,216	3,248	3,620	3,931	4,604	5,005
Carrier Receipts		856	976	1,166	1,322	1479
Overseas same day		34	35	41	38	48
Domestic Trips		1,514	1,533	1,714	1,725	1776
Total Tourism Revenue	5,164	5,652	6,164	6,851	7,689	8,308
Value of Tax Receipts	1,265	1,385	1,510	1,679	1,768	1,911

Source: Fáilte Ireland Tourism Facts 2011-2016

Based on data presented by the Revenue Commissioners for 2016, we have estimated that the value of VAT returns from the 9% VAT rate is approximately €1.3bn or 10% of the total VAT take.

Fáilte Ireland estimate that for every €1 of tourist expenditure, approximately 23c is generated in tax revenue for the exchequer. This would imply that since the introduction of the 9% VAT rate, the value of tourism related tax receipts to the Exchequer has increased from €1.265 billion in 2011 to €1.91 billion in 2016, an increase of 51% and €646m when looking at a 12 month period.

Statistics from the Revenue on net tax receipts further demonstrate the increase in tax take that has occurred since the introduction of the 9% VAT rate.

Data for the Accommodation & Food Services sector, as demonstrated in the following table, shows significant increases in the various tax headings since 2011.

Tax Heading	Increase since 2011
Corporation Tax	€58m (228%+)
PAYE & USC	€90m (49%+)

Source: http://www.revenue.ie/en/corporate/information-about-revenue/statistics/receipts/receipts-sector.aspx

4. Competitiveness

The current VAT system set up by the EU permits Member States to have a single standard rate of value added tax of not lower than 15%.

In addition to this standard rate, they may also apply up to two reduced rates of VAT, not lower than 5%, with, however some exceptions. The reduced rates may only apply to the supply of certain goods and services, which are listed in Annex III of the VAT Directive 2006/112/EC.

The provision of accommodation and restaurant services are just two of the activities which have benefited from a reduced VAT rate in Member States throughout the EU.

As outlined in the following table currently 25 out of the 28 Member States apply a reduced rate to hotel services of which 18 apply a rate equal or lower than 10%.

Similarly 17 out of 28 apply a reduced rate to restaurant services from a low of 3% in Luxembourg to 18% in Hungary.

Country	Hotel accommodation % VAT	Country	Restaurant and catering services VAT%
Luxembourg	3	Luxembourg	3
Belgium	6	France	5.5
Netherlands	6	Netherlands	6
Portugal	6	Poland	8
Germany	7	Cyprus	9
Malta	7	Romania	9
Poland	8	Ireland	9
Bulgaria	9	Austria	10
Cyprus	9	Spain	10
Estonia	9	Italy	10
Lithuania	9	Belgium	12
Romania	9	Sweden	12
Ireland	9	Portugal	13
Slovenia	9.5	Finland	14
Spain	10	Czech Rep.	15
Finland	10	Hungary	18
France	10	Malta	18
Italy	10	Germany	19
Latvia	12	Bulgaria	20
Sweden	12	Estonia	20
Austria	13	Slovakia	20
Greece	13	UK	20
Croatia	13	Lithuania	21
Czech Rep.	15	Latvia	21
Hungary	18	Slovenia	22
Slovakia	20	Greece	24
UK	20	Denmark	25
Denmark	25	Croatia	25

Only 5 of the EU member states have a VAT rate above 13% for hotels. A return to a 13.5% VAT rate would damage Ireland's competitiveness and would dramatically change Ireland's ranking, placing Ireland as the 6th highest VAT in the EU 28. Indeed when looking at the Eurozone countries, 16 out of 19 members have Vat rates of 10% or less.

It is also worth noting that any examination of VAT rates should be viewed in the context of ongoing debate and discussion in the UK to reduce its VAT rate, where numerous campaigns have cited the success of the measure in Ireland. The British Hospitality Association is currently calling for the tourism VAT rate to be cut to 5%[5] and the recent Conservative Party/Democratic Unionist Party electoral agreement makes a specific reference to reducing the current tourism Vat rate in Northern Ireland. In light of Brexit and the corresponding pressures on the UK economy it is expected that the campaign to cut the tourism VAT rate in the UK will increase further.

