IRISH HOTELS FEDERATION

SUPPORTING

HOTELS AND GUESTHOUSES

TO

SURVIVE THE RECESSION

SUBMISSION

to the

MINISTER FOR FINANCE

on

BUDGET 2010

from the

IRISH HOTELS FEDERATION

October 2009

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One Page Summary

The hotel and guesthouse sector is in a crisis situation. In the first seven months of 2009 overseas visitors declined by 10.4% while British visitors declined by 14.4%. In the first half of 2009 overseas holidaymakers declined by 19.4% and total overseas hotel bednights declined by 23%. Accommodation prices have fallen by 15.6% in the past year according to the CSO and occupancy rates have fallen. Domestic tourism has collapsed in terms of both volume and price.

The weak state of the sector has been illustrated by the recent Report of the Tourism Renewal Group which identified "survival" and "recovery" recommendations. The IHF proposals are fully consistent with the "survival" recommendations on investment in marketing, reducing access costs, prioritising public spending and supporting sustainable enterprises.

The Government should play its part in the immediate task of ensuring the survival of the hotel/guesthouse sector in its Budget 2010 strategy by;

1. Maintaining the current real level of activity funded by the Fáilte Ireland and Tourism Ireland international marketing budget and initiating specific additional marketing activity to attract new business/conference visitors to derive maximum benefit from the availability of the national conference centre in 2010 and to regain lost ground in the British market.
2. Avoiding any tax increases in tourism related products and services at national and local levels, introducing a three year freeze on all public sector charges at the 2008 level and reducing local authority rates by 30% for 2010. Any carbon tax should be revenue neutral and should not be used to increase the tax burden or to increases the tourism sectors tax burden.
3. The Government should immediately remove the Air Travel Tax.
4. Extending the employment subsidy available to exporting enterprises to the hotel/guesthouse sector
5. Ensuring the availability of appropriately priced credit to the hotel/guesthouse sector
6. Facilitating the orderly reduction of excess capacity through adjustment of the tax regulations concerning tax allowances for new hotels.

Executive Summary

2009 has been a disasterous year for the hotel and guesthouse sector. The sector is in a crisis situation. The Irish economy which determines the domestic tourism segment will collapse by between 8% and 10% in 2009. The international economy will also perform poorly in 2009 with a Euro area decline of about 5%. This has been directly and quickly reflected in very substantial declines in tourism volumes and in levels of hotel activity. This 2009 situation follows a poor 2008 performance. While there will be a weak economic recovery internationally in 2010 the Irish economy will continue to decline in 2010 by between 2% and 3% according to most forecasts but one recent forecast suggests that very moderate growth could resume in Ireland in 2010. Of great concern to the IHF is the expectation that even with Irish economic growth resuming in 2011, and possibly 2010, the 2007 volume of Irish consumer expenditure and economic activity will only be reached in 2015 or 2016 according to IMF projections. The 2009 performance will be very much worse than was expected only a year ago.

The weak demand situation has been intensified by the credit crisis which is making it very difficult for hotels and guesthouses to obtain adequate levels of credit. The hotel and guesthouse sector is facing low levels of demand, declining prices, excess capacity, low levels of room occupancy, limited availability of credit and a high cost operating environment in Ireland. All the evidence shows that the hotel and guesthouse sector is in a very difficult situation and the emphasis of most operators is on surviving the recession, and hopefully, thereafter placing their enterprises in a position to benefit from the eventual economic upturn.

The hotel sector has invested substantially in capacity, facilities and refurbishment over recent years. Unfortunately for the next few years the likely levels of domestic tourism will be insufficient to support the increased capacity. In the absence of supportive policy measures the sector faces a medium term situation of over capacity with damaging consequences for the commercial viability and sustainability of the entire hotel sector.

The current tourism and hotel positions are weak:

- International visitors have declined by 10.4% in the first seven months of 2009, British visitors declined by 14.4%.

