Budget 2024
Tourism's submission

Securing a path to full recovery

Restoring competitiveness and maintaining investment to enable Ireland's tourism industry overcome challenges and achieve sustainable growth

July 13th 2023

Contents

Tourism's 5 Key Asks

The Irish Tourism Industry Confederation (ITIC), representing 20,000 tourism and hospitality businesses throughout Ireland, is calling for the following 5 decisions in Budget 2024 to support the country's largest indigenous industry and biggest regional employer. 70% of tourism and hospitality enterprises are found in regional Ireland and the industry is vital to the national economy.

More detail on each budget ask is contained throughout this submission.

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, Dublin City Council Culture Company, Emirates, Fáilte Ireland (Assoc Member), Guinness Storehouse, 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), Shannon Group plc, Stena Line, Tourism Ireland (Assoc Member), Trinity College Dublin, TU Dublin, Vintners' Federation of Ireland, Waterways Ireland.

Introduction

Budget 2024, which is expected to take place on October 10th, is of particular importance to Ireland's tourism industry. Irish tourism is at a key juncture with demand strong but supply significantly compromised and sustainability at the heart of all considerations. Irish tourism is still in recovery phase with full recovery of the sector to pre-pandemic levels not anticipated until 2026. In that context this budget submission from the Irish Tourism Industry Confederation (ITIC) looks at the opportunities and challenges for the sector and outlines how policy decisions in the upcoming Budget should be made. Crucially this submission sets out a number of strategic recommendations as to how Irish tourism's performance can be sustainably enhanced.

Pre-pandemic tourism generated close to €10 billion in revenue, supported 260,000 jobs in 20,000 businesses, mostly SMEs, thereby sustaining regional economies and rural communities across the country. 70% of businesses and jobs can be found in regional Ireland.

Ireland's tourism recovery continues in 2023, with a positive outlook for the peak summer months. Consumers continue to prioritise travel despite increased costs of living and the ongoing war in Ukraine. Demand for travel has been facilitated by the rapid reinstatement of international airline and ferry services post COVID.

However, the rapid recovery has not been without its challenges. Ireland, despite full restoration of international connectivity, is pushing hard against – amongst other factors - labour, tourist car hire and visitor accommodation constraints. The latter, due to Ireland's over-reliance on tourist accommodation for providing shelter to refugees, not only reduces capacity but in some cases has inflated what the tourist pays for accommodation.

Competitiveness is critical to the continued recovery and sustained growth of Ireland's tourism industry. High inflation, in an already high cost economy, coupled with supply side issues is threatening the competitiveness of Ireland's tourism offering.

The recently unveiled Summer Economic Statement suggests that public spending will increase by over 6% in Budget 2024, will include a modest tax-cutting package and generate a significant surplus, It is important that the national finances are managed prudently and ITIC supports this approach including the setting up of a new fund to save windfall corporation tax revenues for the future. However key national economic blockages must be addressed particularly in the area of housing infrastructure which is affecting the tourism industry like many others sectors.

Half-year exchequer returns published in early July by the Department of Finance show the Government collected just under €41 billion in taxes during the first six months of the year, 11% or €4 billion more than the same period last year. The increase was driven by continued growth in corporation tax, income tax and VAT.

It is evident that the economy, despite global headwinds, is in good health and in that context it is vital that Government supports indigenous industries such as tourism in Budget 2024. ITIC has estimated that the full recovery of Irish tourism to pre-pandemic levels is not expected to happen until 2026 but this is predicated on pro-tourism decisions from Government.

In short ITIC's 5 key principal budget asks are:

Support competitiveness including the retention of the 9% VAT rate for the rest of this Government's term. Given the high-cost structure of the Irish economy the 9% Vat level for the tourism and hospitality sector has proven to be a key component of Ireland's competitiveness. This needs to be maintained to keep Ireland on an even keel with its European peers – any increase will be inflationary, damage tourism's recovery and erode competitiveness.

The current competitive dynamic presents a set of new challenges for businesses in the sector. While price is not the sole defining factor of Ireland's competitiveness, value for money is undoubtedly a major determinant of competitiveness. With steep price cost rises feeding through to higher prices Ireland's competitiveness is at risk of losing its the value for money positioning in the international and domestic marketplace.

A number of costs from labour to credit to excise to insurance are out of line with our European peers and all need to be addressed. In terms of the latter the high cost and poor availability of insurance cover continue to have a negative impact on the sector. While Government has made positive progress in this area in recent times, it has not yet had the desired impact on premia and liability insurance. Underwriting capacity must be increased in the liability market, to encourage competition and improve availability of cover.

Expand and improve the Temporary Business Energy Support Scheme to help mitigate against soaring costs of business. This to include a more simplified and generous scheme for businesses including a raised cap, inclusion of LPG and kerosene, and a reduced energy threshold. Tourism and hospitality businesses are high energy users due to the nature of their businesses, putting immense pressure on margins, and support must be given to vulnerable enterprises who continue to grapple with their business costs.

Address capacity challenges across accommodation, car hire, and tourism infrastructure to enable increased supply to ensure sustainable growth. It is estimated that 1 in 5 tourism bedrooms are no longer available to the tourism economy due to Government contracts for Ukrainian refugees and asylum seekers, a figure that continues to inch up. Fáilte Ireland has estimated that the impact of this reduced bed stock to the broader tourism economy could be as much as €1 billion over an annualised period. As well as a comprehensive plan to house refugees and asylum seekers, incentives and capital allowances must be considered for tourism accommodation construction as well as staff accommodation developments.

In terms of car hire the rental industry is a critical element of the infrastructure of Irish tourism, with 32% of holidaymakers visiting Ireland hiring a car in 2019. However, the car rental sector cannot function fully in the peak summer months without a permanent relief to counter the anomaly caused by the removal of the VAT equalisation measure on short-term purchases of cars in 2019. Therefore, ITIC asks Government to reinstate the VAT equalisation measure in Budget 2024.

