SUPPORTING THE COMPETITIVENESS OF TOURISM

Submission to the Minister for Finance on Budget 2008 from the Irish Hotels Federation

September 2007

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Executive Summary

The erosion of competitiveness continues to be a major problem for the tourism and hotel sectors. Budget 2008 should be used to support and improve the competitiveness of the hotel sector. The Irish Hotels Federation (IHF) is appreciative of the marketing support provided by Government in 2007 and of the Budget 2007 provision to allow recovery of the VAT paid on certain corporate hospitality and conference expenditure. Notwithstanding these welcome measures the hotel sectors international competitiveness continues to the damaged by high Irish inflation, increases in minimum wage rates and other regulated wage rates and high local authority charges and taxes. In addition the National Competitiveness Council has recently identified the high cost position of Ireland for a range of services and products including professional services and waste management. The 2007 Hotel Industry Survey has clearly identified the worrying medium term cost trend relative to revenue. Like other sectors the hotels industry is suffering from the increases in interest rates and the strength of the Euro. The large increase in energy costs is a particular problem for the hotel sector and continuing increases are to be expected.

Despite these difficulties the tourism and hotel sectors performed well in 2006 compared with 2005. Overseas visitors increased by 9.7% from 6.763 million to 7.417 million. The more relevant performance indicator of holidaymakers grew by 10.3% from 3.365 million to 3.711 million. Total overseas bednights grew by 10.5% and hotel bednights grew by 13.6%. This is a very welcome improvement relative to previous years. The available data for 2007 provides mixed signals. The latest comprehensive official data covers the first quarter of 2007 which shows encouraging growth in total visitors, holidaymakers and bednights in the first quarter of 2007. However, CSO data on overseas travel indicate that the growth in visitor numbers has not continued into April, May and June. Nonetheless, hotel occupancy rates have remained strong into May. Domestic tourism which is an important source of economic activity also performed well in 2006 on the holiday trip indicator but not so well on total trips and total bednights. First indications for 2007 indicate a strong holiday nights and hotel nights performance in the domestic market.

The tourist industry is a substantial economic asset and is worthy of significant ongoing public policy support. It employed about 140,000 persons in 2006, generated €4.7 billion in foreign exchange earnings and provided exchequer receipts of €2.8 billion. It is essential to achieve good performance in 2008 and following years to support employment and economic activity. The lower national economic growth rate in 2008 compared with 2007 gives concern for the likely domestic tourism performance. As of mid-year expectations, the Irish 2008 growth forecast is

3.7% and the OCED forecast 2008 growth is 2.7% Because of financial market uncertainties it is likely that these forecasts will be revised downward as the year progresses. 2008 will provide the weakest domestic economic environment for several years and there are uncertainties about the international situation.

While many of the negative factors affecting the hotels sector are beyond the control of the Government such as interest rates and exchange rates, Budget 2008 is capable of substantially improving the situation. Budget 2008 should address the following four areas:

1. No increase in tourism related taxes such as VAT, excise and transport
2. Reduce the burden of local authority taxes and charges – local authority charges and taxes increases should be capped at a 1% maximum.
3. Marketing funds to Failte Ireland and Tourism Ireland should be increased by €5 million and separate funding be provided for the implementation of the findings of the review of the Irish Tourism Brand, which is currently being carried out by Tourism Ireland.
4. A comprehensive programme of advice, financial supports and tax incentives should be introduced to assist in improving energy efficiency and the use of alternative energy sources. The Business Expansion Scheme ("BES") should be amended in order to make it an attractive funding mechanism for the funding of wind farms and other alternative energy generation systems.

1. Supporting the Competitiveness of Irish Tourism through Fiscal Policy in Budget 2008

The analysis and recommendations of this submission broadly follow the pattern of last year's submission. Competitiveness is the key issue. Tourism is an international industry competing in the global market for both domestic and overseas tourists. The number of locations is increasing, price competitiveness is intense, access to competing locations is constantly improving, use of the internet is generating more competition and customer demands are rising. Competitiveness is a critical determinant of Irish tourism performance. Competitiveness is determined by a wide range of factors, including taxation, cost and prices and marketing. These three areas can be greatly improved by appropriate fiscal measures in both taxation and expenditure policy in Budget 2008.

