



**REMOVING COMPETITIVE
DISADVANTAGES**

IN

TOURISM

AND

PROMOTING DEVELOPMENT

SUBMISSION

to the

MINISTER for FINANCE

on

BUDGET 2006

from the

IRISH HOTELS FEDERATION

September 2005

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Executive Summary

The tourism industry is a large and valuable economic resource. It has doubled in size over the past decade. It attracts 6.4 million visitors, generates €4.1 billion in foreign exchange, provides 140,000 jobs and generates €2.3 billion for the exchequer. It is the most important segment of indigenous enterprise. It has the potential to generate more economic benefits.

Despite long term performance and good overall headline figures on recent performance there are serious concerns. While figures for the number of overseas arrivals in the country is a benchmark, it is really the number of holiday and discretionary tourist visits and the length of their stay in the country which really indicate the level of success of the industry and the effectiveness in marketing Ireland overseas.

The number of overseas holiday visitors to Ireland in 2004 (3.37million) was only 1% above the 2000 level. In the past six years there has been a fundamental change in the composition and pattern of holiday visits to Ireland, which has been masked by the overall total volume. The number of holiday bednights spent outside Dublin is in decline, adversely impacting the expenditure levels and the distribution of benefits throughout the country. High labour costs, the strength of the Euro and the spiralling and inequitable cost on the hotel sector in the funding of local authorities is squeezing and in many cases wiping out hotel profitability.

The industry is hindered by self imposed VAT penalties relative to other countries, not just in the rate of the tax on the hospitality sector but critically the non-reclaimability of VAT on hotel and restaurant costs incurred for conferences, corporate meetings and incentive travel purposes. The industry is also burdened by large local authority charges and taxes which reduce or remove the benefits of low direct tax.

Competitiveness in the marketplace and effective communication of a compelling reason to visit Ireland have been clearly identified as the means to sustain the current level of activity and to achieve growth which is essential for the future.

In this submission the IHF has identified three issues which need immediate attention in order to provide a reasonable economic environment for sustainable growth in Irish tourism:-

- **The scourge of local authority charges and taxes on industry and particularly the hotel and guesthouse sector has to be ameliorated;**
- **The Government must remove the major competitive disadvantage, which Ireland has, due to the non recoverability by the international conference, incentive travel and corporate meeting sector of VAT paid on hotel and restaurant costs;**
- **The Exchequer should provide an extra €15 million to Fáilte Ireland and Tourism Ireland to enable them to effectively communicate and market the Irish tourism experience with the aim of returning to growth the number of days which overseas tourists spend in the country.**

These measures will improve competitiveness and promote development in tourism and represent a solid return on the money invested.

1 The 2006 Budget Should Support Tourism

The Irish tourism and hotel sectors are operating in a very difficult economic environment, much of which is beyond the influence of the government. These difficulties include the continuing strength of the Euro particularly as it affects our market position in Britain and the US and the cost increases brought about as a result of the spiralling oil prices. However, much of what is adversely affecting tourism and the hotel industry is within the control of government. The government's desirable fiscal model of low direct taxes is not repeated in its indirect tax model. Given the degree of competition and the price sensitivity of the Irish tourism product, Irish tourism is placed at a competitive disadvantage by high tourism VAT rates and non-refundability of VAT on corporate hospitality expenditure. In addition, the failure to halt the large increases in local taxes and charges negates the direct tax benefits.

The sector has great potential, has invested significantly in the past and has proven it can deliver. It now operates with a fundamentally changed exchange rate and labour cost base. It faces competition from more and more locations.

Budget 2006 should correct the VAT disadvantages, restrict local cost increases and support marketing to assist the industry in realising higher levels of performance and economic contribution.

2 The Economic and Business Environment for Tourism 2006

2.1 Economic Growth

There is uncertainty regarding the international economic performance in the short-term because of Hurricane Katrina. Current estimates suggest that the economic impact will be to reduce 2005 growth in the USA by between 0.5% and 1%. This impact will be felt mainly in the last quarter of 2005. The optimistic scenario is that rebuilding activity in 2006 would boost growth and that towards the end of 2006 the growth effects of Katrina would have worked through. However, if the hurricane's direct and indirect impact on consumer and investor confidence is deep-rooted and if the federal finances are not well managed to deal with Katrina, there may be deeper negative impacts. This will be particularly influenced by the price of petrol which is partly linked to the rebuilding of the Gulf area notwithstanding the recent easing in the price.

