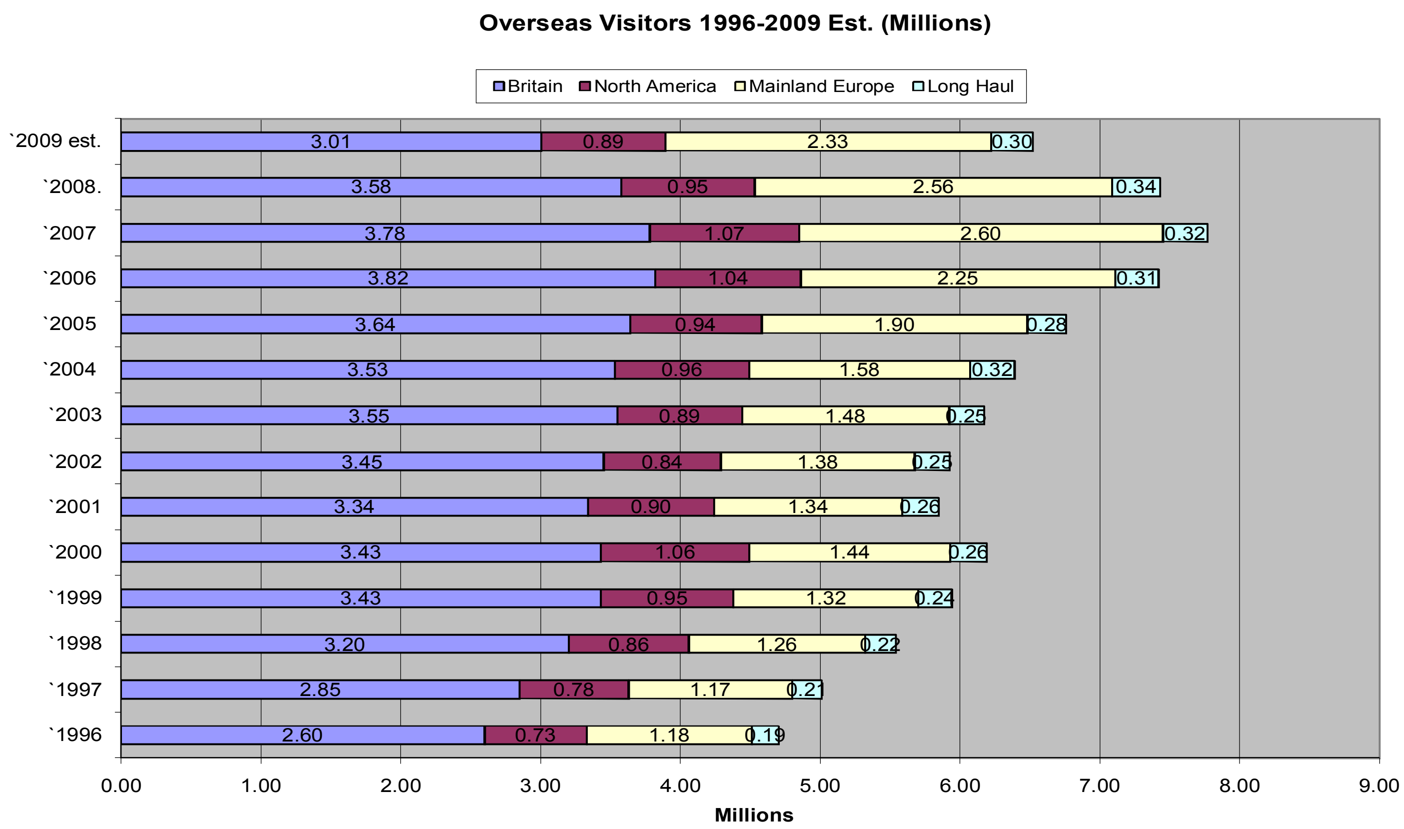
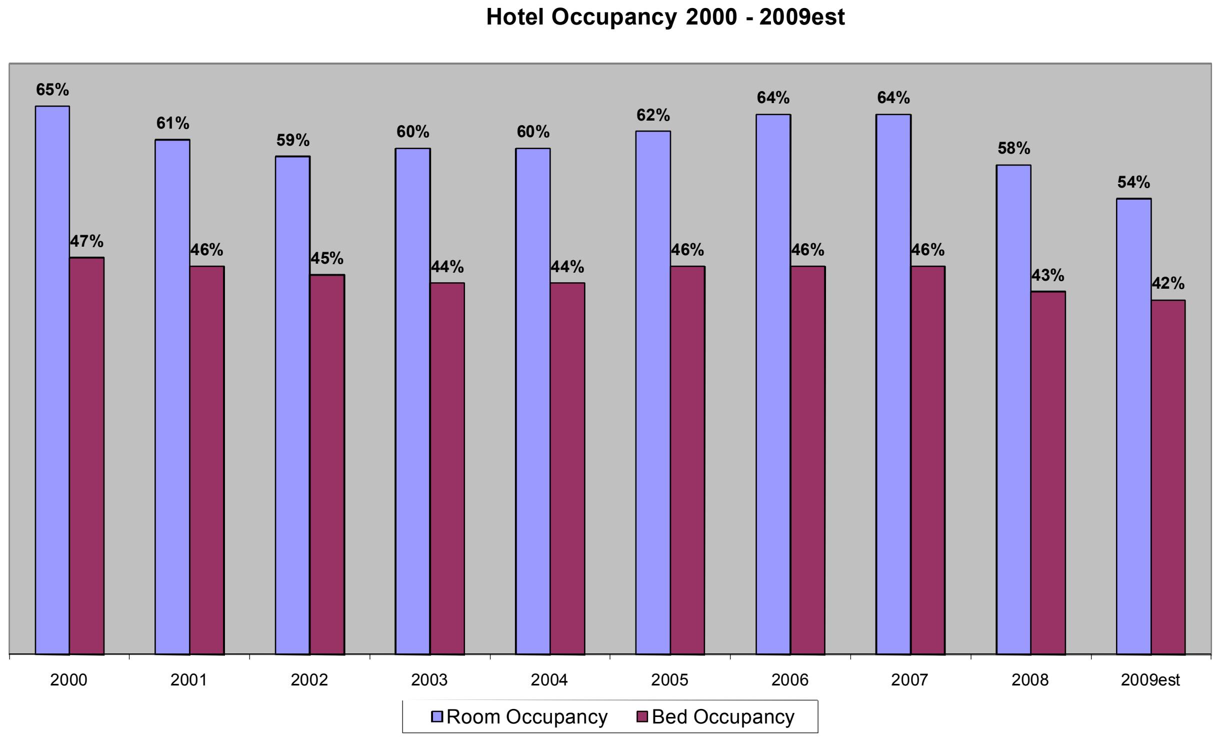
IHF ANNUAL REPORT 2009
CHIEF EXECUTIVE'S REPORT