- In the first half of 2009 the number of overseas holidaymakers declined by 19.4%.
- Overseas visitors hotel bednights declined by 23% in the first half of 2009.
- Domestic holiday tourism trips declined by 17.8% in the first quarter of 2009.
- Prices and revenues have dropped by between 20% and 30% without a corresponding decline in costs resulting in a profits squeeze throughout the hotel guesthouse and other tourism sectors.
- The worsened business environment has made it difficult for hotels and guesthouses to obtain required levels of bank credit to cope with the recession
- Many hotels have gone into receivership and examinership.
- In the five years 2003 to 2008 hotel room capacity grew by 41% or almost 18,000 rooms. The combination of increased capacity and greatly decreased market has substantially reduced hotel occupancy rates. These lower occupancy rates are being achieved only with lower prices.
- The Failte Ireland Tourism Barometer for the first half of 2009 reported that 91% of hotels and guesthouses had experienced a decline in the number of bednights compared with 2008.
- The room occupancy rate dropped from 64% in 2007 to 58% in 2008. In the first eight months of 2009 the hotel room occupancy rates has continued to decline from 60% in the same period of 2008 to 56%.
- According to the CPI, hotel accommodation prices in September 2009 were 15.6% lower than in 2008. At the luxury end prices have dropped by more.

While many of the negative factors affecting the hotels sector are beyond the control of the government such as the international economic decline and exchange rates. Budget 2010 is capable of substantially improving the situation. It can sustain and consolidate the tourism resource and enhance competitiveness.

The strategic policy and sectoral objectives for tourism must be to survive the recession and thereafter begin to increase its market shares of both domestic and international tourism. The proposals are consistent with the “survival action” recommendations of the Report of the Tourism Renewal Group which covered investment in marketing, reduction in access costs, prioritising of public spending on tourism and the support of sustainable enterprises.

Budget 2010 can begin this process and should address the following six areas:

1. Maintaining the current real level of activity funded by the Fáilte Ireland and Tourism Ireland international marketing budget and initiating specific additional marketing activity to attract new business/conference visitors to derive maximum benefit from the availability of the national conference centre in 2010 and to regain lost ground in the British market. Marketing activity is a main determinant of market share. Irish tourism can not solely depend on growth in international markets. We must aim to increase our market share of the now smaller international market. In particular the short term marketing effort and focus must have the British market as a priority to take account of the large decline in the number of British visitors in 2009.
2. Avoiding any tax increases in tourism related products and services at national and local levels, introducing a three year freeze on all public sector charges at the 2008 level and reducing local authority rates by 30% for 2010. Any carbon tax should be revenue neutral and should not be used to increase the tax burden or to increases the tourism sectors tax burden.
3. The Government should immediately remove the Air Travel Tax. As an island destination the range, cost and quality of access to Ireland is absolutely critical to overseas tourism and its export earning potential. With the current pressure on airline margins (driven by fuel price volatility as well as declining demand), Ireland cannot afford to incur competitive disadvantage that makes routes to and from Ireland less attractive for operators seeking to maximise their return. The risk of competitive disadvantage has been heightened by the recent trend of other Governments removing travel taxes and other access-related levies and charges, in response to their negative economic impact in the current downturn. The tax, and concerns about its future evolution are also having a significant negative impact on confidence in the Irish tourism industry, which is already under severe pressure.
4. Extending the employment subsidy available to exporting enterprises to the hotel/guesthouse sector
5. Ensuring the availability of appropriately priced credit to the hotel/guesthouse sector
6. Facilitating the orderly reduction of excess hotel capacity through adjustment of the claw-back regulations attached to capital allowances for hotel development.

1. Supporting Hotels and Guesthouses to Survive the Recession

The Irish tourism and hotel/guesthouse sector is currently in a crisis situation. This has been caused by a combination of collapse in the domestic and international tourism markets, the failure of the banking system to provide adequate credit, the very high cost of doing business in Ireland and excess growth in hotel capacity in recent years. Ultimately economic growth will resume and it is essential to national economic recovery that Ireland's tourism sector is well positioned to take advantage of the ending of the international recession in 2010 and the Irish recession in 2011.