The international economic growth performance in 2006 was expected to be slightly above the 2005 performance. Pre-Katrina overall OECD growth was expected to be 2.6% in 2005 compared to a forecast of 2.8% for 2006. Pre-Katrina United States growth was expected to drop from 3.6% in 2005 to 3.3% in 2005. Due to the hurricane the 2005 outturn will be about 3% but the 2006 forecast should stay broadly the same. Euro area growth will increase from 1.6% in 2005 to 2.4% in 2006. The UK economy will continue to grow at the 2005 level. Continuing high prices for oil and weak confidence will result in lower growth than stated above in 2006.

The Irish economy, without the impact of the direct and indirect impacts of the hurricane was expected to have a GDP growth of up to 6% in 2005. Growth of about 5% is expected in 2006. The Budget Day forecast was a borrowing requirement of 0.8% of GDP. This is now expected to be slightly worse at 1.0%, according to the Department of Finance Economic Review and Outlook. The 2006 public finances situation will also be relatively strong and capable of supporting the strategy proposed by the Irish Hotels Federation Budget 2006 submission.

2.1.1 International Growth Position 2006 (pre-Katrina)

Table 2-1GDP growth (real) %

	2005	2006
USA	3.6	3.3
Euro Area	1.2	2.0
OECD	2.6	2.8
UK	2.4	2.4

Source: OECD Economic Outlook

As is the case for recent years, the international political situation could rapidly worsen and the price of oil could stay high. This would result in lower growth than currently envisaged. It would be a very risky strategy to depend excessively on international demand factors sustaining and improving the tourism performance particularly given the uncertainty in the critically important USA market. It is necessary to compliment the international situation with the budgetary measures identified in this submission.

International economic growth in 2006 will be a little above the 2005 performance but the two main tourism markets of the USA and the UK will fare a little worse than the rest of the international economy. Even pre-Katrina USA growth was expected to dip in 2006 compared with 2005. The actual 2006 performance will depend significantly on the response to the Hurricane. UK growth in 2006 will be similar to 2005. The public finances are in relatively good shape.

2.2 Domestic Inflation and the Hotel Industry

The high cost of doing business in Ireland has been acknowledged in several public policy reports. Over the past few years the Irish inflation rate has exceeded those of most other EU economies. While the current level of inflation in Ireland is in line with that of the Eurozone and UK, the cost base is significantly higher due to higher inflation in the past. The hotel industry still carries the burden of the legacy of high inflation. Despite the convergence of the overall inflation rate, the hotel industry continues to be assaulted by very high input price increases, particularly from public providers. In addition large price increases are either being sought or already approved for electricity and other energy and for postal services.

Table 2-2 Irelands Inflation Rate Yr to July 05

	%
Ireland	2.2
Eurozone	2.2
UK	2.3

(Based on EU Harmonised Index; this is 2.4% on the CPI measure)

Some illustrative recent price increases are shown below.

Table 2-3 Price Increases: Year to August 05

CPI	2.3%
Water Supply, Refuse and Misc Services	21.3%
Energy Products	15.7%
Hospital Services	13.2%
Education	6.8%
Health	6.6%

The increase of 21.3% in local service charges is notable. In addition commercial rates over recent years have greatly exceeded the rate of inflation.

The following table extracted from a recently published IBEC position paper puts the seriousness of this issue in perspective.

Table 2-4 Local Services

Local Authority	Activity	Charge (2004)	% Increase 2000-2004
Cork Co. Co.	Waste	€230/tonne	360
Donegal Co. Co.	Waste	€125/tonne	418
Limerick City Co.	RVM*	€73.06	35
Kilkenny Co. Co.	RVM*	€43.04	38
Cork City Co.	Water	€9.23/1000 gallons	230
Wicklow Co. Co.	Water	€3.81/1000 gallons	11

*RVM = Rate valuation multiplier

The lowering and convergence of the overall inflation rate is welcomed by the hotel industry. The efforts to reduce the cost of insurance are also welcomed. But these benefits are being eroded by continuing excessive increases in many public sector provided services.