The IHF acknowledges and welcomes Government's commitment to the marketing budget in 2007 and in the National Development Plan and the introduction of the VAT refund on certain conference and corporate meetings expenditure and recommends that Budget 2008 should continue to support competitiveness. However, local authority charges and taxes continue to rise generating a negative competitiveness impact. Hotels are also suffering from higher interest rates, a continuing strong exchange rate of the Euro against the Dollar and Sterling, growing domestic inflation, increased labour costs and accelerating energy costs and will suffer from a weaker domestic economic environment in 2008.

The IHF accepts that the industry has a responsibility in responding to the competitiveness challenge thorough effective management, operating efficiency, investment, innovation and providing value- for- money high quality services. The Government should play its part in Budget 2008 by;

- Increasing the Fáilte Ireland and Tourism Ireland marketing budget by €5 million and separate funding be provided for the implementation of the findings of the review of the Irish Tourism Brand currently being carried out by Tourism Ireland.
- Avoiding any tax increases in tourism related products and services.
- Limiting the growth of local authority charges and taxes to 1%.
- Introducing a comprehensive energy efficiency and alternative energy programme for hotels and guesthouses with adequate resources and appropriate tax incentives to promote and implement energy efficiency and alternative energy usage as part of a long term sustainable energy programme. The Business Expansion Scheme (“BES”) should be amended in order to make it an attractive funding mechanism for the funding of wind farms and other alternative energy generation systems.

The IHF welcomes and recognises the support given to marketing in Budget 2007 and previous budgets. The IHF recognises that the Government’s finances will not be as strong in 2008 as in previous years but this issue should be dealt by expenditure control, not tax increases. The large increases in energy prices and concerns about supply have highlighted the need to increase efforts to find long term sustainable energy solutions.

As well as the specific Budget matters, the IHF urges that the existing programme of improvements in the national and regional transport infrastructure, identified in the National Development Plan and elsewhere, including the Western Road Corridor, should be implemented within tight schedules. It is essential that tourist access to all parts of the economy including the regions should be effective and that regional tourism should be actively promoted. These latter two issues require a solution to the challenges created by the proposed Aer Lingus withdrawal of Shannon to Heathrow services long before the withdrawal becomes effective. In addition the

Government should initiate a national competitiveness enhancement drive including moderation in private and public labour cost increases, strict control on public sector charges and prices, market liberalisation, more competition, reducing the effect of indirect taxes and productivity and efficiency improvement.

The proposed four measures will compensate for some of the negative competitiveness pressures on tourism and will generate a strong return on the money invested. The IHF strongly disagrees with the implication of the ESRI ex ante evaluation of the national investment priorities that tourism marketing expenditure should be reduced from current levels. The expenditure and the sector are of immense economic importance for the social and economic wellbeing of the country and expenditure on international tourism marketing generates a good return on investment.

2. The Operating Environment for Tourism in 2008

2.1 Irish and International Economic Growth

The broad position is that the domestic economic growth performance will slow in 2008 compared with 2007 and the international situation in 2008 as of mid-year is expected to be much the same as 2007. However, because of the direct and indirect impact of the current financial markets situation it is likely that both national and international 2008 growth forecasts will be reduced as 2007 progresses.

Based on ESRI forecasts Irish GDP volume growth will be 4.9% in 2007 and 3.7% in 2008. Employment levels will rise from 2.097M persons to 2.122M in 2008 and the unemployment rate will increase to a still low 5%. Government finances will remain strong compared to the international situation but will probably worsen relative to current forecasts. 2008 growth will be substantially below 2007 on current forecasts and is likely to drop even lower. A concern for domestic tourism is that lower growth and higher interest rates will reduce discretionary consumer expenditure. Domestic tourism is a substantial part of the total tourism and hotel market and a critical determinant of hotel commercial viability.

Table 2.1 Irish Economy in 2007 and 2008

	2007	2008
GDP increase %	4.9	3.7
Employment (000s)	2097	2122
General Govt Balance % of GDP	1.1	1.2

Source: ESRI QEC Summary summer 2007

As outlined in Table 2.2 the current (OECD May 2007) overall international growth forecast for 2008 is relatively good. The USA will grow by 2.5%, which is higher that the 2.1% in 2007. The UK growth rate will decrease slightly in 2008 compared with 2007, 2.5% versus 2.7%. The overall OECD growth rate in 2008 (2.7%) is the same as the 2007 performance (2.7%). The Euro area growth in 2008 will be a little below the 2007 rate (2.7% in 2007 and 2.3% in 2008).