Strategic infrastructure is vital to Irish tourism's well-being including appropriate national capex expenditure on areas such as housing as well as the need for Irish state aid limits for regional airports to be aligned with relevant EU state aid limits. Thus for operating costs in relation to safety, security and sustainability initiatives support should be allowed for regional airports up to 3 million passengers per annum. Likewise for capital projects relating to safety, security and sustainability initiatives support should be allowed for regional airports up to 5 million passengers per annum.

- Investment to fund sustainability initiatives and support vulnerable enterprises.

It is critical that tourism agency budgets are maintained to ensure that industry initiatives, new product development, and domestic and overseas marketing campaigns continue.

A mitigation fund will also be required for downstream tourism businesses that are impacted by Government contracts in their locality thereby profoundly limiting their ability to trade in the tourism economy.

In terms of sustainability there needs to be a radical improvement in funding supports for business. Tourism enterprises are willing to play their part but in terms of big-ticket items like green energy, EV infrastructure or retrofitting heritage buildings the state has to make a step-change in its ambitions to achieve national targets. There is also merit in the funding of sustainable champions who can assist businesses in their drive towards decarbonisation.

One of the key areas of sustainability is that of Sustainable Aviation Fuel (SAF), the most likely way in the immediate future of reducing emissions in the air. Irish aviation, including carriers Aer Lingus and Ryanair and airports DAA and Shannon, are taking a lead on this but there is a real opportunity for the Irish state to become an international hub for R&D and production of SAF. The critical challenge for aviation is to establish production facilities and delivering sufficient supply of SAF as well as ensuring the price differential compared to traditional aviation jet fuel is reduced. With appropriate Government incentives and capital allowances for SAF, Ireland could be at the centre of EU progress in this key pillar of decarbonisation.

- Enhance employment permits to improve labour supply and unlock National Training Fund surplus

With Ireland at full employment, it is evident that labour-intensive industries such as tourism and hospitality will need to find workers from abroad. Tourism agencies and industry players will need to actively recruit within the EU and in that context of outside of the EU it is very welcome that the Department of Enterprise, Trade and Employment has launched a public consultation relating to a review of the Occupational Lists for Employment Permits. This presents an important opportunity to provide information on the nature and extent of skill and labour shortages within tourism.

It is also critical that the estimated €1.5 billion surplus in the National Training Fund is unlocked for the benefit of enterprises. This should include funding to implement a Lifelong Learning Strategy for Ireland, to introduce a National Training Voucher Scheme to help dismantle the cost and time barriers associated with workforce development and lifelong learning, and to incentivise more SMEs to engage in the apprenticeship programme by addressing cost barriers.

The above 5 measures have been adopted by ITIC's Council of members which includes all the key stakeholders within Irish tourism and hospitality. 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 our 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 by 2026 and Budget 2024 is a key staging post in enabling this journey.

Industry performance and outlook

Close to 7 million international tourists visited Ireland in 2022, 27% below 2019 numbers according to estimates from ITIC. Domestic trips totalled 13.3 million, spending an estimated €2.9 billion, with holiday volume and expenditure up 14% and 39% respectively on pre-pandemic levels, according to the latest data from Fáilte Ireland and the CSO.

Official tourism data for 2023 is unavailable to industry or policy makers. This remains of significant frustration to ITIC and industry leaders who fear policy decisions will be made in a data vacuum. ITIC estimates that revenue, driven by inflation, is in line with pre-pandemic levels but that the volume of international visitors is short of pre-pandemic levels. The CSO has still not reported on any meaningful tourism data since the pandemic began. How many tourists are coming to Ireland? How long are they staying? How much are they spending? What markets are they coming from? Do they find Ireland an enjoyable holiday experience and is it value-for-money? Answers to these questions are not available and tourism is being poorly served as a result.

Fáilte Ireland's most recent Barometer reports almost two thirds of tourism operators predict an increase in overseas visitors this year compared to Covid impacted 2022, with demand from North America reported to be particularly buoyant, with almost just over three out of five respondents predicting an increase in US and Canadian visitors. Demand from mainland Europe is mixed with significant concerns over the key market of Germany, while recovery of demand from Britain is reported to be more subdued, with only 35% expecting a year on year increase.

The upswing in international visitors is despite increased airfares and rising prices, as businesses struggle with input cost increases. For almost three of out every four businesses rising costs – energy and other inputs, including food – are the primary supply side concern set against a decrease in disposable incomes on the part of the consumer.

Profitability of the sector is challenged, as businesses struggle to make ends meet due to soaring input costs, with food and drink businesses hardest hit. The current economic market environment makes rising price difficult with growing concern about the value for money proposition and the longer term impact on the country's reputation.

Research continues to show that Ireland's reputation and appeal remains strong amongst the target segments across its top source markets. The recovery drive, supported by Government funded connectivity supports and destination marketing, is based on continuing investment by businesses across the sector in innovation, productivity, marketing and delivering quality experiences. However, it is evident that the pandemic has resulted in accelerated changes in travel demand trends, including sustainability and climate change concerns. In addition, post pandemic demand is expected to show some shifts in the composition and profiles of international tourists to Ireland as consumer travel trends evolve.

Global tourism this year is expected to recover close to pre-COVID levels, according to the UN World Tourism Organisation. International air passenger traffic worldwide remains resilient, reaching 84.6% of pre-pandemic levels in April, with North American carriers reporting full recovery. Industry wide airline passenger traffic is predicted to reach close to 88% of 2019 levels, with European traffic reaching 98%. Traffic between Europe and North America is currently running at 2% ahead of 2019, based on latest data from IATA. Airlines are achieving improved yields on the higher average load factors and higher fares, which have remained elevated despite a drop in fuel costs.

Ireland's connectivity fully restored to 2019 levels

Airline and ferry connectivity has been critical to Ireland's tourism growth over many years in not only facilitating, but also driving demand. Summer 2023 sees total seat capacity on air services to/from Ireland up marginally (+3%) on 2019. Stripping out the increased capacity on offer exclusively to outbound sun and pilgrimage destinations, capacity on offer from an inbound tourist opportunity is back to 2019 levels. Ferry capacity is up on pre-pandemic levels, with a significant expansion of travel options and capacity on routes to/from mainland Europe. Enhanced cargo capacity has been an opportunity for ferries and this has meant increased frequency and routes which has served tourism purposes well.