The lowering of the overall inflation rate and its convergence with the EU is welcomed but there are still very large increases in the costs of public sector services.

2.3 Labour Costs

In addition to the negative competitiveness impact of currency appreciation and input cost inflation, the Irish economy has experienced relatively high labour cost increases. Over the past few years Irish labour cost growth has exceeded other relevant countries. More recently the gap has narrowed but even still Irish labour cost increases are over twice those of the Euro area.

Table 2-5 Compensation per Employee (in Private Sector) % change

	2003	2004	2005	2006 (forecast)
OECD	3.2	3.2	3.3	3.3
Euro	2.2	1.7	1.7	1.9
USA	3.6	4.4	4.3	4.5
UK	4.7	4.4	5.2	4.7
Ireland	3.9	4.0	4.9	4.9

Source: OECD

The sector now operates in a high labour cost environment.

2.4 Other Economic Concerns

It is not clear what will happen EU interest rates in 2006, but there is a strong possibility that interest rates could rise over the next year. This would further worsen the finances of the hotel sector and compound the negative effects of currency appreciation, high costs of doing business in Ireland, increased labour cost and continuing growth of public services prices. The hotel industry appreciates the low profits tax rate but its benefit is being offset by the other negatives of the economic environment.

Fiscal and general public policy must be adjusted to compensate for the negative influences of:

- a) currency appreciation
- b) high local taxes and charges
- c) high labour cost

2.5 VAT

Much of the operating environment (interest rates, exchange rates, international growth, political instability, oil prices) is completely outside the control of the Irish government. However, its domestic fiscal policy is fully within its control. The low profits tax level and low income tax levels are very welcome aspects of the government's fiscal policy. However, other aspects of fiscal policy are very much against the interests of the tourism industry and the hotel sector. Ireland has among the highest alcohol excise taxes in the EU and has one of the worst VAT regimes for hotel tourism. In addition there are high and continually growing local government taxes and charges.

There are two major VAT related issues, the VAT rate applied to accommodation and meals and the fact that the Irish tax code does not allow the refunding of VAT paid on corporate hotel and restaurant expenditure. The latter has a major negative impact on the conference, incentive travel and corporate meetings sector, which is a growing sector internationally.

Ireland is in a relatively weak position in terms of tourism VAT.

Table 2-6 Ireland relative to the EU (of 25) in VAT.

	Ireland	Ranking (of 25)	2 Lowest
Standard Rate	21%	6 th Highest	15%, 16%
Hotel Accom.	13.5%	6 th Highest	3%, 5%
Restaurants	13.5%	15 th Highest	3%, 6%

As of June 2005, HOTREC

Ireland has the sixth highest hotel VAT rate of 13.5%. Denmark (25%), Germany (16%), the UK (17.5%), Slovakia (19%) and Hungary (15%) are higher. Ireland is middle ranked on the restaurant VAT rate. Within the Eurozone, Ireland has the second highest VAT rate on hotel accommodation next only to Germany (16%).

The already weak competitive position on hotel VAT rates is substantially worsened by the fact that all higher VAT rate countries allow VAT on hotel expenditure as a business input. The effective VAT rate on legitimate hotel expenses for corporate customers is therefore zero in Germany, Denmark, the UK, Hungary and Slovakia compared to 13.5% in Ireland.

EU countries (of the EU 25) which allow VAT on hotels/restaurants as business inputs fully or partly are Austria, Denmark, Finland, Netherlands, Spain, Sweden, Germany, UK, Lithuania, Slovenia and Hungary. Because of the allowability issues, Ireland's VAT rate of 13.5% significantly reduces its competitiveness relative to these eleven countries.

The countries listed below do not allow VAT on accommodation as an input but as shown in the table their hotel VAT rates are generally much lower than Ireland.