While it may seem optimistic to be talking of tourism growth in the context of the truly appalling position of 2009 we must recognise that the medium and long term potential of the Irish tourism sector is strong if we get through the present difficulties and if Government introduce the appropriate supportive policies. While the current emphasis is on survival, the medium and long term emphasis will be on employment growth and activity growth. This will require that the "Ireland" marketing presence in international markets must be maintained, that solid tourism enterprises and entrepreneurs must not be lost to the economy through short-term financial difficulties and that the budget must improve competitiveness particularly through reductions in local authority commercial rates and assist the adjustment to sustainable levels of hotel capacity.

The IHF submissions on recent budgets emphasised the competitiveness pressures facing the sector with high domestic labour and input costs, high minimum and regulated wages and the high cost of energy and public services such as local authority rates, water and waste collection. In addition the sector has had to operate with a very strong exchange rate in its two main markets. The sector managed to cope with these difficulties through cost management, reduced profits and good market conditions. The collapse in the tourism market has removed the main bulwark against the high cost of doing business in Ireland. We must as a matter of urgency improve our cost competitiveness. Enhanced competitiveness must be an element of Budget 2010 and public sector prices and charges should be frozen at 2008 levels.

Unfortunately, government determined costs and prices have not followed the general private sector and hotel sector trends. Many public sector charges continue to increase (in some cases new charges are even being introduced) and there has not been a programme of reductions in these charges and prices. Hotels and guesthouses have had to reduce costs and many have achieved up to 20% savings through higher efficiencies and productivity coupled with better procurement procedures. We call on Government to follow the examples of the private sector in reducing its prices and charges.

There should be no increases in tourism related taxes and any new carbon tax should be revenue neutral both for the overall economy and for the hotel/guesthouse sector.

The government contribution to marketing should ensure that the level of marketing activity is maintained in real terms. In addition there should be support for a specific marketing drive to attract corporate conference business in light of the availability of the national conference centre in 2010.

Cost competitiveness is a key issue and the policy framework has been too slow in recognising this. Tourism is an international industry competing in the global market for both domestic and overseas tourists. The international economic slowdown has intensified competition. Competitiveness is determined by a wide range of factors, including taxation, cost and prices and marketing. Marketing and costs are the two aspects which can quickly respond to policy measures.

The Government should play its part in the immediate task of ensuring the survival of the hotel/guesthouse sector in its Budget 2010 strategy by;

1. Maintaining the current real level of activity funded by the Fáilte Ireland and Tourism Ireland international marketing budget and initiating specific additional marketing activity to attract new business/conference visitors to derive maximum benefit from the availability of the national conference centre in 2010. Marketing activity is a main determinant of market share. Irish tourism can not depend on growth in international markets. We must aim to increase our market share of the smaller international market

2. Avoiding any tax increases in tourism related products and services at national and local levels, introducing a three year freeze on all public sector charges at the 2008 level and reducing local authority rates by 30% for 2010. Any carbon tax should be revenue neutral and should not be used to increase the tax burden or to increases the tourism sectors tax burden.

3. The Government should immediately remove the Air Travel Tax. As an island destination, the range, cost and quality of access to Ireland is absolutely critical to overseas tourism and its export earning potential.

4. Extending the employment subsidy available to exporting enterprises to the hotel/guesthouse sector

5. Ensuring the availability of appropriately priced credit to the hotel/guesthouse sector

6. Facilitating the orderly reduction of excess capacity through adjustment of the tax regulations concerning tax allowances for new hotel

IHF recognises that the Government's finances are in a difficult position in 2010 and later years and supports strong efforts to correct the imbalances. Indeed the IHF believes the required reductions in expenditure will be even larger than indicated in the McCarthy Report if unsustainable increases in taxation and competitiveness eroding increases in public sector charge are to be avoided. The IHF rejects the recommendation to reduce the tourism marketing spend except where this is based solely on lower prices and improved efficiency. The IHF also rejects the reasoning behind this recommendation. Of course, as identified in the Report, the decline in the national and international tourism market is responsible for much of the activity decline but this means we must attempt to increase market share to support the required volume of activity. This objective requires additional marketing effort. Consideration of the Exchequer costs of tourism development should also take into account the flows of taxation revenue which accrue to the Exchequer from tourism. Tourism is a good investment for the Exchequer. It generates taxation revenue flows which are very substantially in excess of the Exchequer costs. The IHF is confident that the tourism related Exchequer payback provides better value for money that many other economic development/industrial development related expenditures.

