Budget 2023
Tourism's submission

Retaining competitiveness and maintaining investment to enable Ireland's tourism industry to recover and deliver regional economic balance, exchequer receipts and employment.

July 28th 2022

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Introduction

Budget 2023, which is scheduled to take place on September 27th, is of critical importance to Ireland's tourism industry. Covid-19 cost Irish tourism over €12 billion during a 2-year period as international visitors, the mainstay of the industry, were prevented from coming to our shores. Blinking - bruised and battered - from the pandemic, the 20,000 businesses within Ireland's tourism and hospitality industry had been kept alive thanks to Government financial assistance and staycation demand from the domestic market.

However, since March when travel, tourism and hospitality was finally allowed reopen, the sector has rebounded strongly. Indeed, recovery has happened at a far quicker pace than many had forecast. Figures by the Irish Tourism Industry Confederation (ITIC) point to the volume of international visitors in June being down only 13% compared to the record high for the same month back in 2019. However strong demand has meant supply has struggled to keep apace across a number of areas including labour, accommodation and car hire. With inflationary cost increases, and supply shortages, prices have risen within Irish tourism and the industry must closely guard its value for money proposition.

Pent-up demand, deferred bookings and accumulated savings have all added to a strong demand recovery this year but industry leaders are worried about a much softer 2023 as inflation and interest rate hikes take hold and geopolitical uncertainty continues.

Budget 2023 represents a key juncture for Irish tourism which is the country's largest indigenous industry and biggest regional employer with 7 out of 10 jobs outside of Dublin. The industry is also a key export sector as 75% of the tourism economy is made up of international visitation.

Earlier this month the Government announced its Summer Economic Statement which signalled that Budget 2023 will include a tax & spend package of €6.7 billion. Additional expenditure will amount to €5.6 billion with tax adjustments of €1.1 billion. Despite the macroeconomic situation worsening, and inflation at 9.6% in June, this will be an expansive budget with spending increasing by 6.5%.

This year saw record Government investment in tourism services of €288 million (of which 84% is current funding) and this needs to be maintained particularly in the area of overseas marketing which will be crucial next year when demand will need to be stimulated and media cost-inflation overcome. Sustainability grants direct to business will be essential to enable a willing industry play its part in climate change commitments. Any themed year such as *The Invitation* or indeed a return of the *Taste the Island* initiative would both be welcome but must be funded with additional budget allocation.

It is important for Irish tourism's continued recovery that pro-tourism policies remain in place following Budget 2023, On the competitiveness front, with other business costs soaring, it is critical that the 9% tourism VAT rate is retained beyond February 28th 2023 when it is due revert to 13.5%. A VAT rate of 9% puts Ireland on an even keel with its European peers; to increase it would not only damage our competitiveness but also add to industry's cost base, depress demand, and risk further value erosion. Supply alleviation policies should also be pursued to increase fleets of car rental and to bring new labour resources to the market. There also needs to be a continued focus on connectivity and aviation which is as always of fundamental importance to Irish tourism.

In short ITIC's 5 key budget asks are:

- **Support competitiveness and retention of the 9% VAT rate** until full recovery is secured

- **Maintain tourism investment** to support marketing of Ireland, sustainability grants for industry, digitisation initiatives, tourism career promotion and business supports

- **Car hire supply to be increased** by restoration of repayment of VAT on VRT

- **Labour shortfalls to be addressed** by enhancing career awareness, and recruiting from overseas including expediting non-EU work permits for key roles

- **Regional connectivity supported** and Sustainable Aviation Fuel (SAF) incentives to be put in place

These 5 measures have been adopted by ITIC's Council of members which includes all the key stakeholders within Irish tourism and hospitality, a listing of which are included in Appendix 1 on page 20. Further information of each of the 5 asks is outlined within this submission as are a number of pro-competitiveness measures which are of critical importance to Ireland's tourism industry.

The full recovery of Irish tourism is of immense importance to the Irish economy. Pre-pandemic the industry employed 270,000 people, was worth €9.5 billion annually to the economy, and over €2 billion was returned to the exchequer in direct tourism-related taxes. ITIC and its members are determined that Irish tourism fully recovers and Budget 2023 is a key staging post on this journey.