Table 2-7 Hotel VAT Rate

	VAT allowed for hotel	Hotel VAT Rate %
Belgium	No	6
France	No	5.5
Greece	No	8
Italy	No	10
Portugal	No	5
Ireland	No	13.5
Cyprus	No	5
Czech Republic	No	5
Estonia	No	5
Latvia	No	5
Lithuania	No	5
Malta	No	5
Poland	No	7
Slovenia	No	8.5

Not only does Ireland not allow reclaim, but it has the highest rate of hotel VAT amongst those countries which do not allow reclaim. Excluding Ireland, of the non deductible countries only Italy has a hotel VAT rate of 10% or higher. Relative to the EU, the Irish tourism sector for corporate business is substantially disadvantaged because of the high VAT rate and non deductibility. The VAT rates comparison understates the weak competitive position because all the higher VAT rate countries allow VAT on business hotel accommodation as an input.

Visit Britain, on its website www.visitbritain.com makes a substantial play of the fact that VAT is refunded on corporate hospitality expenditure in its targeting of the Irish market and other markets.

Irish Tourism is greatly disadvantaged by the VAT regime

2.6 The Fiscal Model for Tourism Development

Ireland has followed a fiscal model of low profits tax and low income tax. The IHF strongly endorses this fiscal strategy. However, to compensate for the revenue impact of this approach Ireland has evolved into an indirect and local tax regime which significantly reduces tourism competitiveness.

VAT rates are high, alcohol excise is high and local charges are rising at unsustainable rates. The lack of action by government on these matters reduces the economic and incentive effects of the direct tax regime. It is necessary for the government to review its fiscal policy approach and model in the context of negative effects on tourism. This will require fiscal policy taking into account its impact on competitiveness and its position relative to other countries.

In addition, the improvements needed to support tourism will require control of expenditure at both national and local levels, more effective delivery of local and national public services and a widening of the local revenue base to reduce the burden on business.

Government's fiscal policy must go beyond the direct tax situation and address the very real problems created by the indirect and local tax regimes for tourism.

Ireland's increasing rates and incidence of indirect taxation competitively disadvantages a consumer export sector such as tourism as it has the effect of increasing the cost input basis of businesses and results in apparent high prices for the consumer. The latter is especially apparent to visitors from the EU /Eurozone who perceive their discretionary spending capability reduced in Ireland.

The Government's indirect tax model is inappropriate for tourism

3 Performance of Tourism and the Hotel Sector

3.1 Ireland's disappointing performance in attracting holiday visitors

The past four years have been exceptionally difficult years for international travel, negatively impacted by FMD, 9/11, SARS, the war in Iraq and the ongoing threat of terrorism. Ireland has suffered three consecutive years of depressed demand with overseas visitor numbers in 2004 only marginally exceeding the previous peak achieved in 2000 (+3% to 6.38 million).

However, the number of overseas holiday visitors to Ireland in 2004 (3.37 million) was only 1% above the 2000 level. Over the period of the past six years there has been a fundamental change in the composition and pattern of holiday visits to Ireland, which has been masked by the overall total volume. Most critically, the number of holiday bednights spent outside of Dublin is in decline, adversely impacting the expenditure levels and the distribution of benefits throughout the country.

Table 3-1 Overseas Holidaymakers to Ireland 2000 – 2004 (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	3,366	1,718	825	656	167
±% change 2004 vs. 2000	+1.4%	+4.5%	+2.7%	-9.1%	+10%

Source: Fáilte Ireland

Ireland's recent performance in attracting holiday visitors is an on-going cause for concern:

- The number of holidaymakers coming from Britain, the USA, France, Germany and the Netherlands, the larger holiday markets for the Ireland experience, have either struggled to produce marginal volume growth or have been in decline, while delivering fewer bednights.
- While Dublin has experienced a significant boom in holiday/leisure visitors, most traditional tourist destinations in other parts of the country have been experiencing a marked fall-off in demand. Just under one third (32%) of all holiday bednights spent by overseas holidaymakers in Ireland in 2004 were in the Dublin region, compared to the capital's 20% share in 1999. Cumulatively, the country lost 2.5 million bednights since 1999, while Dublin increased its bednights by 6.7 million, and the rest of the country lost 9.2 million. 3 million bednights have been lost to Western seaboard area over the past 5 years due to a decline of 1.8 million holiday bednights from Britain and approximately 1 million from mainland Europe.
- There has been an ongoing decline in demand over recent years for many holiday activity products in Ireland, e.g., angling, golf, walking, cycling, equestrian holidays.