Within the Euro area the two main economies are Germany and France, France will have a similar growth rate in 2008 to that experienced in 2007. While Germany's will decline from 2.9% to 2.2% but still remain relatively good. As noted above, however, as the year progresses these forecasts are likely to be revised downwards because of the fallout from the financial markets problems.

Table 2.2 International GDP growth (real) %

	2007	2008
USA	2.1	2.5
Euro Area	2.7	2.3
OECD	2.7	2.7
UK	2.7	2.5
Germany	2.9	2.2
France	2.2	2.2

Source: OECD Economic Outlook. No. 81 May 2007

International economic growth in 2008 will be broadly comparable to the good 2007 performance based on current projections (OECD May 2007).
The two main tourism markets of the USA and the UK will fare slightly differently with the UK's growth rate declining and the USA's rate increasing on current forecasts. The Irish growth rate will be substantially lower in 2008 than in 2007. It is likely that the current 2008 forecasts for both the national and international economies will be revised downwards as the year progresses resulting in a relatively weak economic environment in 2008.

2.2 Domestic Inflation and the Hotel Industry

Ireland's inflation rate has remained high in recent months. In the year to July 2007, as measured by the CPI, it was 5.0% compared with 4.9% to June, and 5.0% to May 2007. Ireland's inflation rate is ahead of the EU and Euro area rates. High domestic inflation translates into increased operating costs for hotels and guesthouses resulting in lower margins and or higher prices. As identified in section 2.5 hotel margins are under threat. High inflation reduces tourism operators' competitiveness and margins and the attractiveness of Ireland as a holiday location.

Table 2.3 Ireland and EU Inflation Rates Yr to June 07

	%
Ireland	2.8
Eurozone	1.9
EU	2.1
UK	2.4
France	1.3
Germany	2.0

(Based on EU Harmonised Index; the Irish rate of 2.8% is equivalent to 4.9% on the CPI measure) Source: CSO

Based on the comparable EU measure Ireland's current inflation is 2.8% compared to a Eurozone rate of 1.9% and a French rate of 1.3%. Some illustrative recent price increases are shown below. While the overall inflation rate was 5.0 % in the year to July 2007 several tourism related items increased by much higher rates.

Table 2.4 Price Increases: Year to July 07

CPI	5.0%
Electricity	12.6%
Natural Gas	20.5%
All Services	8.7%
Transport Services	13.0%
Postal	10.4%
Health and Beauty Treatments	10.0%

Source: CSO

Local authority charges continue to increase. In the five main cities the increases in rates poundage were kept below 4% with Limerick generating a decrease. However, four of the five exceeded the 2% maximum proposed in last year's budget submission.

Table 2.5 Annual Rate Valuation Multiplier 2002 – 2007, Cities

	2002	2006	2007	% increase 06/07
Cork	57.56	68.22	70.75	3.71
Dublin	46.86	57.41	59.52	3.68
Galway	48.70	60.76	63.07	3.80
Limerick	65.46	75.31	74.56	-1.00
Waterford	48.69	60.86	63.29	3.99

Source: Dept of the Environment, Heritage and Local Government

Over the period 2002 to 2007 the annual rate valuation multiplier for the five city councils increased by between 14% and 30% while the CPI increase over the period was 17%. Four of the five cities had multiplier increases of over 22%. Of 36 county councils and city councils only four had increases in the 2007 annual rateable valuation of 2% or less as proposed by IHF. The other 32 exceeded the proposed limit. The four were Limerick -1%, Wexford and North Tipperary, 2%, and Dun Laoghaire-Rathdown, no change.

2.3 Labour Costs

As shown by the NCC Ireland is a high cost economy. Labour costs are also high. As economic growth accelerated since the mid 1990s Irish labour costs broadly approximated to the levels of the advanced industrial economies. Over the past several years Irish labour cost growth has been higher than other relevant countries. More recently the gap has narrowed but even now Irish labour cost increases are substantially higher than those of the Euro area and similar to the UK and USA despite the appreciation of the Euro.