John Power, Chief Executive, Irish Hotels Federation

Preliminary indications are that Irish tourism revenues declined by 17% in 2009 to €5.2 billion, its lowest level since 2004. This reduction is principally due to a 12% decline to 6.5 million in overseas visitor numbers and the resultant reduction of €900 million to €3.9 billion in the value of foreign exchange earnings of the sector. Domestic trips seemed to have reduced by 5% with about a 9% reduction in revenue. For the second consecutive year hotel room occupancy showed a decline to 54%, a level not experienced since the early 1980s. The weakness in occupancy was exacerbated by a substantial weakening in room rates by approximately 20%. The result of these factors is that revenue per available room in 2009 was well over 20% lower than in 2008.



The decline in overseas visitors was experienced by all regions. Preliminary estimates would suggest that the Shannon area was most affected with a 27% reduction, followed by a 17% reduction in the west 15% in south-east, south–west and north-west, 9% in midlands and east and 6% in Dublin.



The high dependence on the home market continued with 70% of hotel bednights now coming from the island of Ireland (66% from Republic of Ireland). This performance was in an environment where retail sales fell in volume by 13% in 2009.

Notwithstanding this downturn, tourism remains Ireland's most important indigenous industry, accounting for 4% of GNP. The fast deteriorating economic environment placed additional pressures on the Federation as in addition to our normal activities we attempted to have as much influence as possible on national economic matters which would impact on hospitality and tourism.

MEMBERSHIP

The Irish Hotels Federation has 924 members, made up of 696 hotels and 228 guesthouses.

THE IRISH HOTEL AND GUESTHOUSE INDUSTRY

There are at present 903 hotels with 60,199 bedrooms and 307 guesthouses with 3,677 bedrooms on the statutory registers of hotels and guesthouses. There are approximately 54,000 people employed in hotels and guesthouses.

Hotel Classification Summary		
	Hotels	Bedrooms
One Star	35	500
Two Star	161	3428
Three Star	402	27606
Four Star	264	24633
Five Star	34	3893
Unclassified	2	26
Newly Registered	2	67
Under Renovation	2	29
Rescinded	1	17
	903	60199
Source Tams Database 17 February 2010		

Profile of Hotel Size		
No. of Bedrooms	Hotels	Rooms
Up to 20	226	3130
21 to 30	127	3292
31 to 50	137	5574
51 to 70	103	6380
71 to 100	120	10586
100 to 150	114	14100
151 to 300	66	12933
More than 300	10	4204
	903	60199
Source Tams Database 17 February 2010		

AN INDUSTRY IN CRISIS

Last year was the most difficult year in decades for the industry, with national tourism revenues falling to €5.2 billion compared to €6.3 billion in 2008. The number of overseas visitors travelling to Ireland fell by 12% and domestic trips within Ireland declined by about 5%. The bottom effectively fell out of the British tourist market with visitor numbers from Britain in August 2009 down 16% on 2008. The number of British visitors at just over three million is at the lowest level since 1997. The effect of the decline in overseas visitors resulted in the national room occupancy falling from 58% to 54%. This drop in occupancy affected all regions of the country including Dublin which prior to 2008 had been the primary region for growth. Declines were most pronounced in the Midwest and Northwest of the country, reflecting the relative importance of US and British business.