- The incidence of visitors being mobile within Ireland is in decline, most marked in the fall off in the number of tourists bringing their own car – this has been especially marked from Britain.

The result is that Ireland is experiencing a radical transformation in the composition, spatial distribution and value of its overseas holiday market with significant consequences for the industry. The future of the Irish tourism industry, particularly outside of Dublin, is at risk unless a concerted effort is made to reverse the downward trend of recent years. There is an urgent need to sustain the popularity of Dublin while at the same time reverse the decline in demand for holidays to regional Ireland from each of the main overseas markets. This will require a new concerted, industry-wide marketing drive, which takes into account the changing marketplace, new marketing techniques in communication and distribution, and the more aggressive competition from other destinations.

With the exception of mainland Europe, where the increased availability of air routes resulted in the number of bednights increasing by 14%, the trend of reduction in visitor bednights continued in the first half of 2006 with nights spent in Ireland by British residents being -1.5%, North Americans -6% and rest of the world -8%.

4 Competing in a Changed Marketplace

The marketplace in which Ireland competes is undergoing significant changes:

- Consumers are taking more frequent and shorter holiday trips, where choices are increasingly being determined by motivators or ‘reasons to visits’ as experiential and urban tourism grow in popularity;
- the Internet has revolutionised the way in which consumers seek information and purchase travel and holidays;
- low cost carriers (LCCs) have established themselves as the preferred mode of travel for an increasing share of the intra-European travel market and in many instances are effectively opening up new destination options; and
- the traveller is becoming more demanding in securing value for money.

It is apparent that Ireland needs to present more compelling reasons to visit, rather than the traditional generic appeals of a green rural tranquillity, to those segments of the market which value those attributes which a holiday in Ireland can deliver.

Furthermore Ireland needs to embrace the new communication and distribution channels in reaching its target markets – the industry is of the view that Ireland is over reliant on the traditional marketing approaches and has been slow to adopt to e-marketing and is consequently being surpassed by our competitors.

While Ireland did have a competitive advantage in the range of LCC routes from Britain this advantage has been eroded with the expansion of routes to many other mainland European destinations, it has only recently gained a sizeable network of LCC access routes from Europe and an opening up of LCC access to the West of Ireland.

5 Recommendations for a Re-invigorated Marketing Campaign for Ireland

The IHF recognises the commitment of Tourism Ireland and Fáilte Ireland to address the challenges of the changed market conditions, most particularly in the British market based on recent research and review of performance. The tourist industry continues to support the agencies in their efforts, matched by an estimated €160 million annual marketing investment.

In view of the particular and urgent challenges facing Ireland, if it is to recover its market share position in its principal source markets, it must broaden the appeal, reach new prospects and become more aggressive in the communication and distribution of the Ireland holiday proposition.

The following specific proposals are recommended as incremental budget allocations which are required to redress the serious situation facing Irish tourism and the sustainability of the industry's employment, investment, regional economic activity and exchequer receipts.

5.1 E-Marketing

The widespread and increasingly intense use of the Internet by consumers requires a fast and radical response by Tourism Ireland, Fáilte Ireland and the industry. The most recent efforts to ensure that Ireland has a state of art presence in internet marketing are a priority. It is proposed that a significant share of Tourism Ireland and Fáilte Ireland's discretionary marketing budgets be allocated centrally to ensuring that Ireland catches up on providing a comprehensive web-based marketing capability. This should deliver quality information; efficient e-commerce facilities on national and proprietary websites; while ensuring that Ireland destination websites command a share of presence on the internet in order that Ireland information and purchasing options are readily accessible to the consumer.

The industry is anxious to partner the agencies in developing an upgraded presence in order to improve Ireland's share of presence and capture an increasing share of business via the web.

In addition to the existing allocations by the agencies it is proposed that an additional **€2 million** be invested in ensuring that Ireland can effectively compete in this arena and in developing innovative web based promotional and sales campaigns in each of the major source markets during 2006.