Table 2.6 Compensation per Employee (in Private Sector) % change 2007 & 2008

	2006	2008 (forecast)
OECD	3.3	3.7
Euro	2.1	2.9
USA	4.5	4.5
UK	4.5	4.3
Ireland	4.6	4.6

Source: OECD

The hotel industry is particularly vulnerable to labour cost increases. The industry is very labour intensive and as a services industry there is limited scope for productivity improvements. In addition it is an exposed sector competing in competitive international markets. Its domestic and international customers have a wide variety of alternative holiday destinations and experiences, often in low cost locations. Recent substantial increases in the national minimum wage and other regulated wage rates have worsened the situation. Based on 2004 CSO data from the Annual Services Inquiry and the Census of Industrial Production the labour cost share of turnover in hotels is almost four times that of manufacturing (31.3% relative to 8.4%). The Hotel Industry Survey shows that payroll costs relative to turnover grew from 32.2% in 1999 to 37.6% in 2006 with no change between 2005 and 2006.

Table 2.7 Payroll Cost Relative to Turnover (Hotels)

1999	2000	2001	2002	2003	2004	2005	2006
32.2	33.3	32.4	34.2	35.6	35.4	37.6	37.6

Source: Ireland and Northern Ireland Hotel Industry Survey

2.4 Exchange Rates and Interest Rates

Because of the appreciation of the Euro against the Dollar and Sterling since 2002 and the subsequent maintenance of the higher level, the Irish hotel industry has been operating for the past few years in a fundamentally more difficult price environment in the US and UK markets. The Euro has continued to appreciate against the dollar. These two markets are also more attractive than domestic breaks to Irish holiday makers because of the exchange rate appreciation. This situation will not change in the near future. The Euro will remain strong against other currencies. Interest rates have risen substantially in the past two years. This has increased pressure on costs in the hotel industry.

Table 2.8 Exchange Rates and Interest Rates

	2004	2005	2006	2007	2008
US$/€ Exchange Rate (Annual Average)	1.24	1.24	1.25	1.34	1.35
STG £/€ Exchange Rate (Annual Average)	0.69	0.68	0.68	0.68	0.69
Main ECB Interest Rate (%) (year end)	2.00	2.25	3.50	4.25	

Source: ERSI Quarterly Economic Commentary Summer, 2007

2.5 Overall Costs and Revenues in Hotels

The Horwath Bastow Charlton 2007 Hotel Industry Survey has emphasised the worrying medium term cost trend. The survey notes that the cost increases represent the major threat to hotel profit potential in the coming years.

Table 2.9 Increases in Hotel Costs and Revenues 2001/2006 (%)

Per Room	
Sales Revenue	19.3
Payroll Costs	38.4
Utility Costs	99.3
Property Operations	28.9
Marketing Costs	61.4
Fixed Costs	30.0

Source: Ireland and Northern Ireland Hotel Industry Survey

While sales revenue per room has increased by 19.3% between 2001 and 2006 cost increases have substantially exceeded this with increases of between 28.9% and 99.3% depending on cost element. Utility costs grew by 99.3% and marketing costs grew by 61.4%.

The Failte Ireland Tourism Barometer 2007 asked accommodation providers to identify operational issues which cause concern and also to identify the single issue which caused most concern. The top five in each category is shown below:

Table 2.10 Operational Issues Of Concern to Accommodation Providers 2007

Issues Causing Concern Of respondents	**%**	**Single Issues Causing Most Concern Of respondents**	**%**
Energy Costs	82	Labour Costs	21
Rising Overheads/Input Costs	81	Rising Overheads/Input Costs	20
Labour Costs	64	Energy Costs	15
Local Authority Charges	55	Labour Availability/Training/Retention	11
Labour Availability/Training	42	Local Competition/Surplus Capacity	9

Source: Fáilte Ireland Tourism Barometer Wave 2 2007

Energy costs is an issue for 82% of accommodation providers and is the most important issue for 15%. This is not surprising given that the sector spends between €110 million and €150 million on energy annually and it is a significant portion of running costs. It is also a significant issue in terms of future costs and environmentally effective business models. The energy situation for hotels will be dramatically transformed over the coming years through market demand for "green" holidays, cost and regulation. Costs, excluding labour costs is identified by 81% and is the most important issue for 20%.