Ireland continues to enjoy an efficient and competitive airline connectedness which is critical to the success of tourism. Aer Lingus and Ryanair, two home based airlines, rapidly reinstated service post COVID. In addition, all other network carriers have restored service to/from Ireland, with some adding capacity.

Summer access recovery from the four main markets mirrors the full-year schedule recovery with Mainland Europe (104%) and Great Britain (102%) above their 2019 summer capacity while North America is very close to a full recovery (98%) and Rest of World (111%).

While the airlift situation for the summer season is positive overall, capacity on offer from Germany, Ireland's top European tourist market, is down 23% this summer on pre-pandemic levels, significantly weakening of Ireland's competitive positioning in this important source market.

SUMMER SEAT CAPACITY BY MAIN MARKETS

2023 vs 2019

Market	vs 2019 All routes	vs 2019 Excluding sun/pilgrim routes
Great Britain	+2%	NA
Mainland Europe	+4%	+1%
North America	-2%	NA
Rest of World	+11%	+7%
ALL	**+3%**	**+1%**

SOURCE: Fáilte Ireland analysis of OAG data

Ryanair is the dominant carrier on short haul routes having increased its share of capacity and extended the number of routes served. Ireland is the carrier's 4th largest market with almost 1,300 weekly departures this summer, uniquely serving all 5 airports.

Aer Lingus, in addition to maintaining an extensive network of services from key British and mainland European gateways, has led the recovery on transatlantic services. This summer the airline will operate its largest ever summer transatlantic schedule, on 16 routes from Ireland with up to 128 weekly departures. Dublin is now the 5th largest hub for travel between North America and Europe, thanks to investment at the airport and the Aer Lingus' strategy. This summer sees Hartford service reinstated as well as the addition of Cleveland as a new gateway.

Ireland benefits from a highly competitive fare regime from most markets. Ryanair, as price leader across Europe, ensures that airfares to Ireland are highly competitive from Britain and mainland Europe. Aer Lingus with its value fare strategy on transatlantic routes, including its hub strategy to/from Europe offering a stopover in Ireland, delivers a highly competitive price for travel to Ireland from USA and Canada. Ireland's regional airports – specifically Cork and Shannon – play a key role in Irish tourism and need to be supported with additional capex funding.

Government incentives have been instrumental in securing a rapid reinstatement of air services, recognition of the critical importance of connectivity for tourism, trade and FDI.

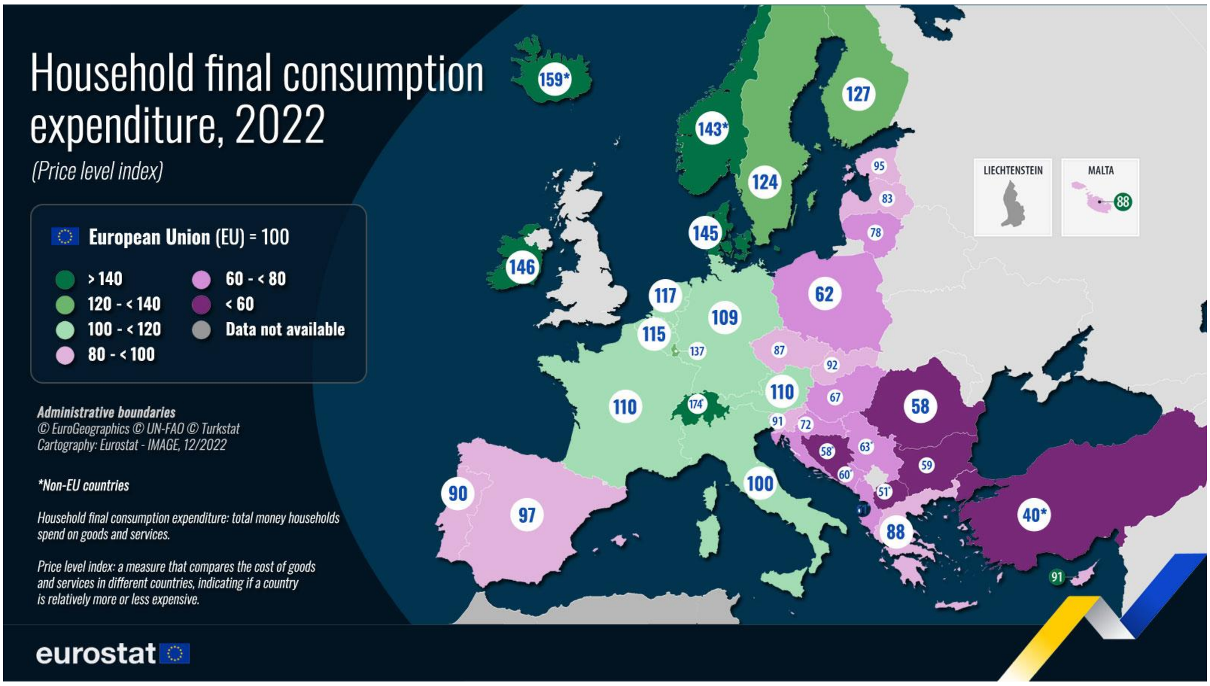
Ireland's economy – high cost, rising quickly