5.2 Recovering the British Market

As the single most important source market it is imperative that Ireland regains its lost share of this market. Recent research and industry consultations have identified new strategies and marketing programme more appropriate to the changed market conditions. The challenge facing Ireland in the British market is not inconsiderable as it attempts to reverse several years of decline by repositioning the appeals and adopting new channels of communication to reach identified target segments.

The annual allocation by Tourism Ireland and supporting product marketing funds from Fáilte Ireland will not be sufficient to meet the challenge in the short term. Additional resources will be needed to reverse the decline.

It is proposed that an additional **€3 million** be allocated to this market as a once off measure to ensure adequate penetration of the identified segments in promoting a series of specific motivators to visit Ireland. In addition, an improved intelligence system is proposed to monitor on an ongoing basis the performance of this market and its key segments in order that the industry will be in a better position to respond to emerging trends in demand.

5.3 Marketing of Access Services

The correlation between the marketing of competitive air services and growth in tourism to Ireland is well proven. Furthermore, the availability of air services to the regions has been demonstrated to be one of the more effective means of countering the decline in the spatial distribution of tourism within Ireland, particularly in reversing the fortunes of areas along the western seaboard.

Recent developments in the provision of air services to Ireland have included a significant increase in low fare air services, particularly from mainland Europe to airports outside of Dublin. In 2005 available peak season capacity from mainland Europe increased by 40%, while access from Britain grew by 16% and from the US by 17%.

Low cost carriers now account for an increased share of short haul air service access – a very welcome development. Furthermore the introduction of new services from Europe and Britain to Cork, Kerry, Shannon, Knock, Galway and Waterford are strategically significant in helping to address the spatial distribution of tourism issue.

However, the strategy of airlines competing on a fare basis on short haul routes requires to be supported by additional destination promotion in order to stimulate interest and develop traffic to sustain these new services. This Submission calls for the expansion of partnership marketing of air services from the key source markets in order to stimulate growth and to encourage further expansion of services.

Access on north Atlantic routes continues to be a constraint in developing traffic to this market. Aer Lingus has maximised its use of available aircraft on permitted gateways under the terms of the current bi-lateral agreement. Therefore, any short-term increase in capacity on the route is dependent on US and Canadian carriers increasing their capacity on existing routes, opening new routes or attracting new carriers.

The decline in the ‘car brought’ market, particularly from Britain, has been a major contributor to the decline in the regional distribution of tourists. While the British market still offers a very significant potential for own car tourists, Ireland’s market penetration has been weak and urgently needs to be addressed through specific campaigns aimed at this valuable segment.

The justification of investment in the marketing of access is a sound proposition for an island destination and represents an above average return on the use of marketing funds. In view of the critical importance of communicating the range of access options to the potential visitor and to ensure the sustainability and encourage expansion on the part of carriers, the following additional marketing support is requested:

- + **€1.5 million** for collaborative marketing of low cost air services from Britain into regional airports;
- + **€1.5 million** for joint marketing with trade partners of new air services from mainland Europe to Ireland with particular emphasis on routes into Shannon;
- + **€2.5 million** for increased marketing in key North American gateway areas of air services to Ireland, especially new and expanded services;
- + **€1.5 million** for specific co-operative campaigns with ferry operators and other trade intermediaries aimed at own car ferry market in the Britain.

5.4 Launch of Tourism Brand Ireland Mark III

The launch, in 2006, by Tourism Ireland, of the third Tourism Brand Ireland campaign based on substantial investment in research and development, warrants an adequate 'roll-out' budget if the benefit is to be realised. In view of the particular challenges of recovering market positioning and share in most source market segments, the industry are of the view that additional resources will be required to ensure that the campaigns reach a desirable penetration level. Any increase in the level of funding to roll out the new campaigns is likely to return a disproportionate increase in benefit.

An additional once-off budget of **€3 million** is suggested for this purpose.