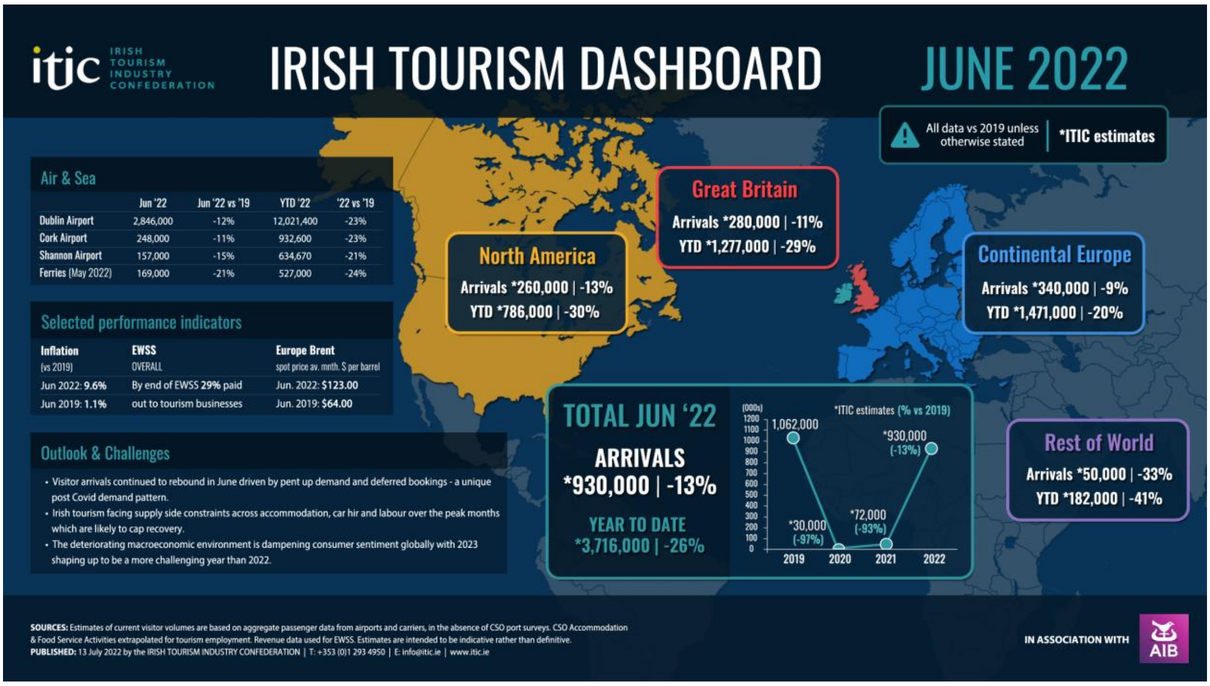
Industry performance and outlook

Demand for international travel has been on an upward trajectory with the progressive lifting of Covid travel restrictions over the past six months. The resurgence of demand has been most evident within Europe and North America, while recovery in Asia-Pacific source markets is lagging the rest of the world.

The number of intra-European flights in June reached 90% of 2019 levels, ahead of Eurocontrol's optimistic forecast, bringing year to date traffic to close to 80% of pre-pandemic levels. Within the market LCCs (Low Cost Carriers) have been especially aggressive in restoring capacity. Ryanair, the market leader, reported its best month ever in June carrying 15.9 million passengers, 12% ahead of the same month in 2019, achieving a load factor of 95% across its network. Airline capacity between North America and Europe is currently at 85% of 2019 summer levels.

A rapid reinstatement of airline routes and capacities has been a major driver of recovery of travel into and out of Ireland in 2022. The competitive positioning of Ireland is considerably enhanced by the presence of two home based airlines – Aer Lingus and Ryanair – together with the services of all the major European, North American and Middle Eastern network carriers. Capacity on offer during the peak months this year is close to 90% of 2019 levels. Dublin Airport's direct worldwide connectivity has been restored to 93% of pre-pandemic levels thanks to the incentives provided by Government, with Ireland's main gateway improving its connectivity ranking within Europe from 20th to 14th.

ITIC's most recent monthly dashboard shows that June 2022 compared to June 2019 was -13% in arrivals and -26% year to date.



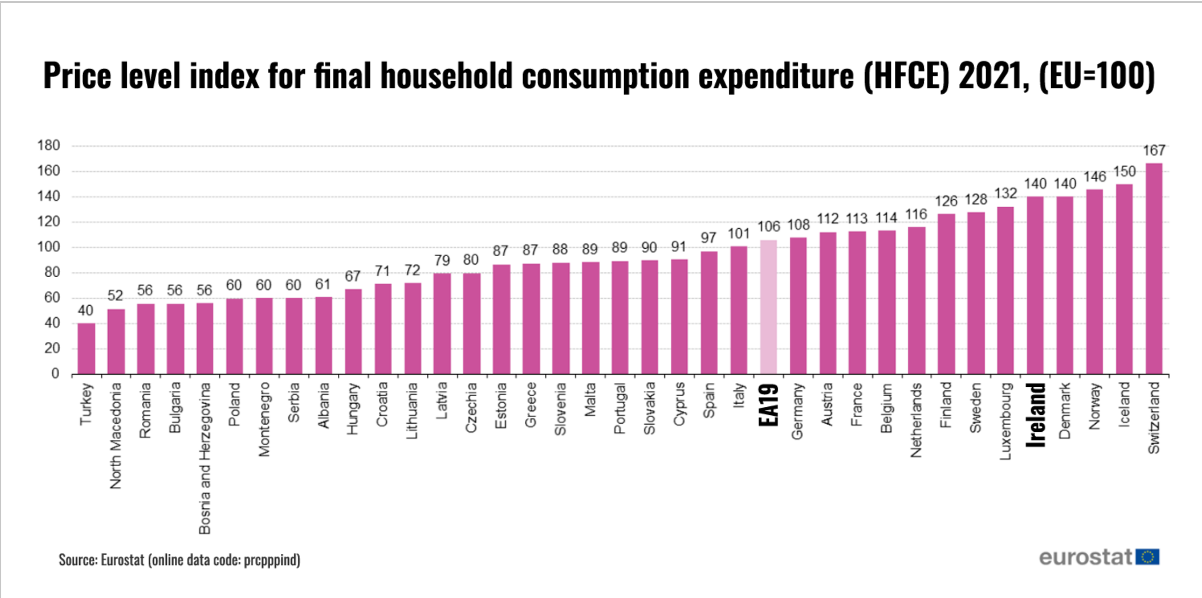
ITIC estimate that visitor arrivals for the full 2022 calendar year are projected to reach around two thirds of 2019 levels – close to 6 million visitors in this very untypical year of demand. Unfortunately, the level of tourism earnings for the year is difficult to project at this point in the absence of CSO surveys.

While demand is proving to be buoyant so far this year, the unique post Covid circumstances and the composition of demand, the performance to date is unlikely to form the basis of a linear progression of growth into 2023 and beyond. The worsening economic conditions and the threat of a new Covid variant threaten future recovery, with ITIC not expecting to see full recovery to 2019 visitor volumes until 2026.