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

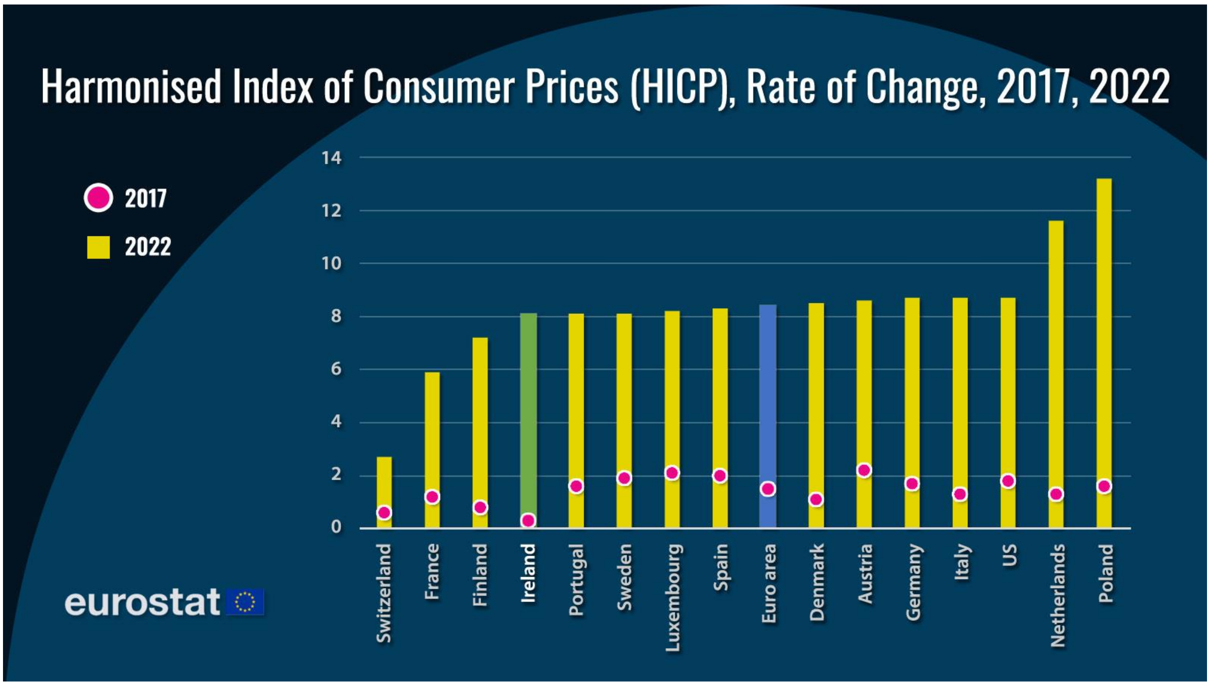
Business costs in Ireland are relatively high in a European context. For example, Ireland's minimum wage is more than 70% above the EU average, while electricity (+14%) and cost of credit (+50%) have historically been well above the European norm. Tourism is a labour, energy and capital-intensive industry – these high-cost inputs feed directly into higher prices for the visitor. 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 competitiveness of Ireland's tourism offering will be further eroded.

The price of a visit to Ireland reflects the cost of living within the country

Ireland was the most expensive country to live in across the EU in 2022. Consumer costs in Ireland were 46% above the EU average. Only Switzerland, Iceland and Norway had a higher cost of living. The highest price level for alcohol and tobacco was recorded in Ireland at more than twice (+116%) the EU average, due mainly to high taxation on these products.

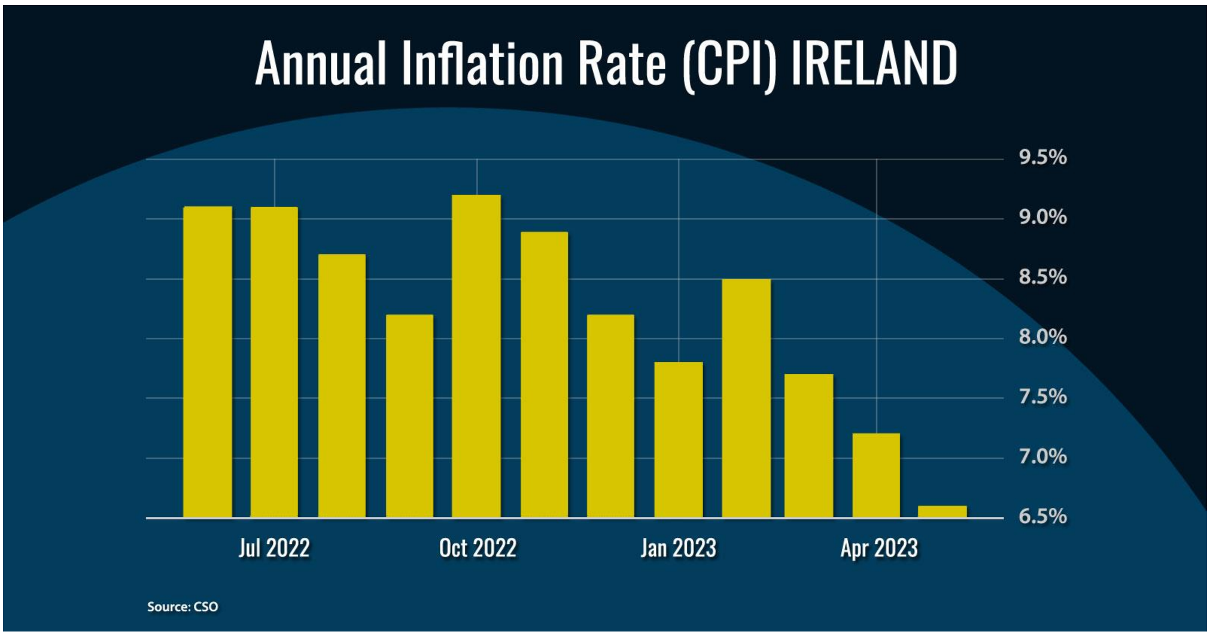


The EU Harmonized Index of Consumer Prices shows that over the past decade the national annual rate of inflation in Ireland has outpaced the rate of increase in most other EU states. Ten years ago prices in Ireland were 18% above the EU with the cost of living the fifth highest in the EU after Denmark,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