Throughout the year, our members struggled to deal with decimated revenues caused by the combination of lower prices, excess capacity and low capacity utilisation rates, further intensified by the fact that their costs had not significantly reduced or even adjusted to the economic reality on the ground. In addition, following years of substantial investment, an excess capacity of twelve to fifteen thousand hotel bedrooms exacerbated the situation. During the year, the Federation called on the Government to provide selective support to hotels which were potentially viable but did not meet current onerous bank requirements for credit. The extent of the financing crisis was borne out by a Mazars Report which showed that in the year to June 2009, 27% of hotels and restaurants had credit applications rejected by banks. As the economic situation worsened, the Federation believed that by year end, the rejection rate was likely to be above 40%. Many of our members were in crisis talks with banks, and in some cases, banks had taken control of hotels. The Federation forwarded that unless a strong set of public policy measures were put in place to support hotel finances; the sector was going to experience a high casualty rate.

It was against this background that the Federation made the unprecedented move of calling a special members meeting in August.

Among the issues discussed at the meeting were:

- Need to manage excess capacity in the sector, approximately 12,000 bedrooms
- Distortion of the market with unfair competition as a result of hotels under the control of the banks operating at below cost prices;
- Severe difficulties faced by hotels and guesthouses in obtaining adequate bank credit
- Need for the cost base of hotels to adjust to the worsened market conditions;
- Excessive public sector charges to which hotels are subjected;
- High regulated wage rates forced on the sector;
- Potential for NAMA operations to introduce market distortions and unfair competition.

At the meeting, which was attended by over 200 IHF members, the Federation called on the Government to intervene urgently to safeguard the long term viability of Ireland's tourist industry, as unless urgent action was taken to address the over capacity and financing crisis in the sector, the emerging situation would have devastating implications for otherwise viable hotels and guesthouses. The meeting also highlighted the ongoing issues of local authority charges, labour costs and government recognition of the hotel and guesthouse industry as priority requirements.

THE BACON REPORT

In response to the members' desire expressed at the August meeting, to establish the extent of the crisis within the industry the national council decided to commission Peter Bacon & Associates, Economic Consultants to prepare a report on the overcapacity in the Irish Hotel Industry and outline the required elements of a recovery programme.

This major independent economic report undertaken by eminent economist Peter Bacon, published in November, confirmed the worst fears expressed by the Federation since the recession started. In the report, Mr Bacon outlined a series of actions needed as a matter of urgency if the hotel sector is to survive.

The Report highlighted the damage being caused to the hotel sector as a whole by financial institutions and banks supporting unviable and insolvent enterprises. It underlined the urgent need to address over supply within the sector and the negative effect of ongoing tax regulations which impeded the ability of unviable hotels to exit from the market. The Report clearly reinforced hoteliers' concerns that the industry would collapse unless action is taken, which could not be allowed to happen given that tourism is one of the largest indigenous contributors to the economy, employing over 200,000 people and generating considerable value in terms of exports and tax revenues, borne out by the fact that tourism made a direct contribution of €6.3 billion to the Irish economy in 2008, representing 4% of overall GNP.

These concerns have been expressed regularly by the Federation since the economic downturn started and formed the basis of the Federation's pre-budget submission to the Minister for Finance seeking to assist tourism in becoming a significant driver of the economy's return to growth.

The Bacon Report also supported the urgent case which the Federation has made since 2008 for working capital and cost reduction supports to be provided to businesses which would otherwise be viable, as businesses are well-placed to survive in the current economic environment provided an effective restructuring of the industry is achieved.

LOCAL AUTHORITY RATES & REVALUATION

During the year, the Federation called on local authorities throughout the country to urgently exercise their powers to establish emergency waiver schemes in respect of local authority rates payable by the seriously struggling hotel and guesthouse sector. Under the Local Government (Rates) Act 1970, local authorities can introduce schemes of waiver in respect of all or a portion of rates that would otherwise be due by certain ratepayers or classes of ratepayers, if to do so is in the interests of preserving struggling businesses in their areas.