A high-cost economy in which to operate a tourism business

Ireland is a high-cost economy, with the cost of doing business here higher than in many of our European neighbours. As a tourist destination Ireland has positioned itself as a value experience rather than an inexpensive destination with close to 60% of holiday visitors consistently rating their experience as 'good or very good' value for money in recent years.

Ireland, along with Denmark, was the most expensive country to live in across the EU in 2021. Consumer costs in Ireland were 40% above the EU average. Only Switzerland, Iceland and Norway had a higher cost of living.

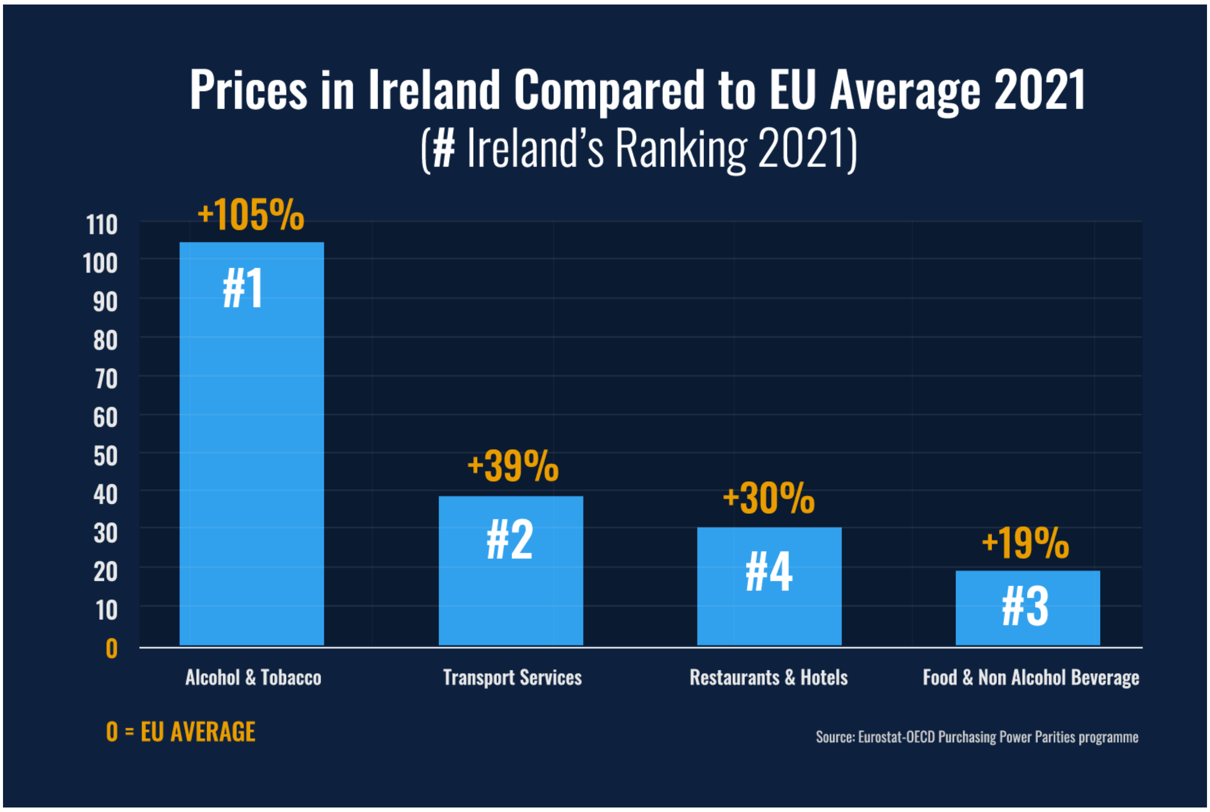


The EU Harmonized Index of Consumer Prices shows that the national annual rate of inflation in Ireland has outpaced the rate of increase in most other EU states. Ten years ago prices in Ireland were 18% above the EU with the cost of living the fifth highest in the EU after Denmark, Finland, Luxembourg and Sweden.

Latest estimate show that the annual rate of inflation in Ireland rose to 9.6% in June, higher than many forecasts and exceeding the 8.6% rise across the Eurozone. Energy cost inflation accelerated to 41.9% in June compared to 39.1% in May, the single greatest component in the rise in inflation, while food prices are estimated to have risen by 8.9%, up from 7.5% in May. (Eurostat 01 July 2022)

Typically almost 80% of the expenditure by tourists in Ireland is on accommodation, food and drink, and internal transport. Ireland is ranked in the top 5 most expensive destinations in Europe for the main items consumed by visitors.

Hotel and restaurant prices in Ireland were found to be 25% above the average across the Eurozone; alcoholic beverages and tobacco prices almost double; and transport services at third more expensive. Compared to the UK, Ireland's main competitor in most source markets, prices of holiday components of accommodation, food and drink in Ireland were at between 23% and 30% higher.



Business input costs determine the price to the visitor

Hospitality and tourism businesses face cost of inputs significantly above the EU average. These include labour, energy, food and drink supplies, insurance, and communications. The already high input costs are currently under further pressure from rising inflation. Should the rate of inflation in Ireland exceed the rate in other European countries the tourism offering here will become less competitive.

Higher costs in a tightening labour market

Tourism and hospitality is a labour intensive business, with the quality of personal service a key value.