The top five positive factors affecting performance in accommodation are web related sales, reputation, marketing, flights and location/facilities.

Table 2.11 Positive Performance Factors

The Top 5 Positive Factors Affecting Performance	%
Improved Web/Internet Sales	48
Repeat services/Reputation	45
Own Marketing/Promotion	31
More Flights and Low Fares	28
Good Location/Facilities	27

Source: Failte Ireland Tourism Barometer Wave 2 2007

The Budget 2007 provision on the refunding of VAT paid on certain corporate hospitality is welcome. It is still the case for overall tourism the standard rate and the hotel accommodation VAT rates remain high by EU standards and is a negative influence on international competitiveness. The standard rate is joint fifth highest in the EU. The hotel accommodation rate is sixth highest. The position is better on the restaurant rate where sixteen countries have a higher rate.

Table 2.12 Ireland relative to the EU (of 27) in VAT Jan 2007

	Ireland	Ranking (of 27)	2 Lowest
Standard Rate	21	Joint 5th Highest	15,16
Hotel Accom.	13.5	6th Highest	3, 5
Restaurants	13.5	17th Highest	3, 6

Source: HOTREC

2.6 Irish Overall Competitiveness

The NCC Annual Competitiveness Report 2007 notes that between 2000 and 2006 Ireland has experienced a significant loss of price competitiveness due to high Irish inflation and the appreciation of the Euro against certain major trading partners. A range of business costs are relatively high including industrial and office rents, electricity, waste and professional services. High labour cost increases allied with low productivity growth has also reduced international price competitiveness.

The IMD World Competitiveness Yearbook 2007 shows that Ireland has dropped from 11th place in 2005 to 14th in 2006. Ireland was 5th in 2000.

3. Performance of Tourism and the Hotel Sector

The most publicly discussed tourism performance indicator is number of overseas visitors. In 2006 this was 7.417 million persons, compared with 6.181 million in 2000, an increase of 20.0%. In 2006 the increase was 9.7% 7.42 million compared to 6.76 million in 2005. This measure includes business trips and those visiting family and friends. A more appropriate measure of tourisms international competitive performance is the number of holidaymakers, the promotable or discretionary segment of overseas visitors. This indicator illustrates a substantially weaker tourism performance (Table 3.1) over the medium term. However, performance in 2006 was good.

Table 3.1 Overseas Visitors and Holidaymakers 2000-2006 (m)

	Overseas Visitors	Holidaymakers
2000	6.181	3.320
2001	5.840	3.140
2002	5919	3.216
2003	6.178	3.291
2004	6.384	3.367
2005	6.763	3.365
2006	7.417	3.711
% increase		
00/06	20.0	11.8
05/06	9.7	10.3

Source: Fáilte Ireland

In 2006 the holidaymaker growth was 10.3%. The 2006 level is a substantial improvement on the medium term trend. The 2007 and ongoing task is to sustain and build on this higher performance in the medium term. A breakdown of the origin of holidaymakers is shown below (Table 3.2).

Table 3.2 Overseas Holidaymakers to Ireland 2000 – 2005 (,000s)

	Total	Britain	M.Eur	N.Amer	Other
2000	3,320	1,644	803	722	151
2001	3,140	1,623	743	626	148
2002	3,216	1,751	757	579	130
2003	3,291	1,779	775	616	124
2004	3,367	1,718	825	656	167
2005	3,365	1,662	950	614	139
2006	3,711	1,765	1,114	670	163
% increase 2005 vs. 2000	10.3	6.2	17.3	9.1	17.3

Source: Fáilte Ireland

There were increases in all market segments in 2006 but the mainland European and other market segments grew substantially more than the British and American markets. The 2006 British market is still less than 2003 and the American market is still below the 2000 level. The British and American markets together account for 66% of the total foreign holidaymaker volume in Ireland, which gives an indication of the impact of a strong Euro.