Without sustainable economic activity there will be no lasting economic recovery. Economic activity and economic growth which will generate employment requires a strong enterprise sector of which tourism is a very essential part. A failure to support tourism with well justified evidence based expenditure and other polices will make economic recovery weaker and less certain. Consequently the IHF calls for support measures within the overall context of recognising the need to reduce public expenditure.

2. The Economic Role of Tourism

Tourism and the hotel and guesthouse sector are substantial national economic resources and have invested in skills, marketing, technology, products and services and physical facilities. The main economic contributions of the tourism industry include;

- €4.8B in foreign exchange earnings in 2008.
- 7.4m overseas visitors.
- Domestic tourism expenditure in 2008 of €1.5B.
- The exchequer received €1.5B in taxation from tourism in 2008.
- Tourism accounted for about 4% of GNP and 2.2% of Gross Value Added.
- According to Fáilte Ireland data, the hospitality industry accounts for 200,000 full-time, part-time and seasonal jobs.
- Provides regional economic activity to a greater extent than most other industries.
- Generates 7% of services exports.
- Provides a substantial entrepreneurial resource as the vast majority of tourism enterprises are small and medium enterprises.

Tourism is a large, strategically important industry and employment generation which is deeply embedded in the Irish economy and should be supported in Budget 2010. Of particular significance is the potential future role of international tourism in economic recovery. Future economic growth will be more focused on export activity including the attraction of foreign tourists rather than domestic demand as has been the case in recent years. Despite its present difficulties tourism is very well placed to support export led growth. With a cost competitive economy and good international promotion, the tourism industry is capable of substantial growth relative to other export sectors.

3. Very Weak Economic Environment in 2009 and 2010

3.1 Economic Growth in 2009 and 2010

The Irish economy has been very weak in 2009 with declines in both Ireland and the international economy. Irish economic activity will continue to decline in 2010 but at a slower rate. There will be a small international recovery. In those economies of relevance to Irish tourism there will be a modest growth of less than 1%. As shown below current OECD projections are for zero growth in the Euro area and the UK and under 1% in the USA. More up to date indicators suggest performance in 2010 may be slightly better. Overall, however, the 2009 environment for international tourism is weak and there is only limited improvement in 2010 with at best growth of around 1%.

Table 1: International Economic Growth 2009 and 2010

GDP GROWTH %	2008	2009	2010
USA	1.1	-2.8	0.9
UK	0.7	-4.3	0.0
FRA	0.3	-3.0	0.2
GER	1.0	-6.1	0.2
ITA	-1.0	-5.5	0.4
NETH	2.1	-4.9	-0.4
EURO	0.5	-4.8	0.0

Source OECD June 2009

Over recent years the hotel sector has become increasingly reliant on the domestic market. Two thirds of hotel bednights and a higher proportion of other hotel activities are accounted for by the domestic market. Economic growth and consumer demand growth prospects for Ireland are very weak for 2009 and 2010. The range of different forecasts is shown below. While 2010 will be an improvement on 2009 the current consensus is that there will still be continuing decline in economic activity and in the volume of consumer expenditure. One very recent forecast has suggested that there might be very modest growth in 2010. The consensus view of the economy in 2010 indicates the need for additional Government support of the tourism sector.

Table 2: Irish growth projections 2009 and 2010 % Volume

	GDP 2009	GDP 2010	CONSUMER EXPEND 2009	CONSUMER EXPEND 2010
ESRI	-7.2	-1.1	-7.0	-2.0
IMF	-8.5	-3.0	-9.0	-5.0
OECD	-9.8	-1.5	-7.2	-3.6
GOVT	-7.7	-2.9	-7.8	-3.7
CENTRAL BANK	-7.8	-2.3	-7.6	-4.0
DAVY STOCKBROKERS	-6.3	+1.2	-7.0	+1.5

Source: Various organisations.