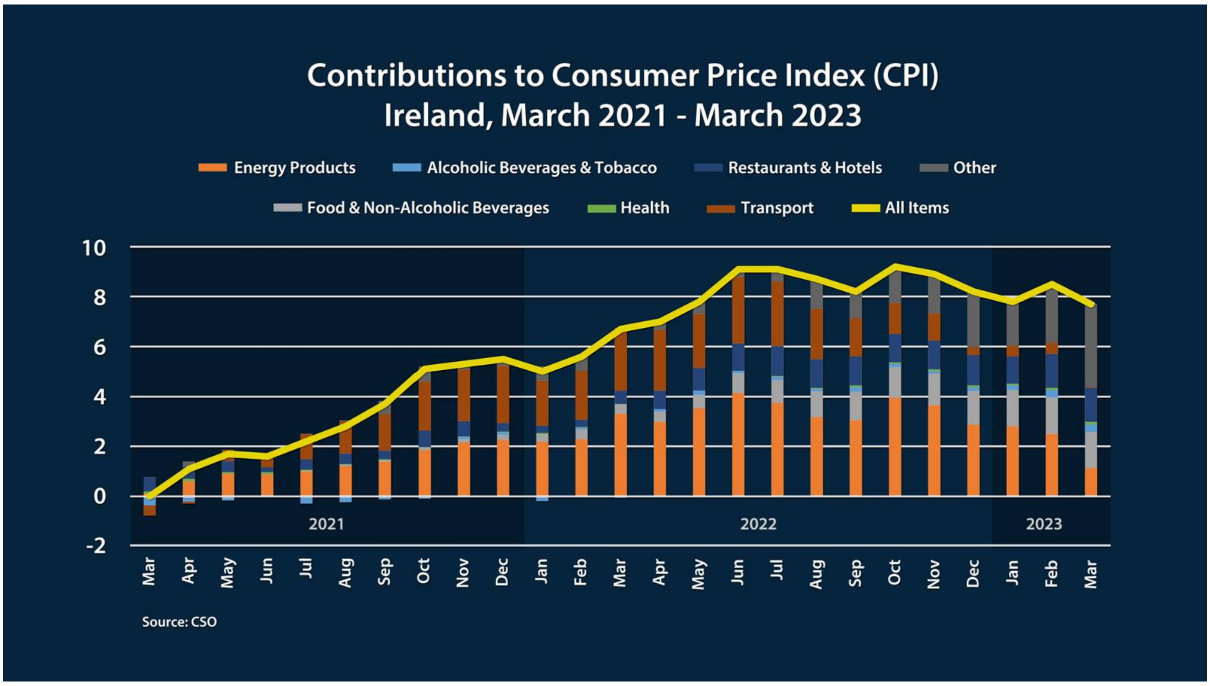


Rising costs and supply issues driving prices

The annual inflation rate in Ireland fell to 6.6% in May 2023 from 7.2% in April, the lowest since February 2022. Cost of energy increased, with electricity (+34.7%) and gas (+47.4%). Also, prices of food & non-alcoholic beverages rose by 12.7%, reflecting a rise in prices across a range of products such as sugar (+42.5%), frozen fish (+28.1%), fresh whole milk (+18.9%), and eggs (+18.8%). Prices in restaurants and hotels rose by over 8.1% over the twelve month period to May 2023.



On a monthly basis, consumer prices went up 0.3%. The divisions with the largest month on month growth in May were Restaurants & Hotels (+1.6%) and Alcoholic Beverages & Tobacco (+1.0%), while Transport, energy and communications showed a decline.



Most of the pick-up in inflation since mid-2021 has been driven by energy products and food. The contribution made by other components was also increasing as energy costs and supply chain disruption begin to feed through into core inflation.

Despite a fall in the rate of price increases, Ireland's inflation rate is currently running ahead of the annual rate across the Eurozone at 6.1% in May. With global energy and food prices continuing to ease, domestic factors are beginning to play a more important role in the inflation outlook. Latest forecast from the Central Bank see annual inflation in 2023 falling to 5.3%, before dropping to 3.4% in 2024 and 2.5% in 2025.

Producer prices across Europe, an early indication of trends in consumer inflation, fell for a seventh consecutive month in April, almost entirely due to declining energy prices, according to the latest data from Eurostat.

Taking both the changes in prices (inflation) and the price level together, Ireland's inflation rate has moved from being one of the lowest in the EU and below the Euro area average – moving Ireland into having a current price profile that may be described as 'high cost, rising quickly'.

Rising prices in hotels and restaurants

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

With significant rises in the costs of business, prices in hotels and restaurants have been rising above the rate of overall inflation in Ireland. Latest data from the CSO shows that the annual rate of inflation for accommodation services, predominantly hotels, was running at 14.7%, while the year on year price rise for restaurants and cafes was 6.8%.

While there are identifiable underlying costs and supply factors to explain the high rate of increase in prices in the accommodation sector, the concern is that the rate of price rise in Ireland has been higher than in many competitor European destinations. Price inflation in the restaurant sector is broadly in line with experience across the EU.

Annual inflation rate for hotels, motels, inns, and similar accommodation establishments in the European Union was 13.2% in April 2023. While the rate of price increase declined compared to the peak reported in June 2022, that figure still represented one of the highest rates recorded since December 2017.

A tight labour market, higher costs and skills shortages

Ireland is experiencing a tighter labour market than across the EU, as the number of people at work in the State reached a record high of 2.61m, having grown by 102,700 or 4.1% in the year to March 2023. Unemployment in Ireland hit a record low of 3.8% in May 2023, following a steady decrease in the rate since March 2021 and despite net immigration last year of 61,000. The seasonally adjusted number of unemployed people (15-74 years) was 103,300 in May, a decrease of 8,700 compared to a year earlier. An unemployment rate of 4% or less is commonly regarded as tantamount to full employment.

Unemployment across the EU has been stable at 6.0% in March and April 2023, down marginally from 6.1% a year ago.