The 9% rate undoubtedly has helped the Irish tourist sector to remain competitive relative to other countries who apply a reduced rate of VAT.

However, there is clear evidence pointing to a deterioration in Ireland's international competitiveness with Ireland ranked 23rd in **The World Economic Forum's, *Travel & Tourism Competitiveness Index 2017 Ranking***. This represents a fall of 4 places from our previous ranking in 2015.

Although 23rd is a reasonable ranking, many of our fellow EU countries including Spain, France, Germany, United Kingdom, Italy, Portugal, Netherlands rank above Ireland.

Table 1: The Travel & Tourism Competitiveness Index 2017 Rank

Country/Economy	Rank	Score	Change since 2015
Spain	1	5.43	0
France	2	5.32	0
Germany	3	5.28	0
Japan	4	5.26	5
United Kingdom	5	5.20	0
United States	6	5.12	–2
Australia	7	5.10	0
Italy	8	4.99	0
Canada	9	4.97	1
Switzerland	10	4.94	–4
Hong Kong SAR	11	4.86	2
Austria	12	4.86	0
Singapore	13	4.85	–2
Portugal	14	4.74	1
China	15	4.72	2
New Zealand	16	4.68	0
Netherlands	17	4.64	–3
Norway	18	4.64	2
Korea, Rep.	19	4.57	10
Sweden	20	4.55	3
Belgium	21	4.54	0
Mexico	22	4.54	8
Ireland	23	4.53	–4
Greece	24	4.51	7

Tourism is a continuously growing industry domestically and internationally. The retention of the 9% VAT rate is essential to ensuring that Ireland maintains its competitiveness within a European and global tourism market and in order to sustain and build on recent growth in international tourist arrivals and receipts.

The reduction in the VAT rate has been identified as having had a positive impact on Ireland's competitiveness and attractiveness as a tourism destination.

[5] BHA, Cut Tourism VAT Campaign

A recent Hotrec Report[6], notes that "in Ireland, having experienced a very difficult downturn, Irish tourism has seen significant recovery in recent years. This has been underpinned by a number of important Government policy initiatives such as decreasing the 13.5% tourism VAT rate, which has made Ireland more attractive as a tourism destination".

Britain remains Ireland's most important tourism market, accounting for 41% of all overseas visitors. The depreciation of the pound against the euro since the UK referendum on Brexit means that a holiday in Ireland is more expensive for British holidaymakers. The Brexit impact on Irish tourism is real and material – already year-to-date tourism numbers for Ireland's largest source market are sharply down.

From the point of view of maintaining, let alone growing the volume of visitors from this market, it is vital that current competitive pressures aren't exacerbated by upward pressure on price that would arise from the abolition of the reduced 9% VAT rate and a return to anything higher.

If Ireland's tourism product is not competitive, foreign tourists are likely to be attracted to cheaper markets, while domestic tourists will have a stronger incentive to travel overseas, particularly the UK market where favourable exchange rates now make this an attractive proposition.

[6] Report on the benefits of low VAT on job creation and competitiveness in the European Union.

5. Growth

Analysis of tourist numbers and statistics points to strong growth being achieved in many of Ireland's key source markets.

In 2016, approximately 8.74m overseas tourists visited Ireland, generating total foreign exchange earnings of €6.5bn.

Numbers (000's)	2011	2012	2013	2014	2015	2016
Britain	2,799	2,722	2,870	3,007	3,346	3,632
Mainland Europe	2,184	2,247	2,346	2,490	2,880	3,102
North America	904	940	1,039	1,146	1,294	1,477
Rest of World	353	378	431	462	516	531
Total Overseas	6,240	6,287	6,686	7,105	8,036	8,742
Northern Ireland	1,420	1,299	1,572	1,708	1,492	1358
Total out-of state	7,660	7,586	8,258	8,813	9,528	10,100
Domestic Trips	7,169	8,291	8,413	8,991	9,125	9,282

Brexit poses a significant challenge to Ireland's tourism industry, given the heavy reliance on holidaymakers and business travellers from the UK market.