The Federation stated that hotels and guesthouses were operating under an inequitably run system of ratings that was crippling businesses with excessive, out-of-kilter levies that were based on out-of-date information and also pointed out that the inability of most hotels and guesthouses to pay rates at current levels could have been ameliorated had the rating system in the Valuation Act 2001 been rolled out in a proper and timely manner.

The Federation stated that the current exorbitant levels of rates are a result of the slow pace at which new valuations have been carried out by the Commissioner of Valuation since the 2001 Act came into effect. Specifically, the revisions already completed in South County Dublin and Fingal have shown up a serious inequity in the rates liability of hotels. In both of these areas the rates liability of the hotel sector has been or will be reduced by at least 30%. The slowness in carrying out the revision in other local authority areas is, the Federation believed, subjecting hotels in these areas to an inequitable rate excess of at least 30%.

The Federation reiterated that at the current inexplicably slow rate, it would take over twenty years before these statutory revisions are completed in every local authority area in the country. The Federation thus called on each local authority immediately to enter into arrangements with individual hotel and guesthouse owners to facilitate the payment of reduced amounts in a manner that recognises both the inability of enterprises to meet current local authority rates, as well as the fact that this inability could have been avoided had the statutory revaluation process been carried out within the timeframe originally envisaged.

EMPLOYMENT ISSUES

Throughout 2009, a top priority for the Federation was to bring to an end the archaic Hotels JLC Sunday wage premium issue, which dictated that hotels outside Dublin city Cork City and Dun Laoghaire must pay double time for work performed on a Sunday. In September 2008, a three pronged approach was adopted with the objective of overturning this unreasonable and economically disastrous imposition. The Federation orchestrated a campaign by members to lobby their local TDs and the President and I met and put our case to senior Government Ministers. Subsequently, a hotel forum was established involving IBEC, SIPTU and the IHF and we also liaised closely with the RAI and VFI as their members were also affected by similar provisions in the Catering

Employment Regulation Order. Although Government Ministers and TDs accepted the validity of our case, the implementation of a solution proved difficult to expedite.

This steady approach proved effective however, as on 16 September 2009, a new Employment Regulation Order came into effect, the key provision of which was that work performed on a Sunday in Hotel JLC areas would now be payable at time and a third. The Federation welcomed this decision as we believe it will go some way towards restoring the competitiveness of the sector and will also relieve some hotel labour cost pressure in the current difficult trading environment.

During the year we lobbied for the extension of the Government Employment Subsidy Scheme to the hotel sector and we were encouraged when An Tanaiste announced such an extension and applicants from the hotel sector that can benefit from this scheme are currently being considered.

We made a strong pitch to the Minister of State at the Department of Labour, for the introduction of an inability to pay provision within the JLC system and it is again encouraging that the Attorney General is currently working on the drafting of the amendment to the Industrial Relations (Amendment) Bill to facilitate such a procedure

IRELANDHOTELS.COM & BE OUR GUEST

The Be Our Guest guide continues to be the leading and most comprehensive guide to guesthouses and hotels in Ireland. 250,000 guides are being distributed in 22 countries in early 2010, acting as a key marketing vehicle in promoting Ireland at home and abroad. Entry into the Be Our Guest guide ensures automatic appearance on Irelandhotels.com, the Federation's online resource for booking accommodation. In 2009, Irelandhotels.com drove over 19,000 bookings to its online bookable members, delivering revenue of over €3.2 million through 34,000 room nights. The average value of a booking on the site was €165. The domestic market accounted for 66% of all bookings, the UK 13% and, as in previous years the European market was third with 9% of all bookings. The US market accounted for 8% of all bookings. Other markets made up 4% of all Irelandhotels.com bookings.

The Irelandhotels.com affiliate programme continued in 2009 and we partnered with numerous Irish websites and organisations including Irishrail.ie, Adidas Dublin Marathon and Dashhotels.com. Our affiliate programmes delivered over 6,000 bookings worth over €1 million during 2009.

Irelandhotels.com is operated by the Federation in partnership with In1 Solutions, who work closely with the Federation to deliver constant innovation and consistently grow customer bookings. Approximately 65% of Irish hotels and guesthouses in Ireland now use Irelandhotels.com to drive increased bookings and revenue.

TOURISM IRELAND

Last year was one of the toughest years for tourism to the island of Ireland and for tourism worldwide, with one of the key factors affecting Ireland's performance its traditional reliance on Britain and North America, two markets which have suffered disproportionately from the economic downturn and weak currencies. In addition, air access worldwide declined significantly during 2009.

Despite this, by year end Tourism Ireland anticipates that 7.6 million overseas people will have visited the island of Ireland. Tourism Ireland has set a target of 3% growth in visitor numbers for 2010. Interest in holidaying on the island of Ireland is high among consumers in Tourism Ireland's top markets. For e.g. Ireland ranks 5th out of 50 in GB, ahead of destinations like the US and New Zealand (source: Anholt-GfK Nation Brands Index 2008).