The domestic market is very important for hotel commercial viability. The Failte Ireland Hotel Review for 2006 shows that of the 18.2 million bednights 61% were in respect of customers from The Republic of Ireland and Northern Ireland. The overseas market provided 7.1 million hotel bednights. The Irish customers make up 72% of hotel bednights in hotels outside of Dublin and as can be seen from the following Table and are over 80% in the East and Midlands region. The Failte Ireland data report a 64% share for bednights taken up by Irish customers for the first half of 2007.

Table 3.3 Regional Spread of Hotel Bednights 2006

	Total	Dublin	East & Midlands	South East	South West	Shannon	West	North West
Overseas %	39%	55%	19%	23%	34%	37%	25%	23%
Irish Bednights %	61%	45%	81%	77%	66%	63%	75%	77%

Source: Failte Ireland Hotel Review 2006

Domestic tourism experienced growth of almost 10% in 2006.

Between 2005 and 2006 hotel room occupancy improved from 62% to 64% despite a substantial increase in capacity. There are now 56000 hotel rooms in the Republic of Ireland compared with 52000 in 2006 and 47000 in 2005. The Horwath Bastow Charlton Hotel Industry survey, in 2006, showed that revenue per room grew but cost increases exceeded this and profit per room declined by 4.4% (Table 3.4).

Table 3.4 Hotel Sector Performance 2005 and 2006

	2006	2005
Total Revenue per Room	€59107	€57640
Profit Before Tax per Room	€9,786	€10,238
Profit Before Tax per Room (%)	16.6%	17.8%

Source: Ireland and Northern Ireland Hotel Industry Survey

There are mixed signals on the 2007 performance coming from the currently available data. The first quarter data for 2007(Travel and Tourism CSO) (Table 3.5) indicates good growth in visitors, holidaymakers and hotel bednights. However, the overseas travel data available for the period to June indicate that the growth of visitor numbers greatly declined in April, May and June. A breakdown between holidaymakers and other visitors is not available in this source.

Table 3.5 Overseas Tourism Performance Jan-Mar 06 to 07

	Jan/Mar 06 (M)	Jan/Mar 07 (M)	% change
Total Overseas Visits	1.390	1.478	6.3
Holidaymakers	570	714	25.3
Bednights	8.746	9.042	3.4
Hotel bednights	1.990	2.241	12.6
Guesthouse/B&Bs	629	606	-3.7

Source: CSO

In the first quarter of 2007 compared with 2006 total overseas visitors increased by 6.3% and holidaymakers grew by a very large 25.3%. This is very welcome relative to the medium term trends. Bednights grew by only 3.4% in this period. Hotel bednights grew by 12.6%. Guesthouses and bed and breakfast bednights declined by 3.7%. It is essential that the marketing/promotional effort be maintained to sustain these welcome short-term improvements in holidaymakers and hotel bednights.

The monthly overseas travel CSO data indicate a slowing in the rate of growth in the second quarter of 2007. In the first quarter the growth was 6.4% but the second quarter had a growth of only 0.6%. This gives a combined first two quarters growth of 2.9%. This data source does not classify visitors into holidaymakers and others.

Table 3.6 Overseas Visitors 2006/07

	2006	2007	% Increase 06/07
Jan	408.4	440.9	8.0
Feb	458.7	460.6	0.4
Mar	522.7	576.8	10.4
April	650.9	651.2	0.0
May	710.7	714.6	0.5
June	764.4	772.2	1.0
Jan-June	3515.9	3616.3	2.9
Jan-Mar	1389.8	1478.3	6.4
April-June	2126.1	2138.0	0.6

Source: CSO

Table 3.7 Domestic Market Jan-Mar 2006 and 2007

	Jan-Mar 2006	Jan-Mar 2007	% Increase
Domestic Trips	1,457	1,579	8.4
Holiday Trips	691	769	11.3
Domestic Nights	3,708	3,983	7.4
Holiday Nights	1,733	1,948	12.4
Hotel/Conf. Centre			
Trips	661	736	11.3
Nights	1,386	1,525	10.0

Source: CSO

In the first quarter of 2007 domestic trips grew by 8.4 % but holiday trips grew by 11.3% and holiday nights grew by 12.4%. Hotel and conference nights grew by 10.0%. The strong domestic performance indicated by the CSO data is repeated by the Failte Ireland Preliminary Hotel Survey findings and the Tourism Barometer.