The economic uncertainty created and a weakening in the value of sterling against the euro has impacted on consumer sentiment and the spending power of potential visitors in these market.

While there had been an upward trend in the number of visitors coming to Ireland from the UK in the three years post the commencement of the economic recovery, since the start of 2017 there has been a notable fall in the in the number of UK visitors to Ireland as the post-Brexit fall in sterling has made it more expensive to travel.

Between January and June, the number of overseas trips to Ireland from abroad has increased by 4%, or an overall increase of 182,000 arrivals. However, the number of people arriving from Britain fell by approximately 6% from 1,745,300 to 1,865,000.

The cost of European travel for UK residents has increased significantly since voting to leave the EU, conversely, travel into the UK from countries with the euro has become more affordable.

Any increases in the VAT rate will undermine Ireland's attractiveness to UK visitors. It will negatively impact upon our international competitiveness as a tourist destination and has the potential to reverse the significant improvements in Ireland's value for money ratings within our key source markets.

This is of particular relevance where we look to maintain and build market share in key markets outside the EU where exchange movements have the potential to very quickly impact on value for money perceptions and price competitiveness.

Closer to home, the weakening of sterling, makes the UK a more attractive destination for Irish tourists, which can adversely impact on current levels of domestic tourist activity.

Notwithstanding the recent growth in tourism performance that has occurred, particularly since the introduction of the reduced VAT rate, as illustrated in the following WTTC table Ireland's Travel & Tourism Industry's contribution of 2.2% of total GDP, remains below the EU average of 4.2% of GDP and 5% of total employment and significantly below the likes of Croatia, Portugal.

Country	T&T Industry % of Total GDP
Malta	15.5
Croatia	10.1
Greece	7.6
Portugal	6.4
Cyprus	6.4
Spain	5.8
Austria	5.5
Italy	4.2
Latvia	4.1
Hungary	4.0
Germany	3.9
Estonia	3.9
UK	3.7
France	3.7
Slovenia	3.6
Bulgaria	3.3
Czech Rep.	2.5
Sweden	2.5
Belgium	2.5
Slovakia	2.4
Ireland	2.2
Finland	2.1
Denmark	2.0
Netherlands	1.8
Luxembourg	1.8
Poland	1.7
Lithuania	1.7
Romania	1.3

Tourism can and will contribute more to GDP in Ireland given the right circumstances and policies. Indeed in areas like association conferences and international events, there is a strong argument for the Convention Centre Dublin to be given the 9% Vat category to put it on a level playing field with international operators. This would strengthen Ireland's chance of winning more business tourism.

Ireland has the real potential to target further growth in the tourism industry over the coming years and increase its contribution to GDP and employment figures. This can be achieved through, what the Programme for a Partnership Government describes as, "the retention of the hugely successful 9% VAT rate on tourism and hospitality related services".

6. Cost of Doing Business

The cost of doing business in Ireland has a very significant influence on how competitive we are internationally. Ireland's economic prosperity is inextricably linked to our international competitiveness.

As a small open economy, our relative cost competitiveness is a significant determinant of Irish competitiveness, and in turn economic growth, employment and our standard of living.

For any industry, high and rising business costs are often reflected in rising prices to the consumer, reducing the competitiveness of goods and services.

High business costs make Ireland less attractive for mobile inward investment and reduce the competitiveness of Irish enterprises' goods and services traded in both domestic and international markets. For the tourism sector this has implications in terms of both domestic and international tourist activity.

While the economy and tourism sector is performing strongly, increasing business costs will reduce the competitiveness of businesses and Ireland's attractiveness as a holiday destination.