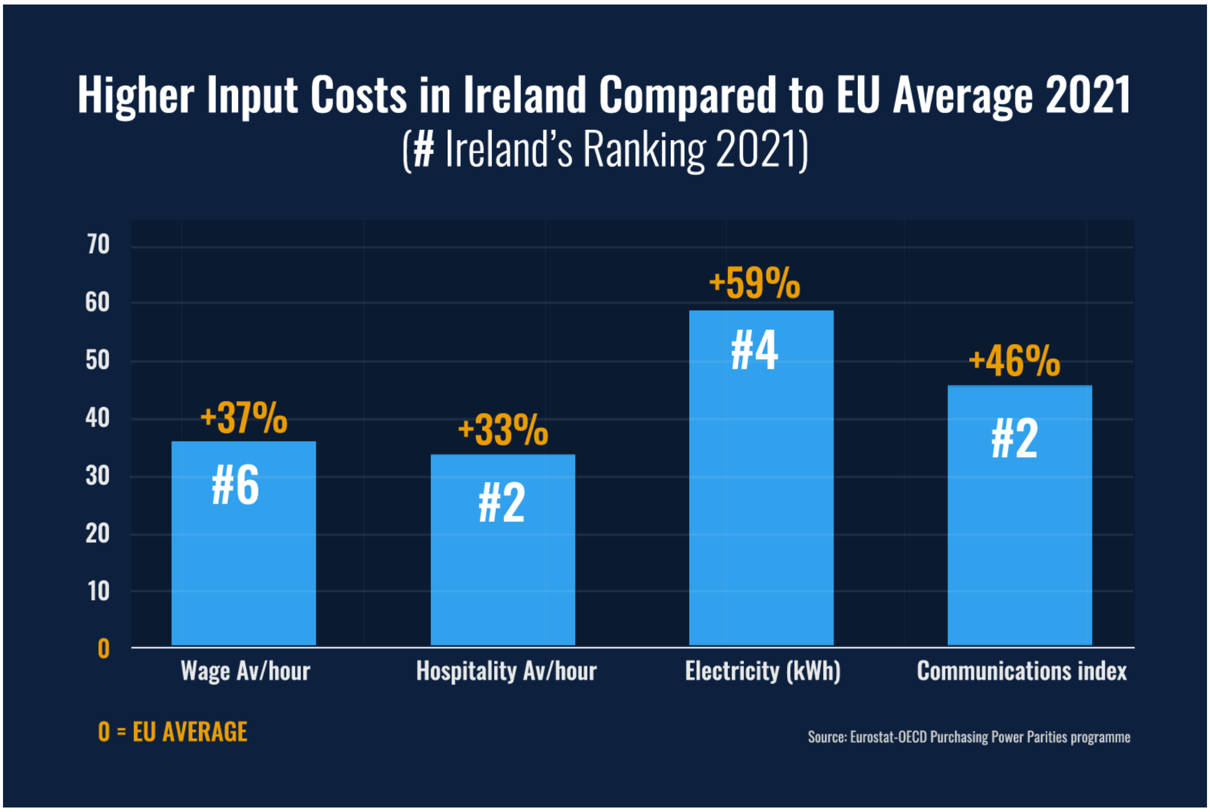
Labour costs in Ireland have tended to be higher than in many other European states. The minimum wage at €10.50 per hour, 77% above the EU average, is the second highest in Europe. Within the accommodation and food service sector the average hourly wage at €17.60 per hour, is one third higher than the EU average.

The industry has lost large numbers of personnel following the enforced closure of businesses over the past two years. Over the period many moved to other sectors of the economy as well as international staff returning to their home countries. This exodus exacerbated the pre-pandemic skills shortage within the sector. The speed of the recovery of demand has highlighted the labour shortages. Even before full reopening 88% of businesses reported difficulty in recruiting new personnel, with just over two thirds experiencing difficulty in rehiring staff. (Source: Failte Ireland survey July 2021).

With employment in the country at an all time high, with 2.5 million people at work and just under 130,000 registered as unemployed, the recruitment situation has become more acute. Fáilte Ireland estimate that the number of job openings in the tourism and hospitality industry is at 40,000.

The staffing shortages have resulted in considerable stress on meeting demand in 2022. Despite businesses investing in recruitment and training, realignment of working hours, and increasing rates of pay, many operations have been forced to reduce trading – a cut in opening hours or a reduction in capacity on offer. In extreme instances it has resulted in some business closures. From a customer perspective the result has been a reduction in choice and/or the quality of the experience. This coupled with higher prices runs the risk of serious longer term reputational damage.

With unemployment expected to reduce further by year end to 4%, the industry is facing an enormous challenge, with upward pressure on wages inevitable and the risk of a further deterioration in the already critical skills levels.



Rising utilities, insurance, communication, and sustainability costs

Energy prices rose across the globe as the world bounced back from the pandemic have been exacerbated by supply issues following the invasion of Ukraine. Ireland has always been one of the costliest countries in Europe for energy. Electricity rates for businesses rose sharply in the latter part of 2021 to reach €1.23 per kWh, 60% above the EU average. Given Ireland's reliance on natural gas for power – in the top three in Europe – it can be anticipated that prices may rise faster than in many other European countries. The rate of increases in energy costs, which have yet to fully reflect the impact of supply issues as a consequence of the conflict in Ukraine, have a significant bearing on the cost inputs for businesses in the tourism and hospitality sector. From a visitor perspective Ireland as a touring destination – with almost 50% of holiday visitors are mobile in cars and coaches – will see prices increase at the pump.

High cost of food and drink

Alcoholic beverages: High excise duty puts Ireland at the second highest priced country in Europe for beer and spirits, and the highest for wine.

Food costs: Producer prices have increased rapidly over the 12 months to May 2022, with a 37% increase across dairy products; while meat and fish increased by 17% and 8% respectively.

Visitors have consistently quoted the higher price of food and drink, compared to their home country, as impacting their evaluation of value for money spent on their holiday here.