Marketing investment will be refocused to generate immediate returns for the tourism industry and investment will be concentrated in Britain and Germany, based on research which identifies these markets as best prospects. Britain is the largest single market for tourism to the island of Ireland and following an in-depth review, Tourism Ireland has produced a blueprint for the future in order to restore growth from this market. Some of the key actions from the review include a new focus on value; differentiating a holiday here from one in England, Scotland or Wales and re-engaging and re-energising the travel trade in GB.

Tourism Ireland has developed an aggressive marketing strategy for the British market in 2010 which will highlight the wide range of great value deals on offer in Ireland. Tourism Ireland will also aggressively target coach tour operators, group organisers, wholesalers, specialist and general operators through a programme of workshops and face-to-face events. Overall, a minimum of €12.8 million will be invested in GB marketing in 2010.

Building on the success of the recent DERTOUR Reiseakademie, Tourism Ireland will increase its investment in Germany in 2010 and will include a national TV advertising campaign for the first time, as well as co-operative campaigns with carriers. Overall, Tourism Ireland has set up over 3,500 overseas marketing platforms for the industry to engage in 2010, an increase of 20% over 2009.

FÁILTE IRELAND

The current indications are that 2010 will be another tough year for Irish tourism as many key markets continue to battle adverse economic conditions. The prospects for some markets, such as Germany and other key Continental European markets appear relatively favourable and growth is expected in 2010. Larger traditional markets including Britain and the US will remain challenging, regardless of exchange rates. Home market prospects remain unclear although consumer research indicates further potential as Irish people cut back on foreign trips. Successful steps taken by individual businesses in 2009 to cut costs substantially paid off and have put the industry on a stronger footing than a year ago. However, many businesses are now expressing deep concern about the continuing high cost of Local Authority charges, energy and insurance.

Fáilte Ireland will focus its investment support on three core areas in 2010.

- Supporting key tourism businesses to increase their international customer base, better manage their cost base, improving overall performance and sustaining employment levels.

- Investing over €20 million under its capital investment programme to improve and broaden the appeal Ireland's portfolio of tourist attractions, activities and tourism related infrastructure. Investment in business, sporting and cultural events will also be increased as all offer good prospects for tourism growth in 2010.

- Launch its biggest ever home holiday marketing programme as a central plank in its strategy to increase the home market share of the overall Irish leisure break market. The domestic market now accounts for 65% of business in the intensely competitive hotel sector and research indicates that Irish people are less likely to travel abroad in the current climate and now see Ireland as a good value destination.

BUSINESS TOURISM

The Federation continues to operate the Housing Bureau, established in 2008 to facilitate and centralise requests for rooms for large conferences, events and exhibitions in venues such as the Convention Centre Dublin and the Aviva Lansdowne Road Stadium (which will be operational in 2010). The Housing Bureau was set up to protect the interests of hoteliers and is operated using the Irelandhotels.com booking system.

The Federation, in close cooperation with AIPCO operates the Housing Bureau as a non revenue source, and without a membership fee. The Housing Bureau's commission rates are 8% for hotels that have contributed to the Dublin Convention Bureau and 12% for all others. The Federation continues to work closely with venues and professional conference organisers to ensure that there is cooperation between the various interests.

SUPPLEMENTARY BUDGET 2009

In April, the Federation welcomed the measures to restore public finances announced in the Minister for Finance's Supplementary Budget. However, we did express a concern that the Minister was too reliant on tax increases for public financial stabilisation instead of current expenditure reductions. The Federation also welcomed the measures announced to stabilise the banking system and seek improvements in the supply of credit to the real economy. However, we felt it didn't go far enough, in that the objective must be to provide greater transparency around access to liquidity and to provide small and medium sized enterprises with access to the working capital they need for the day to day running of their businesses. The Federation was also concerned that scope was not found to reduce VAT to stimulate economic activity. This could have been financed by additional current expenditure reductions. The Federation called on the Government to re-examine public sector charges and commercial rates which are having a considerable knock-on effect on businesses throughout the country, as there is a pressing need for reductions in this area. It is no longer feasible for Government to talk about competitiveness at the national level and allow local authorities to impose monopoly type price increases which directly reduce competitiveness.

PRE-BUDGET SUBMISSION

In its pre-budget submission 'Supporting Hotels and Guesthouses to Survive the Recession' presented to Minister for Finance, Brian Lenihan, T.D., the Federation called on the Government to implement the following key measures in Budget 2010;

1. Maintain 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.

3. 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.