Despite the significant improvements that have been made in the competitiveness of the Irish tourism product, Ireland remains an expensive location within which to do business.

The UK's decision to leave the EU has imminent and far reaching consequences for Ireland's economy and brings into sharp focus the need for Ireland to maintain and improve our cost competitiveness.

According to the CSO[7] Ireland had the third highest price levels among EU countries in 2015, after Denmark and the United Kingdom. Bulgaria and Romania had the lowest prices in the EU in 2015, with prices at about half of the EU average.

Between 2006 and 2009 price levels for final consumption by private households in Ireland were about 25% above the EU average, with a spike in 2008 when our price levels were about 30% above the EU average.

However price levels in Ireland fell in 2010 to 18.1% above the EU average and since then they have increased slightly to stand at 22.5% more than the EU average in 2015, with prices in the UK 31.3% above the EU average.

According to Eurostat (June 2017)[8] it found significant variations in price levels for consumer goods and services throughout the European Union (EU). Denmark (139% of the EU average) had the highest price level, followed by Ireland (125%), Luxembourg and Sweden (both 124%), Finland and the United Kingdom (both 121%). At the opposite end of the scale, the lowest price level was found in Bulgaria (48%), while Poland (53%) and Romania (52%) were just above 50% the average. In effect, price levels for consumer goods and services in the EU varied by almost one to three between the cheapest and the most expensive member state.

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[7] http://www.cso.ie/en/releasesandpublications/ep/p-mip/mip2015/econ/ef/#d.en.123927
[8] http://ec.europa.eu/eurostat/documents/2995521/8072361/2-15062017-BP-EN.pdf/fff33756-4460-4831-9915-4a8c101f2b56

Ireland therefore needs to maintain and improve its relative cost competitiveness.

The Cost of Doing Business in Ireland Report 2017 suggests that the service sector is likely to see upward cost pressure during 2017, as a result of exchange rates and anticipated increases in energy prices. It also points to rising inflation over the next three years, driven in part by the impact of higher import prices following Sterling's depreciation. As a result, Irish inflation rates are forecast at 0.7% in 2017 and 1.2% in 2018. Insurance cost increases continue to impact on Irish tourism businesses and the recent 3% increase in the minimum wage rate affects such a labour intensive industry.

The appreciation of the euro vis-à-vis sterling and recent falls in the volume of UK tourists visiting Ireland provides clear evidence of how susceptible the Irish economy and tourism sector is to external market factors.

The efforts by the wider tourism sector to take action to reduce costs over recent years have been cited as one of the factors that has contributed to a recovery in this market.

There is a clear role for both the tourism sector and policy makers to manage proactively the controllable portion of their respective cost bases, drive efficiency and take the necessary action to address costs.

The retention of the 9% VAT rate provides a very obvious means for Government support for the tourism sector by helping to mitigate against some of the cost pressures facing their businesses in an effort to maintain cost competitiveness.

7. Brexit

The UK market is Ireland's biggest inbound tourist market accounting for approximately 41% of all our overseas visitors.

In 2016, 3.632 million visitors from the UK visited Ireland. For the first 6 months of 2017, the number of visitors to Ireland from Great Britain (1,745,000) has fallen when compared to the 1,865,000 who visited in the corresponding period in 2016 (-6%). Total expenditure by UK visitors when in Ireland during Q1 2017 has also fallen down from €214m to €198m.

Since the United Kingdom voted to leave the European Union in June 2016, there has been a steady fall in the number of visitors coming from this market.

One of the key drivers of this fall, is the drop in the value of sterling, which has fallen by 15% in value, making holidays and short breaks here more expensive for British visitors. Last June, before the vote, one euro was valued at £0.7649, before rising to £0.86 within two weeks.

UK visitors to Ireland comprise both business and leisure travellers. Declines in the volume of visitors from the UK market, have the potential to have a very damaging impact on the tourism industry in Ireland.