VAT

With the reduced tourism VAT rate of 9% scheduled to revert to 13.5% in February 2023, Ireland will be amongst the top rate for visitors on accommodation and food across Europe. At 13.5% Ireland with a higher tourism Vat rate than all EU countries with the exception of Denmark. This would significantly damage Ireland competitiveness at a time when inflation on key visitor components would be further disadvantage.

Availability and cost of insurance a particular challenge for hospitality and tourism businesses

The Alliance for Insurance Reform has identified 20 business subsectors catering to tourists which struggle to get cover or are reduced to one underwriter with an effective monopolist's hold over the sector. Despite recent reforms in the insurance sector, annual premium for liability coverage continue to increase by upwards of 16% per annum. Lack of competition in the market has been identified as the prime cause of higher premium costs compared to what is on offer in other European destinations. The situation in Ireland has forced the closure of several businesses and events over recent years.

Precarious financial health of the sector

Tourism businesses, together with arts and entertainment, were closed for longer than other sectors of the economy due to Covid restrictions on trading. Survival was possible only as a result of a heavy reliance on Government supports, use of cash reserves, and availing of loan repayment breaks. Most businesses emerged in 2022 from the brink of financial collapse with significantly weakened balance sheets. Businesses in the accommodation and food sector relied more heavily on Revenue's tax warehousing scheme with almost two out of every three (63%) eligible enterprises deferring over €40m of taxes. Many of these businesses still have a debt overhang with over 60% unpaid, in part or in full, as of March 2022.

Borrowing costs in Ireland are the 2nd highest in the EU, reflecting size of market, legal, regulatory and legacy issues, a situation that is unlikely to change as interest rates rise over the coming months. The above factors, together with a decline in recent years of new lending to the sector, puts the future of the sector at risk and has serious longer term implications for investment to deliver a quality experience to meet visitor expectations and to ensure that Ireland remains competitive.

Unique supply side pressures in 2022

Demand has exceeded expectation, including a high level of deferred bookings, with Dublin experiencing a period of exceptional post Covid demand as events resume at a time when hotel capacity is reduced due to the Ukraine crisis.

Hotel reduced capacity and higher prices

Price of available hotel accommodation in Ireland is impacted by inflation on cost inputs coupled with a shortage of hotel rooms to meet demand in selected locations and dates. Hotel stock is down by an estimated 15% on pre-pandemic levels as a result of rooms contracted by Government to accommodate people fleeing from Ukraine and asylum seekers. The impact on guest accommodation stock is most marked in Dublin and other selected tourist areas including counties Clare and Kerry.

Despite media headlines of sky high hotel prices, the average cost of Irish hotels has risen by circa 20% according to global analytics firm STR. This is chiefly driven by escalating costs of business. In a small minority of cases excessive prices are being quoted for last available rooms but this is not reflective of the overall industry.

Dalata- Ireland's largest hotel operator – reported RevPAR in its Dublin and rest of the country properties for May-June expected to be 18% and 27%, respectively, ahead of the same period in 2019. Dalata reported that their Average Room Rate was €160 for Q2.

Car Hire

Limited availability of rental cars and inevitable increase hire costs as demand exceeds supply is not unique to Ireland. The cost of renting a car in European holiday destinations has almost doubled compared to 2019, with experts predicting that prices will remain high due to a global shortage of new vehicles which could continue for a number of years. It is estimated that the summer car hire fleet in Ireland is down by at least 50% below the 2019 level. The sector's higher costs structure in Ireland, due to higher taxation on vehicles, exacerbates its competitive disadvantage in a time of recovery of demand.

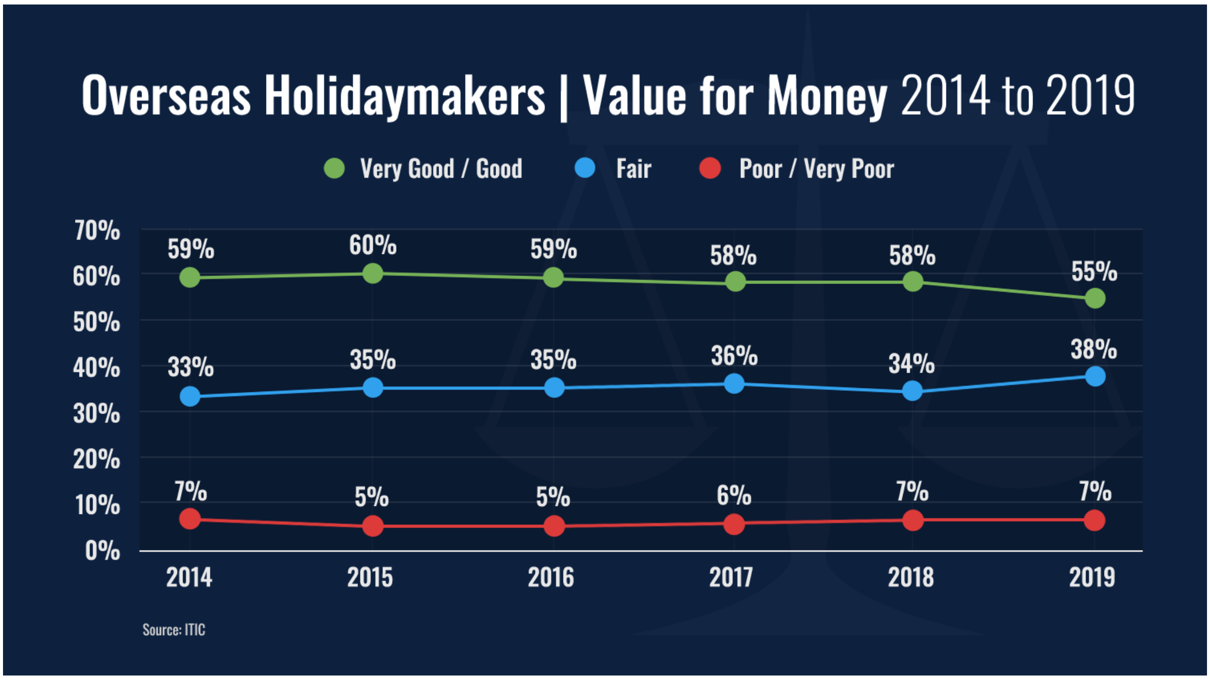
As a consequence, the price of car rental in Ireland this summer is an outlier compared to competitor destinations across Europe. There is a real risk that Irish holiday bookings are not materialising due to the excessive cost of car rental. This will have a particularly negative impact on regional Ireland.