The 2007 Tourism Barometer notes that hotel proprietors reported an increase in business volume in for the first half of 2007 but less of an increase than in the corresponding period of 2006. The domestic market is the main driver of the growth.

Table 3.8 Performance Jan-May 2007 Relative to 2006

% of Respondents	Up	Same	Down
Hotels	50	20	30
Guesthouses	38	29	33
Hotels Overseas	31	36	33
Holiday Domestic	48	28	24
Holiday Northern Irl.	21	51	28

Source: Failte Ireland Tourism Barometer 2007

The forecast performance up to September based on respondents' opinions is shown below and is quite optimistic for hotels with 52% expecting an improvement relative to 2006. The corresponding guesthouses figure is 31%.

Table 3.9 Forecast Performance to September 2007

	Up	Same	Down
Hotels	52	29	19
Guesthouses	31	53	16

Source: Failte Ireland Tourism Barometer 2007

The Failte Ireland Preliminary Hotel Survey covering January to June 2007 indicates a solid performance in the first part of 2007, which has been mainly driven by the domestic market. The room occupancy rate of 62% was an increase of 1% on 2006. Bed occupancy increased from 42% to 44%. Of the regions, however, Shannon was alone in having a decline in room occupancy from 62% to 58%. The constant occupancy rate was combined with a substantial 15% increase in room capacity. Overall the Volume of room sales grew by 16% between Jan/June 06 and Jan/June 07. The performance was driven by the domestic market with bednight sales to overseas markets down by 2% and sales to domestic customers up by 27%. Sales to Northern Ireland grew by 9%. Based on this source the Irish markets accounts for 64% of the total bednight sales.

The tourism and hotel sectors performed well in 2006. Growth in 2007 will be lower than 2006. There are serious concerns about the cost/revenue performance and the 2008 macroeconomic environment will be less supportive than in 2007. Hotel capacity has increased. There has been substantial investment in facilities and marketing by hotels which must continue if the customer base is to be strengthened. The 2008 and ongoing market environment will include a deepening of charges already in place including:

- More frequent and shorter holiday trips, and increased role of experiential urban tourism.
- Use of the internet in marking destination choices
- Role of low cost carriers
- Value for money expectations

4. The Strategic Economic Role of Tourism

Unlike many other developed economies Ireland mainly depends on foreign direct investment for its export performance. Internationally competitive indigenous manufacturing is limited. Therefore the export earning capacity of tourism which is a mainly indigenous industry is of strategic importance to the Irish economy.

Over the longer term the tourism and hotel industries have achieved substantial growth. The weaker holiday performance of recent years was substantially reversed in 2006. The task is to maintain this improvement and continue growth. Budget 2008 can support tourism competitiveness and support marketing.

The main economic features of the tourism industry include;

- €4.7 billion in foreign exchange earnings in 2006 compared to €2.1 billion in 1995 and €4.3 billion in 2005.
- 7.4 million visitors
- Domestic tourism expenditure in 2006 of €1.4 billion
- The Exchequer received €2.8 billion in taxation from tourism in 2006
- Allowing for indirect and induced effects tourism accounted for 3.8% of GNP in 2006
- According to Fáilte Ireland data the hospitality industry accounts for 249,000 jobs. Tourism accounts for an estimated 140,000 jobs.

Tourism is a large, strategically important industry which has great potential as shown in 2006.

5. Budget Policy to Improve Competitiveness of Tourism

5.1 Context

The IHF Budget proposals are based on the analysis of the previous sections and reflect Government aims and objectives. They are designed to enhance competitiveness as part of a co-operative effort to sustain the 2006 performance and build on it over the coming years in a changing market. The proposals take into account:

- The forecast domestic and international economic situation
- The major competitiveness impact of the strength of the euro
- The strategic economic role of tourism
- The value for money return on investment in tourism
- The competitiveness reducing impact of labour costs inflation, taxes, interest rates and exchange rates
- The self imposed penalty of high local taxes and charges
- The recent and medium term performance of tourism and the hotel sector.

5.2 The Budget Proposals

The IHF proposes four measures to enhance competitiveness and to promote development. These complement the efforts being undertaken by the tourism and hotel industries. There are many tax and expenditure issues to be tackled to support tourism but the 2008 priorities should be to avoid worsening the tax burden, increase the capability to deal with the energy issue, control local authority charges and taxes and support the marketing effort to increase the volume of business.