3.2 Economic Prospects to 2014

Even with a resumption of growth in 2011 the level of Irish economic activity will be lower in 2014 than it was before the economic collapse in 2007. Based on IMF assessments it will be 2016 before the GNP levels of 2007 are reached again. Consumer expenditure (in volume terms) which is a major determinant of domestic demand for hotel services and other businesses) will be almost 8% lower in 2014 than in 2007.

Table 3: GNP and Consumer Expenditure (volume)) 2007-2014 (2007=100)

	2007	2008	2009	2010	2011	2012	2013	2014
GNP	100	96.9	89.7	86.5	87.3	89.2	91.5	93.7
Consumer Expenditure	100	99.2	90.3	85.8	86.2	87.9	90.1	92.3

Source IMF

These depressing projections already include an expectation of improvements in the international economy and some improvement in Irish cost competitiveness. Employment, society and the public finances will be improved if the growth performance from 2011 is better. One of the most likely sectors for achieving higher growth will be international tourism. Budget 2010 must provide the foundations to achieve this growth.

3.3 Cost Environment

A range of national and international organisations has identified the high cost of operating a business in Ireland including Forfas, IMF and the ESRI. It is expected that the current recession will restore some competitiveness through price and cost declines. However, current forecasts are for very modest declines in 2009 and 2010. The current ESRI forecast for 2009 is a decline of 4.6% in the CPI compared with 2008 and a decline of 0.3% in 2010. The CPI includes the effect of mortgage rates. The EU HICP measure is a better measure of the cost of goods and services. Overall, this is expected to decline by only 1.6% in 2009 and will increase by 0.2% in 2010. Wage growth is expected to be -3.0% in 2009 and -1.6% in 2010. These changes will not be sufficient to regain lost cost competitiveness. The required adjustment is in the range of 20%. Government must not depend on market forces and the recession to improve cost competitiveness. Budget 2010 must directly focus on improving cost competitiveness.

While the overall Irish price level declined by 6.5% in the year to September 2009 as measured by the CPI, health prices increased by 2.5%, education increased by 3.9%, rail fares increased by 8.7% and bus fares increased by 12.0%. In addition, insurance costs rose by 19.6%. On the other hand, hotel accommodation prices declined by 15.6%. The hotel/guesthouse sector is squeezed between declining output prices and increasing public sector and some other input prices.

Table 4: Price Increases: Year to September 09 %

CPI	-6.5
Bus fares	12.0
Accommodation services	-15.6
Insurance services	19.6

Source CSO

Commercial rates continue to be an excessive burden on the sector. Despite the adverse economic situation in 2009, 22 of 34 county councils and city councils increased their annual rates on valuation. Twelve areas kept the rate at 2008 levels and none of the 34 introduced a decrease. This contrasts with the substantial decline in hotel revenues and prices.

The entire commercial rates system is inappropriate and penalises business. There is no effective method of revising rateable valuations to take into account major worsening of economic circumstances, returns on property or the ability to pay of enterprises which are at the mercy of the monopoly power of local authorities. As an immediate step the Government should immediately announce a country wide 30% reduction in Local Authority rates applicable to hotels and guesthouses until such time as the rateable valuations of these properties have been revised as provided for in the Valuation Act 2001.

The South County Dublin revision which has been completed and Fingal which is in progress has resulted in the rates liability of hotels being reduced by in excess of 30%. Based on the pace of completing the revisions of the rateable valuations since the coming into effect of the Valuation Act 2001 in April 2002 it will take over twenty years to complete the revision process country-wide and this is without making any provision for the review of the revised valuations which the act requires to be carried out every five to ten years.

3.4 Labour Costs

As shown by the National Competitiveness Council and other organisations Ireland is a high cost economy in terms of business costs. Labour costs levels are also high. The hotel industry is particularly vulnerable to labour cost increases. The industry is very labour intensive and as a services industry there is less scope for productivity improvements than in manufacturing. 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.