Research undertaken by RedC on behalf of Tourism Ireland of Britons planning to holiday overseas in 2017 indicates that:

- 50% will spend less while on holiday;
- 37% will reduce their holiday budget;
- 26% will change their accommodation type;
- 25% will reduce their length of stay;
- 18% say the Brexit vote will influence their holiday choice in the next year; and
- 17% will postpone a trip outside the UK.

Given our reliance on the UK market, tourism to the island of Ireland from Britain is likely to be more impacted than to any other destination.

In the short-term, therefore, value for money is more important than ever in order to maintain our competitiveness in the international market place. The movement of sterling versus the euro and dollar, since the Brexit referendum, now makes Great Britain a more competitive destination for visitors from both Mainland Europe and the United States.

The weakening of sterling post the Brexit referendum and its impact on competitiveness was cited as one of the reasons for the retention of the 9% VAT rate in Budget 2017.

There is little evidence to suggest this situation is going to change in the short to medium term and it is essential therefore that Government policy for the sector be as supportive as possible. For this reason, the 9% VAT rate should be retained.

8. Investment Certainty

One of the immediate responses to the financial crisis saw the tourism and hospitality sector forced to significantly reduce its spending on maintenance and refurbishment of its products and services.

The curtailing of expenditure in these areas, while allowing many businesses to survive the recession, is in the long-term unsustainable in an industry where the capital stock depreciates at a fast rate.

There is clear evidence that the additional revenues and increased confidence generated, in part, by the VAT reduction are translating into improving confidence and new levels of investment in the sector.

This confidence is evident in the Irish Hotel's Federation Q4 2016 Industry Barometer which points to strong levels of operator confidence amongst hotel's with 9 out of 10 (89%) of hoteliers indicating that they plan to invest in refurbishment in 2017.

According to the Construction Information Services (CIS) Construction Market Review for Q3 2016, over €531 million in hotel & catering projects were granted planning permission in the first 9 months of 2016 throughout Ireland, with another €650 million in projects submitted for planning.

There are a number of large scale investments in hotel and leisure projects currently taking place nationwide, this includes the €230 million development Centre Parcs in Longford, 165 bed Maldron Beasley Street hotel and planned €50 million redevelopment of the Metropole Hotel in Cork and €50 million revamp of Adare Manor in Limerick just some examples.

These projects bring enormous economic benefits during and post their construction phase, both in terms of the employment opportunities created and the benefits to the exchequer in terms of tax receipts.

Throughout Ireland, local authorities have plans for over 121 new tourism projects at an envisaged capital cost of €180.8 million.

In Dublin alone it is estimated that there are approximately 11 new hotels at various stages of the planning and development process, which will add much needed capacity to the Dublin market, at an envisaged capital cost in the region of €440 million to €500 million.

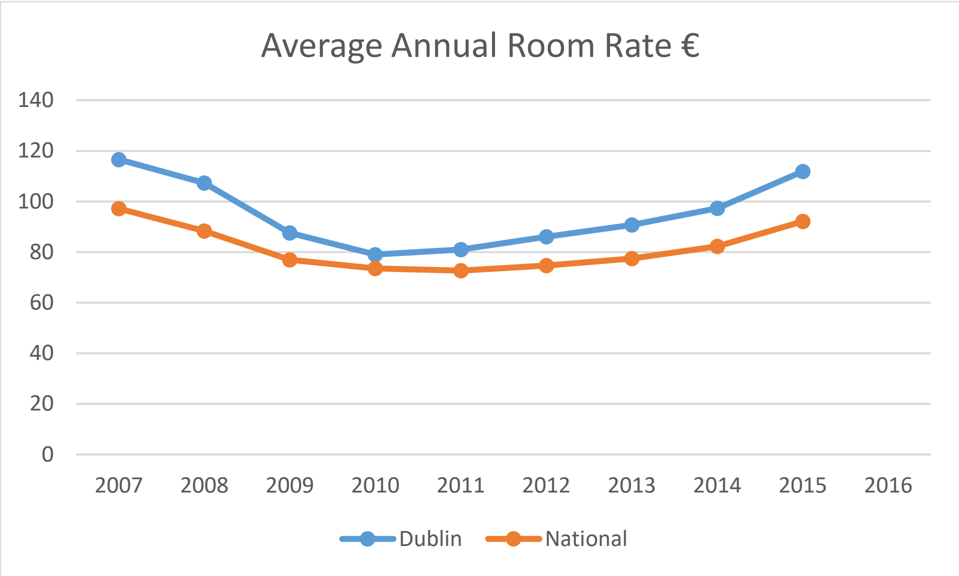
Recent reports have also pointed to an undersupply of hotel accommodation in Cork and Galway. This is having an inflationary impact on average room rates and is unlikely to be reversed until additional hotel capacity comes on stream.