Ireland at risk of losing value proposition

Pre-pandemic over half of holiday visitors (55%) reported that the value for money was 'good or very good', with only 7% judging the experience 'poor' value for money.

The extent of the price hikes been sought by a minority of hoteliers and car rental firms in a tight demand versus supply situation in 2022, most particularly in Dublin, has generated significant adverse publicity abroad putting at risk Ireland's reputation as a good value destination.

As cost inputs increase at a rate faster than those in competitor destinations Ireland's price competitiveness disimproves. The industry needs to guard against the consequences of a repeat of the rapid price increases seen during the Celtic Tiger years. Ireland's value for money rating deteriorated sharply from 2000, with two out of five (41%) of holiday visitors rating their experience as 'poor or very poor' value for money in 2007. As a consequence, when the global financial crisis hit in 2008, seriously dampening demand for travel, Ireland's tourism suffered from a deeper fall off in demand and a longer period of recovery – up to seven years – compared to other European destinations. Key Government action, including the introduction of the 9% VAT rate, contributed significantly to restoring Ireland's competitiveness. By 2013 only 13% rated Ireland as poor value, which improved further averaging close to 7% annually over the five year up to 2019, the last available year for which there is data.



Tourism competitiveness is a complex concept for any destination. In essence, it is about Ireland's ability to optimise its attractiveness and win market share by delivering a visitor experience which meets market expectations and provides good value for money while improving the sustainability of the destination and its people. The key fundamentals are quality of appeal and experience coupled with good visitor experience and value for money. The most obvious components from an economic and business perspective are the cost and efficiency of production of the experience and the visitor's assessment of the price value equation.

The shortages in labour, and the reported significant price increases in some sectors of the industry, have the potential to impact the quality of the visitor experience and inflict longer term reputational damage, thereby threatening the sustainability of Ireland's largest indigenous sector of the economy.

Consumer sentiment – a current snapshot

The war in Ukraine and especially high inflation are weighing heavily on consumer sentiment. As a result of weak economic and income expectation, consumer propensity to spend is showing signs of being subdued. High energy and food costs coupled with increased interest rates, are resulting in less money available for discretionary purchases, including travel.

***UK*:** Consumer confidence hit a new low in May 2022, surpassing the previous record low in July 2008 amid the global banking crisis. UK inflation surged to 30 year high of 9% in April. With the rise in prices outpacing wage increases, together with the threat of industrial strikes, the UK consumer confidence index decreased in June, the lowest since records began in 1974. (GfK)

***USA**:* Consumer sentiment fell sharply to a record low in June, well below market expectation, as consumers' assessment of their financial situation worsened, mostly attributed to inflation. (Michigan Consumer Sentiment Index).

***Germany**:* While consumer climate improved slightly in May and expected to do so again in June, consumer sentiment is still at an all-time low. (GfK Consumer Climate Study).

***France**:* Consumer confidence edged further downwards in May, the lowest reading since 2014 as consumers became more pessimistic regarding the standard of living for the next 12 months. (INSEE)

***Domestic tourism**:* While Irish consumer sentiment improved slightly to 57.7 in June after a rare four months of decline but remained far short of the 2022 high of 81.9 in January, according to the KBC Bank of Ireland index. A tightening economic outlook is likely to depress demand for discretionary spending on domestic leisure trips.

Just over half (52%) of respondents across Ireland's top source markets cited concern about cost of living increases as most likely to influence their decision on taking a holiday, with potential visitors from Britain and France being most sensitive about rising costs and diminishing disposable income which could prevent one in four from travelling. For Americans the greater influence is the conflict in the Ukraine, which could impede travel for one in five. A key finding from the research is that two in five holidaymakers agree that the rising cost of living could force them to defer trips. "*The findings suggest that value for money will be really important for travel as the year progresses, with consumers keeping a tighter eye on their spending*". [Source: Tourism Ireland commissioned research amongst 1,000 outbound holidaymakers in Britain, the United States, Germany and France conducted in April 2022]

Building Back Better: 9 Recommendations

Competitiveness measures to support Irish tourism

Sustainable recovery of tourism will depend on instituting additional policy measures to enable improved competitiveness and building resilience within the sector. ITIC propose the following actions:

- *Retain tourism VAT at 9% until full recovery secured*

Given the high-cost structure the reduced VAT level for the tourism and hospitality sector has proven to be a key component of improving Ireland's competitiveness. The intervention has proven to have contributed to improving Ireland's competitiveness and needs to be maintained to keep Ireland on an even keel with its European peers. Retaining the 9% rate is also a policy position recently adopted by IBEC and PwC suggesting broad business support.

Furthermore, to stimulate demand, the 9% VAT rate should be extended to the full tourism business community including purpose-built conference venues, cruise boat rentals and tourism car hire.