The hotel industry includes a substantial proportion of low wage occupations. This is a feature of the production processes in the industry and is an international phenomenon. The industry is particularly vulnerable to changes in wage rates at the lower level. Ireland has the second highest minimum wage in the EU and is substantially higher than several countries. This issue is worsened by the operation of the Joint Labour Committees(JLC) system to which part of the industry is subject. The JLC imposes statutory wage levels which are effectively minimum wages which are higher than the official minimum wage and also imposes other legally binding conditions of employment to which other economic sectors are not subject. The current regulated and statutory wage rates do not reflect the dramatic worsening of the business performance of the hotel sector in 2008 and 2009.

The Hotel Industry Survey illustrates the growing share of labour costs relative to turnover and the very large increase in 2008. The 2008 Survey for Ireland and Northern Ireland lists the current share at 40% which is up from 32.2% in 1999 and 35.4% in 2004. When the Northern Ireland content (32.2%) is removed the figure for the Republic is substantially in excess of 42%.

Table 5: Payroll Cost Relative to Turnover (Hotels) (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
32.2	33.3	32.4	34.2	35.6	35.4	37.6	37.6	38.8	40.0

Source Ireland and Northern Ireland Hotel Industry Survey

3.5 Exchange Rates

Because of the appreciation of the Euro against the Dollar and Sterling since 2002 the Irish hotel sector 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 Sterling in the year to October 2009, despite some volatility within the period, which has caused additional serious competitiveness problems in the important UK market.

As of October 2009 compared with 2008 the Euro is very strong against the dollar and is back to the average 2008 level. These two markets are also more attractive than domestic breaks to Irish holiday makers because of the exchange rate situation. The overall situation will not improve greatly in the near future. The Euro will remain relatively strong against these two currencies.

Table 6: Exchange Rates 2002-2009

	2002	2004	2005	2006	2007	2008	2007 Oct (9th)	2008 Oct(9th)	2009 Oct(9th)
US$/€ Exchange Rate (Annual Average)	0.94	1.24	1.24	1.26	1.37	1.47	1.40	1.37	1.48
STG £/€ Exchange Rate (Annual Average)	0.63	0.68	0.68	0.68	0.68	0.80	0.69	0.79	0.92

Source: Central Bank

3.6 Financing Crisis

The hotel sector is in a very difficult financing crisis. Revenues have been squeezed by the combination of lower prices, excess capacity and low capacity utilisation rates. Costs have not significantly reduced. Consequently margins are under severe pressure. The unexpected and large decline in financial viability has generated a need for increased bank finance to survive the hopefully short term recession. This need for increased finance has coincided with the very severe banking and credit crisis. Consequently hotels and guesthouses are finding it difficult to obtain adequate levels of bank finance.

The financing crisis for hotels requires a fivefold response from policymakers;

- An orderly reduction of capacity should be facilitated through adjustment of the claw-back regulations attached to capital allowances for hotel development. Currently the tax allowance clawback provision is a barrier to the reduction in capacity.

- The public sector determined cost environment for hotels must be improved, including an immediate reduction of 30% in commercial rates
- Adequate levels of credit should be made available on a Government risk sharing basis with banks and/or direct lending by Government using the banking system as an agent.
- Tax incentives should be introduced to support new equity investment in existing hotels to reduce the level of borrowing
- The operations of NAMA should be designed to ensure that unfair market distorting competition should not arise from hotel assets under NAMA control.

Because of the increased risk environment for hotels it is hardly surprising that the credit situation for hotels is weak. The recent Mazars report noted that in the year to June 2009 27% of hotels and restaurants reported that they had credit application rejected by the banks. As the economic situation worsened greatly over the year it is likely that the rejection rate increased from below 27% in June 2008 to above 27% in June 2009. Currently, the rejection rate could be above 40%.