It is estimated by PWC that approximately 300 extra rooms will come on stream in Dublin in 2017 with a further 1,700 beds in 2018 through new builds and extensions. [9]

The attractiveness of developing these new rooms in Dublin is underpinned by the improving Occupancy and RevPar (revenue per available room) statistics that occurred in 2016. The growth in RevPar is not limited to Dublin with growth of 15.6% in Cork City and 9.8% in Galway a contributory factor, influencing investment in hotel and leisure projects.

[9] http://www.irishtimes.com/business/transport-and-tourism/dublin-hotel-rates-set-to-rise-by-30-in-three-years-1.2998589

While room rates nationally and within Dublin have strengthened in recent years, as demonstrated in the following chart, they are only now reaching the historical high levels that were achieved in 2007.



Source: Crowe Horwath Hotel Industry Surveys 2008-2016

The VAT rate that applies to the tourism sector is a key part of the investment equation, especially for international investors. Increases to the 9% VAT applied could have negative impacts on inbound investment in future Hotel & Leisure projects. This investment is critical for improving the country's tourism offering, maintaining competitiveness and ensuring sustained growth in the sector.

As demonstrated by the economic downturn, financial uncertainty combined with unfavourable tax environments, will influence tourism operators to withhold investment in their products and services.

A high level of investment in the sector can contribute indirectly to growth and jobs in related sectors of the economy.

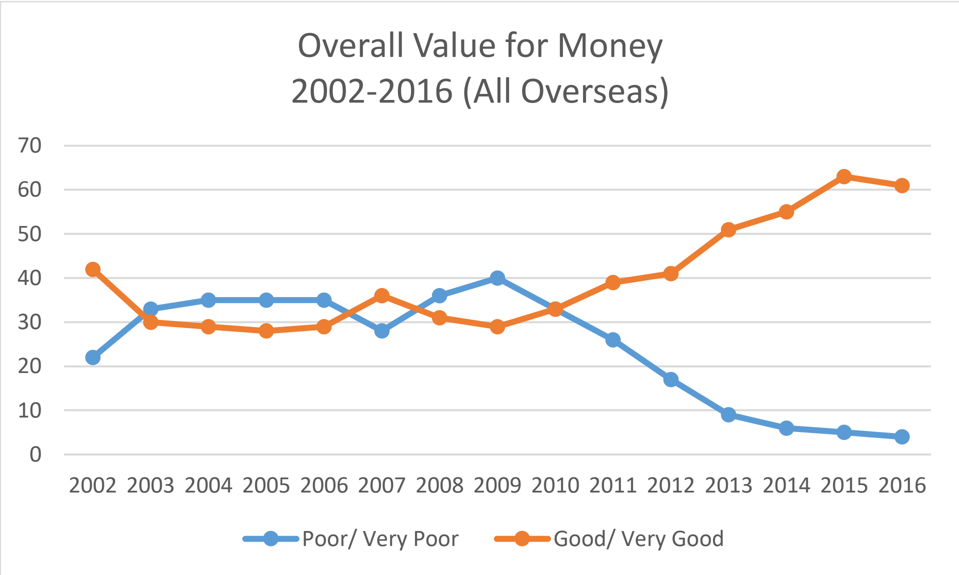
9. Value for Money

There have been significant improvements in the value for money (VFM) rating of the Irish tourism product over recent years.