- *Maintain tourism investment and strengthen coordination of public and private sector collaboration*

With news that Ireland's Budget will take place on the earlier date of 27th September there is heightened focus on Government's tax and spend plans. This month's Summer Economic Statement shows the forthcoming Budget will contain spending and tax measures equal to €6.7 billion with spending increasing by 6.5%.

ITIC is calling for the retention of tourism investment in the upcoming budget, such spending vital to stimulate demand in a softer year of 2023, to support business manage cost inflation, and to assist the industry in meeting its sustainability commitments.

A whole of Government approach working with the sector is needed to ensure that appropriate enabling policies, investment and regulations are in place to help to deliver distinctive value propositions.

- *Sustainability supports*

A tailored suite of training, mentoring and financial supports is required for tourism companies to reduce their carbon footprint and ensure the sector plays its part in reaching Ireland's target to reduce greenhouse gas emissions by 51% by 2030. The range of Government supports currently available to manufacturing and agri-food enterprises needs to be extended to tourism businesses, including the recently announced Green Transition Fund to entice business away from fossil fuels.

- *Initiatives to meet labour shortages*

A tightening labour market threatens the ability of the sector to deliver the visitor experience at an acceptable standard. Since pre-pandemic years the tourism and hospitality sector have struggled to fill positions in certain functions and skills, a situation has been exacerbated by the pandemic. In addition to the campaign to promote careers in the sector there is an urgent need to amend the regulatory environment to allow businesses to recruit overseas staff where a proven shortage of skills has been identified.

In addition, continued investment in training and upskilling is required to provide career stability and retain staff for the long-term.

- *Addressing tourism accommodation capacity*

As outlined within this submission there is an acute shortage of tourism accommodation. At least 15% of hotel stock has been contracted by Government for humanitarian uses and this can only be a short-term solution with more appropriate accommodation found for refugees and asylum seekers. With this hotel stock re-introduced into the tourism equation, allied with the circa 3,000 new bedrooms currently under construction, supply should increase significantly thereby moderating price and delivering better value to the consumer.

The self-catering sector is an important one for Irish tourism with strong regional penetration. A register of this important tourism accommodation segment needs to be expedited and properties exempted from the requirements of the recent Planning & Development Bill.

- *Increase pace of insurance reform*

Securing affordable liability insurance continues to be an issue for tourism and hospitality businesses. While the recently enacted judicial guidelines have begun to show a reduction in private motor insurance premiums, other pending reforms are awaited to deliver a more balanced risk based cost of premium. The Alliance for Insurance Reform has identified 20 business subsectors catering to tourists which struggle to get cover or are reduced to one underwriter with an effective monopolist's hold over the sector. The Government is urged to improve the pace of reform and actively work to attract new international entrants into the market to provide a more competitive marketplace.

- *Enhancing the tourism retail offering to GB visitors*

Following Brexit tourists from Britain were automatically allowed participate in an EU wide scheme that allows non-EU tourists visit and shop tax free for goods they bring home at the end of their holiday. Tourists from Northern Ireland have been excluded from this shopping scheme as goods in Northern Ireland continue to be treated under EU VAT rules.

The addition of these millions of new potential tax free shoppers, located on Europe's doorstep, has been warmly received across Europe. The main countries that benefit from tourists from Great Britain have all opened their tax free shopping schemes without restriction with significant marketing initiatives generated to encourage tourism from Great Britain.

The impact of this is that shoppers from Great Britain are already the second highest tax free spenders in Europe averaging €1,167 per retail transaction. This strong recovering travel and spend is resulting in VAT savings being made by shoppers that is then freeing up spend into other areas – hotel, car hire, restaurants etc.

Ireland however is the only EU State that has introduced restrictions on tourist spend in this time, particularly for tourists from Great Britain. Where competitor European countries are seeing retail spend from British visitors increase dramatically, Ireland is seeing the opposite trend. Due to the restrictions Ireland is seen as a considerably less attractive position for tourists from Great Britain considering a holiday location.

Having consulted with the industry we are aware that Ireland has equally strong controls in place, as our EU colleagues, to ensure regulations around the scheme are strongly controlled. ITIC recommend that Ireland embrace the opportunity for increased visitors from Britain by adopting a similar tax free shopping regime as other EU states have implemented, namely to remove restrictions and market Ireland as a retail tourism offering year round to Britons.

- *Increase supply in the Car Rental sector*

Under-resourced car rental companies will have to rebuild their capital base and it will take time for car rental companies to build car stocks back up to pre-pandemic levels. While not a silver bullet for this year the restoration of VAT relief on VRT on short-term car rental would help with to incentivise a fleet rebuilding programme.

- *Invest in data, research and analytics*

As tourism faces into a challenging period there is a need to invest in technologies and strengthen the sector's capacity in data collection, dissemination, and market research to monitor performance, economic impacts, while identifying opportunities, risks and vulnerabilities. Timely insights on demand trends and visitor behaviours is essential for good business planning.

The CSO must re-activate port surveys and start reporting promptly on tourism's performance, bank and mobile phone data should be collated, anonymised and interrogated, and a Tourism Satellite Account that the Department has committed to should be delivered.

ITIC's 5 key budget asks

ITIC, representing the broad tourism and hospitality sector in Ireland across the public and private sectors, has had a number of Council meetings and the following 5 key asks are made in relation to Budget 2023:

- **Support competitiveness and retention of the 9% VAT rate** until full recovery is secured

A number of competitiveness measures are outlined in this submission and should be enacted to support the sector's full recovery.