4 Performance of the Hotel and Guesthouse Sector

The profit rate declined from 17.8% in 2005 to 12.8% in 2008. Profit does not include depreciation, bank loan interest or rent where relevant. The figures refer to averages of hotels. There is a distribution around the average and many hotels operate at lower profit margins. Given what has happened to room rates, profit levels (before depreciation and interest charges) in 2009 will be lower. Net profits after interest and depreciation will be negative.

Table 7: Hotel Sector Profit Performance 2005, 2006, 2007, 2008 and est. 2009

	2005	2006	2007	2008	2009 estimates
Profit Before Tax per Room	€10,238	€9,786	€9308	€7056	-€100
Profit Before Tax per Room (%)	17.8%	16.6%	15.5%	12.8%	negative
Room Occupancy Average	68.9%	69.8%	69.7%	63.5%	55%
Total Revenue per Room	€57640	€59107	€59968	€55116	€44000

Source Ireland and Northern Ireland Hotel Industry Survey and IHF estimates

The hotel industry has grown substantially over recent years with largescale investment in new capacity and extra facilities. This growth in capacity was encouraged by the excellent overall and sectoral performance and a favourable fiscal structure.
The combination of increased capacity and decreased market has substantially reduced hotel occupancy rates. These lower occupancy rates are being achieved only with lower prices. The room occupancy rate dropped from 64% in 2007 to 58% in 2008. In the first eight months of 2009 the hotel room occupancy rate continued to decline from 60% in 2008 to 56% in 2009.

Table 8: Hotel Room Occupancy Rates % Jan-Aug 2008 and 2009

	Jan-Aug 2008	Jan-Aug 2009
Hotels	60	56

Source: Fáilte Ireland Preliminary Hotel Survey 2008

As shown in Table 9 there has been a large decrease in the number of overseas visitors in the first seven months of 2009.

Table 9: Overseas Tourism Performance, (visitors k), Jan-July 08 to 09

	Jan/July 08	Jan-July 09	% Change
Total Overseas Visitors	4537	4064	-10.4
Visitors from Great Britain	2214	1897	-14.4

Source CSO

In the first seven months of 2009 compared with 2008 total overseas visitors decreased by 10.4%. The decline in visitors from Great Britain was 14.4% over this period compared to 6.4% from the rest of Europe. This is particularly worrying as the British market continues to be the largest market for Irish tourism. The hotel sector has suffered a larger overseas decline than the market as a whole. Total overseas hotel bednights declined by 23% in the first half of 2009 compared with 2008. In the same period overseas holidaymakers declined by 19.4% compared to 10.7% for all visitors.

Table 10 shows the decline in the domestic market in the first quarter of 2009. It should be noted that Easter was in the first quarter of 2008 and this influences the comparison. The decline is evident. Holiday trips and holiday nights declined greatly. While the number of trips to hotels did not decline greatly the number of bednights associated with the trips declined. This performance is in stark contrast to the performance of 12 months ago.

Table 10: Domestic Market Jan-Mar 2008and 2009 (k)

	Jan –Mar 2007	Jan-Mar 2008
Domestic Trips	1,871	1,760
Holiday Trips	890	739
Domestic Nights	4,626	4,221
Holiday Nights	2,336	1,706
Hotel/Conf. Centre		
Trips	819	800
Nights	1,726	1,577

Source CSO

The 2009 Tourism Barometer (Wave 1 June) notes that a very large majority of hotel and guesthouse proprietors reported a decrease in business volume in for the first half of 2009 compared with 2008. 85% of hotels reported that business in the first half of 2009 was lower than 2008 compared. Only 7% reported an increase in business volume. The situation for guesthouses was even worse with 91% of guesthouses reported a decline in business compared to only 4% reporting an increase.

A slightly bigger decline appears to be in the overseas market with 85% of hotels reporting a decline in overseas business compared to 70% reporting a decline in domestic business. Only 6% of hotels reported an increase in overseas business.