Increased marketing efforts are urgently needed if Ireland is to address the downturn in holiday visitors from several of its most important market segments; compete more effectively in a changed marketplace against stiffer competition; maximise the opportunities to develop new business through e-marketing and brand re-positioning; and more aggressively target market segments where Ireland can deliver a competitive edge. There should be a once off additional special allocation of €15million to implement these efforts. This money to be spent as follows;

- € 2m for additional e-Marketing,*
- €3m for a special campaign in Britain,*
- €1.5m to increase marketing of low cost air routes from Britain to regions,*
- €1.5m to increase marketing of new air services from mainland Europe,*
- €2.5m to increase marketing of new air services from North American Gateways,*
- €1.5m to promote car ferry routes from Britain aimed at motoring tourists,*
- €3m to augment the marketing of new Tourism Brand Ireland.*

6 Tourism at a Crossroads

The IHF agrees with the Tourism Policy Review Group that the Irish tourism sector is in a period of uncertainty. Over recent years the international economic situation, 9/11, international political uncertainty, the Euro appreciation, major increases in oil prices, increased numbers of competitor destinations and the major cost shifts in the Irish economy have created a difficult and uncertain situation. In addition consumer tastes and expectations are changing. The hotel industry has greatly increased capacity and faces the pressure of filling this capacity on an ongoing basis.

Public policy has contributed to the uncertainty in some of its actions instead of reducing it. These actions include;

- increased regulation
- unexpected VAT increase
- out of control local authority charges
- fears of ongoing tax and charges increases

The industry must deal with the market, the customer and competitors. External factors such as exchange rates, oil prices and international economic recovery are not within the control of the government. It is reasonable that the policies which government can control should not worsen the position of the hotel and tourism sector. Budget 2006 and overall policy should support an industry which has delivered in the past and which now faces a fundamentally different environment than the past. The tourism industry needs the government to move in partnership with it to deal with the changes and difficulties. If so the economy can expect to benefit from the likely long term growth in world tourism.

7 Budget Policy to Improve Competitiveness and Promote Development

7.1 Context

The IHF Budget proposals are based on the objective analysis of the previous sections. They are designed to enhance competitiveness and promote development. The proposals take into account;

- the likely international economic situation
- the large economic role of tourism
- the worrying indicators of a reduction in holiday bednights spent outside Dublin
- the improvement in the public finances relative to what was expected in Budget 2005
- the value for money aspect of investment in tourism
- the self imposed penalty of internationally high tourism VAT rates and VAT regulations on refunding.
- the self imposed penalty of high local taxes and charges

7.2 Three Budget 2006 Proposals

To enhance competitiveness and to compliment the efforts being undertaken by the hospitality and overall tourist industry, the IHF proposes;

1. VAT on corporate expenditure in hotels and restaurants for conferences, incentive travel and corporate meetings should be refundable.
2. A new model must be put in place to ensure that the funding of local authorities is fair. Seeking excessive revenue from business cannot be sustained. The IHF suggested in its submission to the consultants acting on behalf of the Minister for the Environment and Local Government that:-
 - a. 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;
 - b. 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;
 - c. central government funds social services specifically social housing, assistance to elderly and disabled people to adapt their houses.
3. Increased funding for tourism marketing of €15 million to fund efforts urgently needed if Ireland is to address the downturn in holiday visitors; compete more effectively in a changed marketplace; maximise the opportunities to develop new business through e-marketing and brand re-positioning; and more aggressively target market segments where Ireland can deliver a competitive edge

In keeping with the strategy of the IHF's Proposal 1 reflects the need to remove a self imposed competitive disadvantage which is out of line with most other countries. This proposal should not be regarded as concessions. It simply removes an existing self imposed penalty which other competitor countries do not suffer.

Proposal 2 is merely suggesting a mechanism with the objective of ensuring that the funding of local authorities is fair as seeking excessive revenue from business cannot be sustained. Implementing the proposal would broaden the base of those funding local authorities to include all who benefit from their services.

The investment of an extra €15 million for more effective marketing – Proposal 3, is a relatively small amount, given the current difficult operating environment for the industry and its growth potential. Based on past experience an increase of €1 million in marketing expenditure could result in a tourism revenue increase of about €15 million and also produce a substantial return to the exchequer.

The allowance of VAT on hotel and restaurant costs, as an input in respect of conferences, incentive travel and corporate meetings allied to an increased marketing performance will present a strong and positive position for Ireland in world tourism markets. These proposals continue the strategy presented in previous IHF submissions but it is essential that action be taken now.