A mature and measured approach needs to be taken in relation to the 9% tourism VAT rate. It is due to be increased to 13.5% next February, a move which the tourism industry is set against. A VAT rate of 9% puts Ireland on an even keel with its European peers; to increase it would not only damage our competitiveness but also add to industry's cost base, depress demand, and risk further value erosion. If Government is serious about curbing inflation it should leave the tourism VAT rate unchanged. To increase it by 50% is heaping fuel on the inflationary fire.

ITIC has long held the view that VAT at 9% should be retained until full tourism recovery is secured and only reviewed at that point.

- **Maintain tourism investment** to support marketing of Ireland, sustainability grants for industry, digitisation initiatives, promotion of tourism as a career and business supports

Now is not the time to pull support from the tourism sector by cutting back on its budget. As outlined in this submission 2022 is a unique post-Covid year affected by pent-up demand, deferred bookings and accumulated consumer savings. Q3 and Q4 of 2022 and into 2023 are likely to be far softer, particularly as inflation is set to be embedded and Central Bank interest rates are on the rise. The continued energy crisis will have a disproportionate effect on Ireland's tourism industry and the geo-political uncertainty caused by Russia's invasion of Ukraine risks spooking traveller confidence.

Thus Tourism's Budget of circa €288m should be maintained with current budgets allocated to overseas marketing, sustainability grants, digitisation of the industry, promotion of tourism as a career, and business supports.

On sustainability ITIC has led the way on this and the industry is very committed to delivering its full part in the climate change challenge. The industry produced a seminal report in April - https://www.itic.ie/RECOVERY/sustainable-tourism/ - which outlined a number of recommendations to enable industry. Key to this is sustainability grants to allow industry become more carbon-neutral. The range of Government supports currently available to manufacturing and agri-food enterprises needs to be extended to tourism businesses, including the recently announced Green Transition Fund to entice business away from fossil fuels.

- **Car hire rental supply to be increased** by reintroducing VAT relief on VRT

Car hire is of particular importance to regional Ireland. In 2019, the last available year with data, 40% of all holidaymakers hired a car which they used to tour the regions. A lack of car hire fleet has a material impact on regional tourism penetration. It is estimated that the fleet of cars available for rent by tourists has fallen by 50% as a direct result of the pandemic.

Under-resourced car rental companies have to rebuild their capital base and it will take time for car rental companies to build car stocks back up to pre-pandemic levels. The re-introduction of VAT relief on VRT on short-term car rental would help to incentivise a fleet rebuilding programme which is critical to increasing supply.

- **Labour shortfalls to be addressed** by enhancing career awareness, and recruiting from overseas including expediting non-EU work permits for key roles

This is a key area of concern for Irish tourism with latest Fáilte Ireland estimates pointing to 40,000 vacancies within the sector and industry struggling to recruit. Career promotion budgets need to be enhanced, apprenticeship schemes ramped up, and recruitment drives will be needed both within the EU and outside the EU. For the latter category work permits and visas will need to be expedited, the pace of processing now stands at circa 8 weeks, an improvement but still twice the time of other European countries.

- **Regional connectivity supported** and Sustainable Aviation Fuel (SAF) incentives to be put in place

Maintaining and growing international air connectivity is of fundamental importance and critical to the future success of tourism in Ireland. 75% of Ireland's tourism economy is made up of international visitation and as an island nation accessible and affordable air and sea access is vital.

ITIC has welcomed the commitments of the aviation and ferry industry in Ireland to achieving net zero carbon emissions by 2050. Recognising that new technology aircraft and cleaner fuels will be the key drivers to reach this goal, ITIC has outlined its strong support for greater use of Sustainable Aviation Fuel (SAF) as a key mitigation lever for the decarbonisation of aviation.

In ITIC's view Shannon and Cork Airports should be permanently admitted to an expanded Regional Airports Programme (RAP), encompassing all Irish regional airports. Such inclusion is provided for in EU frameworks, which permit State aid to airports processing less than 3 million passengers per annum. RAP funding is focused on safety and security related airport activities, and also supports sustainability/climate action objectives. It is also consistent with Ireland's balanced economic growth objective.

ITIC recommends:

- continuation of exchequer funding allocated for Regional Airport Programme 2021-25;
- extension of approval and budgets for Temporary Framework for State aid measures to support regional and state airports to secure recovery and expansion of connectivity.

The target for support would be the restoration to pre-Covid levels of connectivity for regional airports together with securing new route connections to mainland European hub airports. The support for state owned airports would allow for incentives or rebates for the reinstatement of suspended routes and expansion of connectivity.

Appendix 1

List of ITIC members:

Aer Lingus, Association of Irish Professional Conference Organisers (AIPCO), Approved Tourist Guides of Ireland (ATGI), Association of Visitor Experiences and Attractions (AVEA), B&B Ireland, Car Rental Council of Ireland, CIE Tours International, Coach Tourism & Transport Council (CTTC), Convention Centre Dublin, Do Dublin-Dublin Bus, Dublin Airport Authority, Emirates, Fáilte Ireland (Assoc Member), Guinness Storehouse, Heritage Island, House of Waterford Crystal, Incoming Tour Operators Association-Ireland (ITOA), Inland Fisheries Ireland, Ireland's Association for Adventure Travel (IAAT), Ireland's Blue Book, Irish Boat Rental Association (IBRA), Irish Caravan & Camping Council, Irish Ferries, Irish Heritage Trust, Irish Hotel Federation (IHF), Irish Rail, Irish Self Catering Federation (ISCF), Jameson Distillery Bow St, Kildare Village, Kerry Tourism Industry Federation, Office of Public Works (OPW), Planet Payments Ireland, Restaurants Association of Ireland (RAI), Select Ireland, Shannon Group plc, Stena Line, Tourism Ireland (Assoc Member), Trinity College Dublin, TU Dublin, Vintners' Federation of Ireland

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