This improvement in VFM has been largely brought about by an agile, competitive tourism industry and the reduction in the VAT rate.

In the main, overseas tourists continue to see Ireland as offering good value for money as reflected in annual Fáilte Ireland visitor satisfaction surveys.

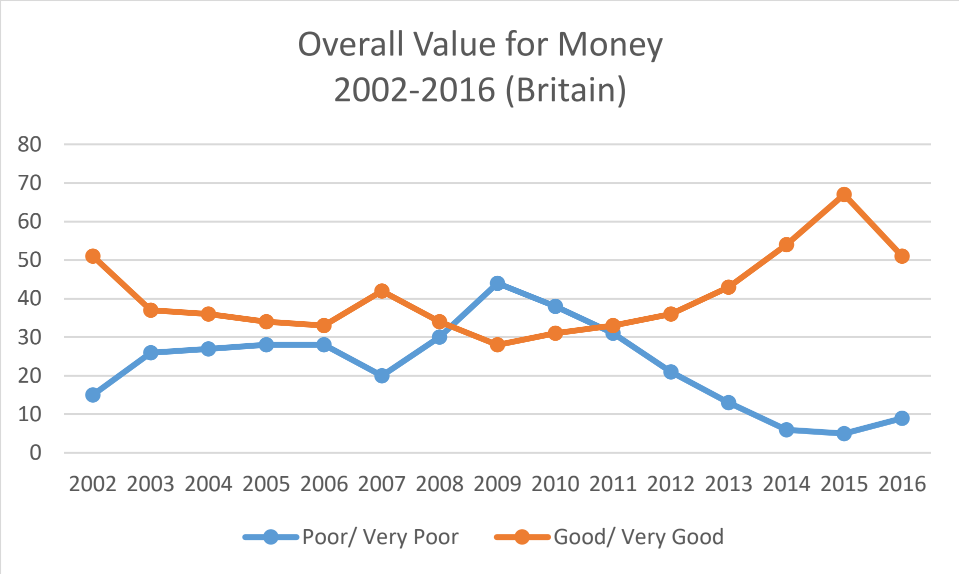
As illustrated in the following table during the period 2002 to 2010, on average 33% of overseas visitors indicated that they found value for money to be poor/ very poor.



Source: Fáilte Ireland

There were notable falls in this figure during the period 2011 to 2016 with corresponding increases in the good and very good ratings given. Only 4% of visitors surveyed as part of the 2016 survey indicated that they found value for money to be poor or very poor.

Improving visitor satisfaction is a key pillar of the Department of Transport Tourism and Sport's current tourism policy. While the figures contained in recent visitor satisfaction surveys confirms that overall visitor satisfaction levels remain high, as illustrated in the following chart, there has been a notable fall in the number of British holidaymakers who would describe Ireland as good value - down from 67% in 2015 to 51% in 2016.



Undoubtedly the weaker pound has played a role on British visitor's perceptions of Ireland as a holiday destination. However, as long as sterling remains weak, this will continue to pose challenges and is likely to continue to adversely impact on the VFM ratings from UK visitors.

While the primary responsibility to offer good value and service, will rest with the tourism sector itself, the government can and should show its continued support for the sector by maintaining the 9% VAT rate. Any increase in the Vat rate is likely to damage Ireland's value for money ratings.

10. Conclusion

Since the introduction of the reduced 9% VAT rate for tourism goods and services in July 2011, there has been a notable increase in overseas visitor numbers, significant employment gains in the sector, and Ireland's value for money ratings have improved considerably.

While not all the above can be attributed exclusively to the 9% VAT rate, it has clearly contributed to overall improvements in the competitiveness of the sector, and its success and positive impact have been widely recognised, both nationally and internationally.

With clear evidence of a sustained recovery in the tourism and hospitality sector, the challenges posed by Brexit should not be underestimated and it would be unwise to assume that the 9% VAT rate has served its purpose and should now be reversed.