4. The Government should immediately remove the Air Travel Tax.

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

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

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

BUDGET 2010

The Federation welcomed the strong steps taken toward restoring the public finances by the Government, as the success of the hospitality sector is reliant on the stability of the overall economy. The Federation specifically welcomed the Government's 2% increase to €155m in its tourism services budget and in particular, the provision of €44.25m for tourism marketing by Fáilte Ireland and Tourism Ireland. In addition, the Federation acknowledged the Government's plans to tackle local authority inefficiencies and the discounted rail travel initiative for all senior citizens from abroad.

We also welcomed the announcement by An Tánaiste, to open up the Employment Subsidy Scheme to companies from all sectors of the economy, including the tourism sector, as the decision recognised the importance of tourism as a major component of the enterprise sector and supports hotels and guesthouses across the country in prioritising employment and staff retention within the sector. In excess of 150 hotels have applied for this subsidy and the applications are currently being assessed.

AIR ACCESS / TRANSPORT

In June, the Federation expressed disappointment at Delta's announcement to cut its Shannon/New York service, commencing September 2009 but it was reassuring to learn that this service is being restored for the summer 2010 and there is now a possibility that the service will be retained on a year round basis. It is also encouraging that Delta has increased its capacity on its service to Dublin route by 20% for the first quarter of 2010. It is essential that the Island of Ireland maintains as many direct air routes as possible from the important North American market.

The Federation welcomed the fact that from summer 2009, Shannon was the first airport in the world, outside of the Americas, to offer Full US Customs and Border Protection (CBP) pre-clearance facilities to passengers travelling to the USA. This affords Shannon a competitive advantage over every other European airport as it will facilitate the operation of direct air links between Shannon and regional airports in the US which do not have customs clearance facilities and which presently only provide US domestic air services. Thus, Shannon has the potential to be a European air hub for such routes.

LISBON TREATY REFERENDUM

The Federation actively supported the 'Yes to Europe!' campaign during the summer months in support of the Lisbon Treaty as we believed a Yes vote was essential to the Irish economy so that Ireland plays a positive role in shaping Europe's future and remains a desirable location for both existing and future foreign investment. The Federation was delighted with the outcome of the referendum in October as it showed our EU partners, potential foreign investors and employers that we are a fully engaged EU participant and also that we value and welcome the support of our EU counterparts during our economic crisis.

IRISH TOURIST INDUSTRY CONFEDERATION

Irish tourism was badly hit by global recession after a period of boom growth. Visitor arrivals in 2009 are estimated to have declined by 12% to 6.5m, while Irish people took 8% fewer holiday trips within Ireland. In common with the rest of the world, holiday and business travel have been especially hard hit by the recession.

The downturn in receipts was steeper as consumers cut back on spending. Total revenue is estimated to have fallen by 20%. Demand dropped across all markets but was particularly severe from Britain, our largest source market, where visitor numbers dropped by 16%, with associated revenue down by as much as 25%. All in all 2009 will regrettably be remembered as the year when the industry dropped almost 1 million visitors and €1 billion revenue, a significant set-back for tourism.

The length and depth of the global recession is without precedent in modern times. Ireland has its own set of unique problems which effectively means that recovery of domestic demand will be delayed beyond that of our principal trading partners, and is likely to be more anaemic when it does come. Nevertheless, the tourism sector continues to be a valuable source of revenue to the Exchequer, yielding an estimated €1.3 billion last year, despite the downturn in demand.

It is evident that the targets set out in the *New Horizons for Irish Tourism 2002-2012* will not now be met (10 million overseas visitors, €6 billion revenue by 2012).

The Tourism Renewal Group (TRG) was set up during the year to review the New Horizons programme. Chaired by Maurice Pratt, the IHF was represented on the group by President Matthew Ryan. The TRG report concluded that current priorities are to minimise the potential damage from the challenges facing tourism and to grasp the opportunities as the global economy returns to growth. The report addressed a number of themes including competitiveness, value for money, access, transport, and the business environment.

The key conclusions and recommendations include:

- Maintain Investment in the Brand: Any reduction in marketing investment will inevitably lead to loss of market share which the industry and the State can ill afford.

- Cut Access Costs: The Group called for the abolition of the Departure Tax.
- Access to Working Capital is critical for tourism businesses with strong track records and viable futures.
- State Agencies: The Group found general satisfaction with the performance and delivery of Fáilte Ireland and Tourism Ireland.
- Tourism's Role in Economic Renewal: If support commensurate with its 4% share of the country's GNP is forthcoming, tourism can play a vital role in the country's economic recovery.

GB Market Review

Perhaps the greatest challenge facing Irish tourism is how to recover share of the British market – Ireland's top source of tourism. The number of British holiday visitors to Ireland has been hovering around 1.7 million per annum over the past 10 years, before falling by 10% in 2008 and by a further estimated 20% in 2009. Ireland, by several measures, has been losing share of the British market for leisure travel over most of the past decade. Demand for Ireland from Britain has fundamentally changed. Ireland is now attracting more leisure travellers for short breaks, primarily to Dublin, although recent demand for the city appears to have slowed, while losing out on longer stay and touring visitors.