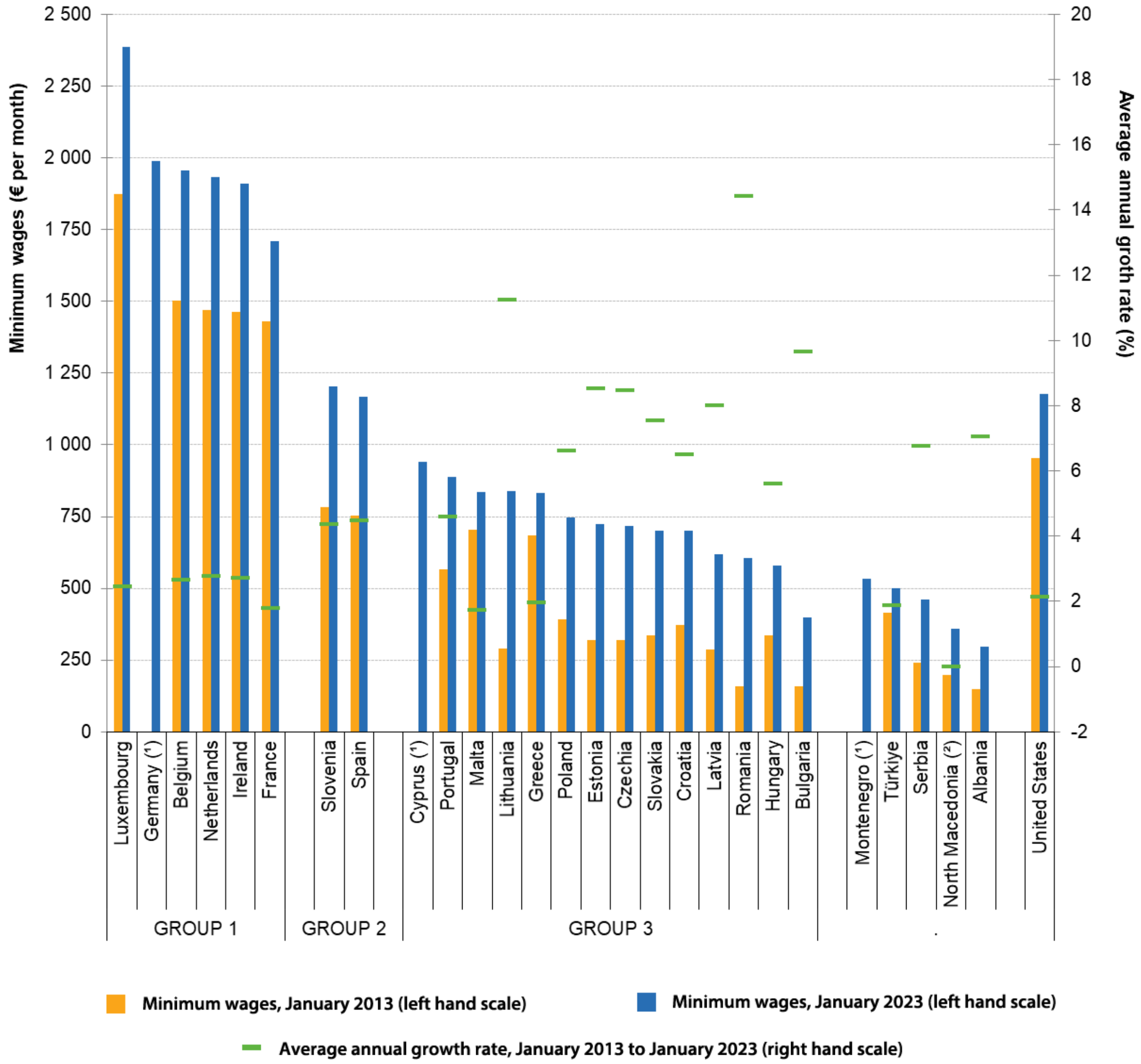
The labour market in Ireland is forecast to remain tight in the immediate future, with The Central Bank projecting an annual unemployment rate of 4.1% in 2024 and 4.2% in 2025.
Tourism and hospitality is a labour intensive business, with the quality of personal service a key value. With effective full employment levels, the tourism and hospitality industry is facing an existential challenge, with upward pressure on wages inevitable and the risk of a further deterioration in the already depleted supply of critical skills.

Latest data from CSO shows that employment in the Accommodation and Food Services sector in Q1 2023 was 3.8% below the same period in 2019, in contrast to total employment in the State increasing by 12.6% over the same period. It is obvious that recovery in employment in the tourism sector is lagging behind the overall economy, with the hours worked in the sector down 10% on Q1 2019.

Labour costs in Ireland have tended to be higher than in many other European states. The minimum wage is the 5th highest in the EU after Luxembourg, Germany, Belgium and the Netherlands.

Minimum wages, January 2023 and January 2013

(levels, in € per month and average and average annual growth, in %)



Note: Denmark, Italy, Austria, Finland and Sweden: no national minimum wage.
(¹) January 2013 data and average annual rate of change not available.
(²) Minimum wage in force on 1 July 2021
Source: Eurostat (online data code: earn_mw_cur)

Recruitment in the hospitality and tourism sector has become more acute. Staffing shortages resulted in considerable stress on meeting demand in 2022 and continues in 2023. 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 certain instances it has resulted in some business closures.

One in ten respondents to Fáilte Ireland's most recent Barometer survey cited difficulty in recruiting staff as the reason for delayed opening for the 2023 season. Across the industry more than one in three (37%) highlighted the difficulty in recruiting staff – with 71% of restaurant and 63% of hotel respondents raising it as a significant concern. An ongoing shortage of chefs would appear to continue to plague the sector.

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 more serious longer term reputational damage and stalling growth.

The high cost and poor availability of insurance cover continue to have a negative impact on the hospitality and tourism sectors. While ITIC acknowledge the very positive progress made by Government in this area in recent times, it has not yet had the desired impact on premia and liability insurance. ITIC urges Government to do everything in its power to increase underwriting capacity in the liability market, encourage competition and improve availability of cover. Equally, ITIC urge Government to do nothing from a fiscal policy perspective that would discourage new entrants into the Irish market or diminish risk appetite.

Risks to Ireland's Competitiveness

The economic and geopolitical environment presents several risks, industry margins are fragile and Ireland's competitiveness could be further eroded and recovery growth stalled by a number of factors.

Inflation fighting measures/possible recession: Central Banks are calibrating the best levels for interest rates to have a maximum cooling effect on inflation while avoiding tipping economies into recession. An end to rate rises and a decline in interest rates would stimulate demand across source markets. Equally, the risk of recession remains and would downgrade the outlook for the sector.