The Programme for a Partnership Government, published in May 2016, commits to working towards achieving the ambitious tourism policy goals set for 2025 of growing employment in the tourism and hospitality sector and increasing the number of visits to Ireland through specific measures such as "the retention of the hugely successful 9 percent VAT rate on tourism and hospitality related services".

Reversing the lower VAT rate, will adversely impact on public and private sector efforts to continue to grow the sector. It will impact on competitiveness, while the temporary nature of the measure will continue to create investor and operator uncertainty in the market.

Since the introduction of the 9% VAT rate, the number of people employed throughout Ireland's tourism industry has increased by approximately 56,700 to 228,000 people, with Ireland well on track to achieving targets set to increase employment in the sector to 250,000 by 2025.

In the context of boosting employment and economic activity throughout the regions, ensuring the on-going health and prosperity of the tourism sector is vital. The retention of the reduced VAT rate can contribute to the realisation of these objectives.

Total tourism revenue (overseas earning and the domestic market) has increased from €5.16 billion in 2011 to €8.3 billion in 2016, an increase of 61% over the period. Fáilte Ireland estimate that for every €1 of tourist expenditure, approximately 23c is generated in tax revenue for the exchequer. This would imply that since the introduction of the 9% VAT rate, the value of tourism related tax receipts to the Exchequer has increased from €1.265 billion in 2011 to €1.91 billion in 2016, an increase of 51%. In 2016 an additional €646 million was collected in direct tourism tax receipts than in 2011 when the Vat rate was higher.

There have been significant gains in Ireland's international competitiveness and value for money proposition within our key source markets since the introduction of the reduced VAT rate. However, there is now some evidence to suggest that this may be deteriorating, particularly in the UK our key source market for overseas visitors.

Tourism is a continuously growing industry domestically and internationally. The retention of the 9% VAT rate is essential to ensuring that Ireland maintains its competitiveness within a European and global tourism market and in order to sustain and build on recent growth in international tourist arrivals and receipts.

Appendix 1

Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016)

Analysis by Restaurants Association of Ireland

	Number of Direct Jobs Created	Number of Indirect Jobs Created	Total Increase	Social Welfare from Direct Employment	Payroll Tax Receipts from Direct Employment
National	**33,600**	**15,456**	**49,056**	**€672m**	**€160m**
Carlow	415	191	605	€8.3m	€1.9m
Cavan	538	247	785	€10.7m	€2.6m
Clare	931	428	1,359	€18.6m	€4.4m
Cork	3,785	1,741	5,526	€75.7m	€18m
Donegal	1,165	536	1,701	€23.3m	€5.5m
Dublin	9,250	4,255	13,505	€185m	€44m
Galway	1,894	871	2,765	€37.9m	€9m
Kerry	1,110	510	1,620	€22.2m	€5.3m
Kildare	1,568	722	2,290	€31m	€7.5m
Kilkenny	728	335	1,063	€14.6m	€3.5m
Laois	651	299	950	€13m	€3.1m
Leitrim	247	113	360	€4.9m	€1.2m
Limerick	1,434	660	2,094	€28.7m	€6.8m
Longford	212	97	309	€4.2m	€1m
Louth	930	428	1,358	€18.6m	€4.4m
Mayo	884	406	1,290	€17.7m	€4.2m
Meath	1,333	613	1,946	€26.6m	€6.3m
Monaghan	414	190	604	€8.3m	€2m
Offaly	606	279	884	€12.1m	€2.9m
Roscommon	470	216	686	€9.4m	€2.2m
Sligo	436	201	635	€8.7m	€2.1m
Tipperary	1,056	486	1,542	€21.1m	€5m
Waterford	863	397	1,260	€17.3m	€4.1m
Westmeath	661	304	965	€13.2m	€3.1m
Wexford	1,110	510	1,620	€22.2m	€5.3m
Wicklow	1,031	474	1,505	€20.6m	€4.9m