1. There should be no tourism related tax increases in Budget 2008. This includes VAT, excise, energy and transport. Nothing should be done with indirect taxes which worsens the competitiveness of the Irish tourism product. There is a strong case for reducing these taxes but the opportunities of the last four years to do this were not taken.

2. The IHF Submission for Budget 2007 argued that a new model must be put in place to ensure that the funding of local authorities is fair and reflects competitiveness. The IHF suggested in its submission to the consultants acting on behalf of the Minister for the Environment and Local Government that:-

    - The present Local Authority Rates system be abolished and replaced with a local income tax based on profitability as opposed to property valuations to pay for the provision of community based services such as parks, libraries, street cleaning, local contribution to road maintenance;

- User charges be introduced for services for both businesses and households where the levels of use can be determined such as water provision, waste collection, planning fees;

- Central government funds social services specifically social housing, assistance to elderly and disabled people to adapt their houses. Pending the introduction of this system increases in any Local Authority charges and tax should be capped at 1% for 2008.

3. The marketing budget for tourism should be increased by €5 million from €45 million to €50 million in 2008 to ensure a significant real increase in resources to deal with the changing tourism market and greatly increased competition. Separate funds should also be provided to Tourism Ireland to implement the recommendations arising from the current review of the Ireland Tourism Brand. It is important that the volume and impact of the overseas marketing efforts are maintained and that the costs arising from the major brand review are treated as a capital investment.

4. An "Efficient Energy in Hotels Programme" should be introduced. The hotels, Government and the relevant agencies have greatly improved their activity in this area in recent times. This is welcomed but must be enhanced for the hotel sector. The cost and availability of energy is an important issue for hotels. The task of reducing costs while still meeting customer requirements and expectations is difficult. Sustainable Energy Ireland (SEI) has recognised the needs of hotels and has developed strategic guidelines for hotels. Many Irish hotels both independently and with SEI have introduced energy efficiency and/or green energy programmes. The IHF recommends a hotel specific programme to be rolled out on a general basis. This would include;

    - Advice and education on energy efficiency and alternative energy
    - Financial support for investment costs to adjust to more efficient and /or more sustainable methods
    - Appropriate tax incentives

The 2007 Finance Act extended the provisions of the Business Expansion Scheme (BES) which has been of significant benefit to indigenous industry in Ireland. The increase in the individual investor limit and the amount which a qualifying company can raise were indeed very welcome changes for Irish business and the economy as a whole. The generation of electricity through a wind farm is regarded as a qualifying trade for the purposes of BES relief.

We wish to draw attention to a significant issue with regard to the timing of tax relief for BES investments in wind farms. Wind farm promoters find it quite difficult to obtain BES finance at the start of a wind farm project. A very significant capital investment is required in order to buy and set up the wind turbines. It is at this stage that most of the finance is required. The development of a wind farm may take up to two years. Therefore even though significant capital investment is required early on, it may take two years before the wind farm is actually up and running (i.e. trading).

It is a condition for BES relief that an individual cannot make a claim until the BES company has been trading for four months. This makes it very difficult to persuade investors to invest in a BES project at the start when the funds are most required if the investors will not get tax relief for at least two years and four months after they make their investment. The reality is that it might be even longer depending on how long it takes for the refund to issue from Revenue.

In addition investors that do help finance the early stages of a wind farm project express much dissatisfaction at the fact that they cannot obtain certification in order to receive tax relief for their investment for at least two years and four months. The problem is being exacerbated by the increasing costs of finance due to ongoing increases in interest rates. Therefore we would be grateful if you could address this matter in the forthcoming Budget/next year's Finance Act.

We would propose that the legislation with regard to BES tax relief for wind farms be amended so that investors would obtain tax relief once they make their investment rather than having to wait until the wind farm was actually trading for four months. Consideration should be given to using similar legislation to that which provides corporation tax relief to companies that invest in companies engaged in renewable energy generation.

We believe that such an amendment would be more equitable for investors and significantly enhance the availability of BES funding for wind farms which are important both for the Irish economy and obviously for climate control. Any change in the BES regulations relating to wind farms should equally apply to other methods of renewable energy generation.