An escalation of the war in Ukraine: With little immediate hope for peace any further escalation of the conflict would heighten geopolitical tensions, have negative impact on global trade, including travel and tourism, as well as impacting negatively on consumer confidence.

Energy price volatility: a key component of the cost of travel, the sector is exposed to the risk of price hikes. Despite a recent decrease in wholesale energy prices, businesses and consumers continue to struggle with elevated costs.

Ongoing dependence on tourism accommodation for refugee housing: The reliance on tourist accommodation to meet the needs of refugees is not a sustainable strategy and the delay in delivering alternative accommodation jeopardises Ireland's tourism recovery. Any escalation of the conflict could see an increase in the number of displaced persons seeking refuge in Ireland.

Staffing and skills shortages: The ongoing struggle to recruit and retain staff in the sector, including a skills gap, continues to be a serious threat to the sector's ability to deliver a level of service and experiences matching visitors' expectations.

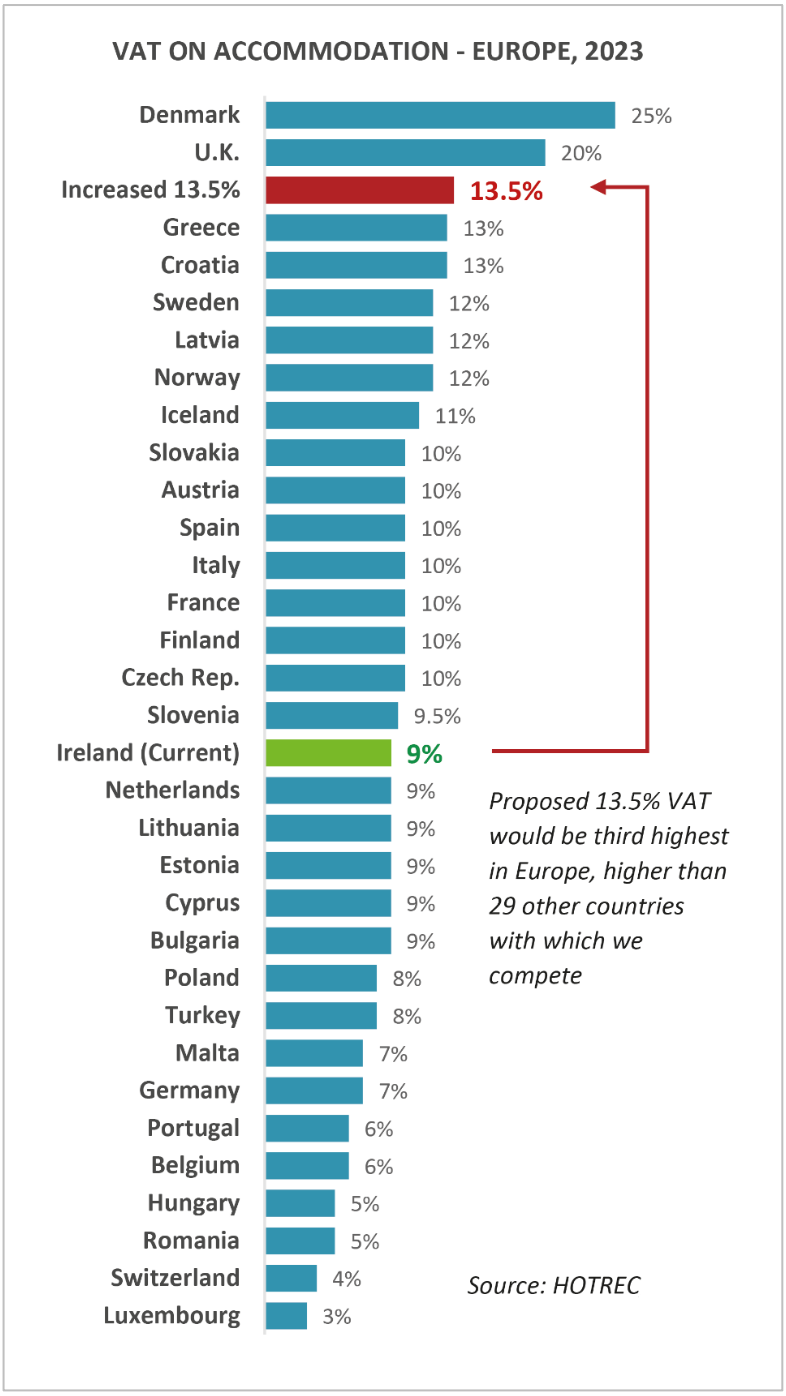
Climate action & Regulatory cost burdens represent an input cost increase for businesses. In particular, the industry potentially faces higher costs of compliance arising from climate related targets and environment initiatives.

The high cost of finance: With ECB interest rates at a 22 year high, and with the potential of further increases, many tourism businesses will struggle to recover from the impact of the pandemic. Borrowing costs in Ireland, already amongst the highest in EU, together with a decline in recent years of new lending to the sector, represents a risk. Continued investment in people, product innovation and sustainability, are critical to maintaining the competitiveness of Ireland's tourism experience.