Amongst the challenges which Ireland faces in Britain is a marked deterioration in the value for money rating amongst visitors. The weakness of sterling, a situation unlikely to be reversed in the short term, only serves to further exacerbate the negative perception. The fortunes of Irish tourism are largely linked to the performance of the British market which is the source of 45% of all holiday visitors to the country.

A major review of the GB leisure and business tourism market was carried out last year, and the review group included John Power from the IHF and Eamonn McKeon from ITIC. The review group produced a plan which has identified an objective of growing visitor numbers and revenue ahead of projected GB outbound growth to comparable holiday destinations in Europe. The full report *Great Britain Review* with recommendations is available on the ITIC website www.itic.ie under 'Research'.

Domestic Market vital to Tourism Recovery

In association with the IHF and Fáilte Ireland, ITIC commissioned a major study of the domestic market during the year. This market more than doubled since 2000, and is worth close to €1.5 billion annually. In fact, growth in domestic market demand has generated over 90% of new business for Irish hotels since 2000. The report sets out 4 possible scenarios for domestic market performance over the coming 3 years:

- a relatively quick recovery;
- a battered but resilient scenario;
- a sharp dip and delayed recovery;
- a long freeze.

ITIC believes that the most realistic scenario is a 'battered but resilient outcome.' This would see close to a 10% drop in volume in 2009 followed by a further decline of up to 10% in 2010 before stabilising in 2011, with a modest 5% increase in 2012. That outcome would suggest volume in 2012 at close to 2006 levels. The full report is available on the ITIC website www.itic.ie under 'Research'.

Competitiveness

Ireland has suffered a significant loss in competitiveness as a tourist destination over recent years. This is reflected in falling market share in key source markets and a negative trend in visitor perceptions of value for money, although there has been some improvement in this measure in more recent times. The issue of national competitiveness on a sectoral basis was addressed in December last by the National Competitiveness Council (NCC). ITIC made a significant submission to the NCC in advance of this report. The NCC report states *"Future economic growth and job creation will not be driven by the construction and retail sectors as in the past. Generating export-led growth is the only sustainable strategy to secure long term growth and prosperity."*

The NCC study reviews eight sectors, including tourism, each with significant opportunities for future growth and highlights the sector specific challenges which need to be addressed.

The report identifies a number of critical issues and recommendations for renewed growth in Irish tourism, namely:

- New Product Development: A focus on continuous development of new tourism products.
- Cost & Value for Money: Deliver better value for money by addressing the high cost of inputs.
- Excess Hotel Capacity: Consider allowing change of use for the excess number of hotel rooms, created by tax incentives.
- Access to Working Capital is one of the biggest challenges currently facing the sector's 18,000 SMEs.
- Infrastructure: Good and well planned infrastructure is critical for Ireland's attractiveness.
- Tourism Budgets: Government funding to be better co-ordinated and prioritised across departments and agencies.
- Tourism Agencies: The possible merger of some tourism agencies to deliver stronger and more cohesive branding.
- Taxation: Consumption taxes directly affect tourism exports in a way that is unique and contribute to the cost of tourism products.

The Outlook

In contrast to previous recoveries from downturns in demand for travel, the rebound this time is expected to be gradual over a period of several years. Most forecasts for travel and tourism suggest an overall modest rate of global growth in 2010 with the most optimistic expecting a demand increase of up to 3%. This would suggest it will take several years for recovery to pre-2008 levels of demand. Any discussion around the 'new normal' for Irish tourism must hinge on the shape and timing of the economic recovery in each of our source markets and to what extent, if any, the recession may have fundamentally changed consumer spending and behaviour patterns. It is unlikely that there will be a return to the buoyant demand growth rates of the past decade, or to the record levels of investment in the tourism plant.

Forecasting has become a hazardous business, but another ITIC report *Competitiveness & Growth Prospects for Irish Tourism* produced in October, attempts to do that. This report is available on the ITIC website www.itic.ie under 'Research'. The report predicts that 2008 levels of performance from both the overseas and domestic markets may not be attained until 2014.

The experience of many businesses in tourism over the past 2 years is also forcing a fundamental questioning of the historic investment and operating business models within the sector. Competitive access has always been fundamental to tourism success. The level of air service to Ireland is now contracting as Aer Lingus and Ryanair reallocate capacity to other markets, at a time of reduced demand for inbound and outbound traffic on Irish routes. The strategies pursued by Ryanair, together with the return of Aer Lingus to viability will be important determinants of Irish tourism's recovery, as together the two carriers provide over 80% of Ireland's airlift.