Table 11: Performance Jan-June 2009 Relative to 2008

% of Respondents	Up	Same	Down
Hotels	7	8	85
Guesthouses	4	5	91
Hotels Overseas Market	6	9	85
Hotels Domestic Market	15	15	70
Hotels Northern Ireland Market	5	23	72

Source: Fáilte Ireland Tourism Barometer 2009, Wave 1

In comparing average room yield with 2008 for hotels Barometer respondents reported a decline in 93% of cases.

5 Budget Policy to Survive the Recession

5.1 Context

The IHF Budget proposals are designed to support the survival of the hotel/guesthouse sector in a period of enormous economic crisis. This will ensure that the sector is there to contribute to the employment creation and growth which will be required when the recession is over. The proposals are consistent with the "survival action" recommendations of the Report of the Tourism Renewal Group which covered investment in marketing, reduction in access costs, prioritising of public spending on tourism and the support of sustainable enterprises.

The proposals take into account;

- The weak 2009 and 2010 domestic and international economic situation
- The weak cost competitiveness of the economy which is in part generated by public sector charges and prices
- The substantial burden of commercial rates on hotels and guesthouses
- The large economic contribution of tourism
- The role that tourism and the hotel sector can play in economic recovery after the recession
- The value for money return on investment in tourism
- The substantial and rapid negative changes in the financial/business model of hotels and guesthouses since 2008
- The large increases in hotel capacity and its vulnerability to the recent significant decline in tourist numbers
- The current crisis situation in the sector

The sector has geared itself to cope with the demand pattern generated by the buoyant domestic economic activity and good international performance despite the cost and competitiveness worries. Consequently many hotels and also guesthouses are highly leveraged. The business outlook for hotels and guesthouses has quickly and dramatically worsened. The business and finance model which operated before 2008 is now not relevant. Capacity utilisation rates have declined, business volume has collapsed and accommodation prices have fallen greatly. Costs continue to increase. The individual well managed hotel or guesthouse is currently facing and will continue to face decreased revenues and the expected high costs. This threatens the viability of the business and generates a need for additional short term financial facilities while adjustments are made to take into account the new commercial realities.

5.2 The Budget Proposals

It is essential for the future strength of the hotel/guesthouse sector that Budget 2010 reduces the burden imposed by penal public sector charges and local taxes, that cost competitiveness is promoted vigorously and the capacity and credit problems of the sector are addressed. While not specifically a budgetary matter the IHF urges that NAMA should be operated in a way which does not distort the operation of the hotel market either through below cost prices of NAMA operated hotels should this arise or inappropriate disposal of assets.

The IHF proposes six measures to support the survival of the sector and to ensure that the industry will be ready to avail of the international economic recovery in 2010. These measures complement the efforts being undertaken by the tourism and hotel sectors. The strategic policy and sectoral objectives for tourism must be to survive the recession and thereafter begin to increase its market shares of both domestic and international tourism. Budget 2010 can begin this process by:

- Maintaining the current real level of activity funded by the Fáilte Ireland and Tourism Ireland international marketing budget and initiating specific additional marketing activity to attract new business/conference visitors to derive maximum benefit from the availability of the national conference centre in 2010 and to regain lost ground in the British market. Marketing activity is a main determinant of market share. Irish tourism can not depend on growth in international markets. We must aim to increase our market share of the now smaller international tourism market. The British market should be prioritised for the immediate future to reflect its importance to Irish tourism and the current substantial decline in the number of British visitors in 2009.

- Avoiding any tax increases in tourism related products and services at national and local levels, introducing a three year freeze on all public sector charges at the 2008 level and reducing local authority rates by 30% for 2010. Any carbon tax should be revenue neutral and should not be used to increase the national tax burden or to increases the tourism sectors tax burden.

- The Government should immediately remove the Air Travel Tax. As an island destination, the range, cost and quality of access to Ireland is absolutely critical to overseas tourism and its export earning potential
- Extending the employment subsidy available to exporting enterprises to the hotel/guesthouse sector
- Ensuring the urgent availability of appropriately priced credit to the hotel/guesthouse sector
- Facilitating the orderly reduction of excess hotel capacity through adjustment of the tax regulations concerning tax allowances for new hotels.