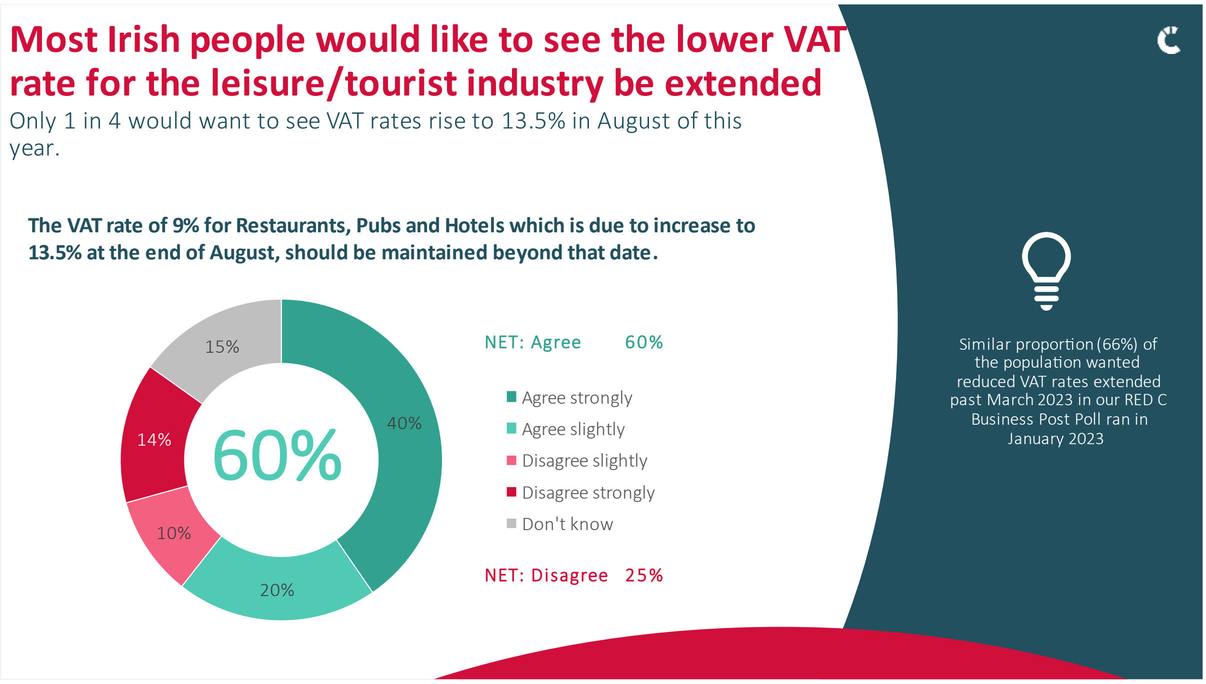
Cliff edge: Vat at 9%

The Vat rate applicable to Irish tourism and hospitality businesses is due to increase from 9% to 13.5% on August 31st before Budget Day. ITIC has argued consistently that this will negatively affect the sector, be inflationary and damage regional Ireland in particular.

A Vat increase will also clearly damage competitiveness giving Ireland one of the highest rates across the EU.



A Vat increase would also be unpopular with the public. Findings from a Red C survey of over 1,000 people in late June show that 60% of respondents are against the idea of an increase in the 9% Vat rate for restaurants, pubs and tourism accommodation providers. Only 25% of respondents were in favour of the Vat increase with the balance expressing no opinion.



The survey was carried out by Red C between the 23rd and 28th June and was commissioned by the Irish Tourism Industry Confederation, the Restaurants Association of Ireland, the Vintners Federation of Ireland, the Licensed Vintners Association, and the Irish Hotels Federation.

Separate reports recently by economists Jim Power and Tony Foley highlight that a hospitality Vat increase will add 4.1% to the price of accommodation and food services. CSO data shows that tourism and hospitality is the largest indigenous industry and biggest regional employer within the country with the bulk of jobs and businesses in regional Ireland.

The Red C findings also show that 6 out of 10 respondents feel that their financial situation is worse than last year. Particularly hard pressed are those with children and those aged between 35 and 54. Consumers are also less optimistic about their own discretionary disposable income over the next six months with 65% indicating that they expect to be worse off.

Despite attention in recent times on a very small number of operators charging significantly higher prices at times of peak demand it is evident that this is not reflective of the broader tourism industry. Regional tourism businesses are grappling with soaring operational costs and a Vat increase in not the answer and will only raise prices further.

Reduced tourism accommodation stock

Tens of thousands of tourism bedrooms are currently contracted by Government for the provision of accommodation for Ukrainian refugees and asylum seekers. It is estimated by Fáilte Ireland that 20%, or 1 in 5, of registered and unregistered tourism bedrooms is now unavailable to the tourism economy. This is having a profound impact on downstream tourism businesses and it is estimated by Fáilte Ireland that there will be a cost of up to €1 billion annually to tourism towns throughout the country.

The housing of those seeking refuge is a moral imperative as Ireland plays its part in the ongoing humanitarian crisis. However, Ireland is an outlier in its dependence on tourist accommodation to provide shelter for refugees and asylum seekers.

The contraction in availability of accommodation for tourists has inevitably led to an increase in the price for the visitor, particularly at times of high demand exceeding available supply. The reduction in available tourist accommodation is most evident in a number of popular west coast counties, including Mayo and Clare.

The immediate impact on the tourism economy includes:

- Higher prices for accommodation where demand exceeds supply;
- Reduction in employment in the sector;
- Loss of visitor footfall in traditional tourism areas, less visitor spending in local economies, and a threat to the continues viability of downstream businesses catering to visitors. Fáilte Ireland analysis shows that for every €1 a tourist spends on accommodation, €2.50 is spent on ancillary tourism services;
- Loss of group and tour traffic due to sharp reduction in the supply of mid-market hotel accommodation.

As a result of Government policy summer Summer 2023 could see a level of frustration of demand together with significant reputational damage due to supply constraints and high prices.

Longer term the impact of the continued reliance on tourist accommodation to meet the State's need to house refugees could result in a sharp drop in tourist accommodation as some properties may not revert to tourism use. The current situation weakens Ireland's tourism ecosystem – a complex, highly interdependent and diverse key sector of the economy.

Maintaining healthy competitive market among hotels and other tourist accommodations is critical for consumers and operators. It ensures guests get the best value for their money and quality customer service, while providing an acceptable level of profit to sustain the business and grow the market.

There is an enormous onus on Government to develop a much more balanced approach to housing refugees and asylum seekers and explore all forms of accommodation as opposed to being overly reliant on the tourism accommodation sector.

Recap: ITIC's 5 key budget asks

ITIC, representing the 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 2024:

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, Dublin City Council Culture Company, Emirates, Fáilte Ireland (Assoc Member), Guinness Storehouse, 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), Shannon Group plc, Stena Line, Tourism Ireland (Assoc Member), Trinity College Dublin, TU Dublin, Vintners' Federation of Ireland, Waterways Ireland.

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