Despite these challenges, experience shows that the tourism industry is uniquely capable of adapting to economic upswings and quickly adding jobs. Tourism will continue to make an important contribution to Ireland's economic wellbeing. Indeed, tourism's relative importance can be expected to increase as economic growth becomes more dependent on export-led sectors. ITIC will continue to endeavour to keep tourism to the forefront as an indigenous industry that will return to prosperity and growth, given the requisite Government support.

COPYRIGHT ISSUES

The battle to protect our members against attacks by copyright and neighbouring rights holders continues. Due to lobbying by the IHF in the late nineties, there was inserted in the Copyright and Related Rights Act 2000 a provision exempting hotel bedrooms from royalties to record or film producers. PPI have on a number of occasions attempted to pressurise the Irish Government into repealing this provision. In 2007 the Government resisted pressure being exerted by quoting the EU Information Society Directive of 2001. Now the PPI has changed its grounds of attack by relying on provisions of the Rental, Lending and Related Rights Directive of 2006 and has commenced a High Court case against the Irish State. It is our advice that the state has a good case to defend. But the process may not end there as there is a view that this is an attempt by the major international record companies to have the case referred to The European Court of Justice with the hope of getting a favourable decision which would have Europe-wide effect.

PPI have indicated in the press that their expectation of level of remuneration is in the region of €50 per hotel bedroom per year. Should they be successful in their pursuit it would result in an annual cost to hoteliers and guesthouse owners of over €3m per year. The Council of the Federation recognises the risks in this case and have obtained legal advice on how to deal with this matter as it progresses.

Members will remember that in 2007 a European Court of Justice ruling in the Rafael Hoteles case ruled that the making available of TV programmes in hotel bedrooms was a transmission in a public place and subject to copyright fees. However, a Greek case has now been referred to the European Court of Justice - Organismos Sillogikis Diacheirisis Dimiourgon Theatrikon kai Optikoakoustikon -v- Divani Acropolis AE (Case C-136/09) which challenges the interpretation, the outcome of which may have a bearing on the Rafael ruling.

TOURISM RENEWAL GROUP

In February, the Federation made a Submission to the Tourism Renewal Group entitled 'Sustaining Employment and Enterprise in Tourism', in which we highlighted priority recommendations which were essential to the survival of the hotel and guesthouse industry over the next three years. These recommendations covered the areas of Finance, Competitiveness and Marketing and included a call for the establishment of an SME Credit Monitoring Committee, a freezing of the minimum wage for up to 3 years at the present level, that the JLCs be abolished and that the Tourism Ireland and Fáilte Ireland marketing budgets must be maintained at least at present levels, and the considerable importance of the domestic market must be recognised in the allocation of marketing funds.

The Federation welcomed the Tourism Renewal Group Interim Report in October as it reaffirmed the need for the Government to recognise the vital importance of our industry to the recovery of the Irish economy. We welcomed the recommendations set out by the Tourism Review Group as a basis for ensuring the survival and recovery of Irish tourism and forwarded that the report will inject new thinking into Ireland's tourism strategy and help tackle the serious challenges faced by the industry.

ENERGY ISSUES

During the year the IHF successfully lobbied the Commission for Energy Regulation (CER) to prevent the introduction of a Public Service Obligation (PSO) Levy on electricity bills. This levy was due to be imposed from October 2009 to September 2010. For many of our members this would have resulted in unacceptable higher costs on their bills. Depending on the size of property the introduction of the PSO Levy could have meant increases up to €30,000 in the cost of electricity in the larger hotels. This would have had a seriously detrimental effect on operating costs at a time when all efforts were being directed at cost reductions.

Ireland's cost competitiveness gap of up to 20% with other countries must be corrected as a matter of urgency, and a reduction of energy costs is a substantial element of this correction. To this end the Federation will be supporting more competition in the sector and will be supporting the ESB in its efforts to deregulate over the coming months and to become more competitive in their costs and charges. The Federation continues to review all upcoming proposed charges in the energy sector including distribution and transmission charges to ensure that these are kept to a minimum or zero cost to members.

The Federation also recently made a further submission to the CER urging the full deregulation of the retail electricity market as we feel that it is no longer appropriate given the weak state of the economy and the pricing practices of new entrants to restrain the dominant supplier from competing on price. If our submission were accepted it would result in the ESB being enabled to compete on price with its competitors without having to get the prior approval from the CER. This should result in a substantial reduction in ESB prices.

ENVIRONMENTAL ISSUES

In 2008, Dublin City Council (DCC) commenced a programme of monitoring to control the discharge of fat, oils and grease (FOG) into the drainage network. In this programme which is now being rolled out by other County Councils around the country, the Food Service Operator (FSE) is to be licensed to discharge FOG by means of a Trade Effluent Licence issued under the Water Pollution Act. There is a once off fee of €380 for this licence. DCC engaged the services of a third party contractor to monitor and ensure compliance with the conditions of the licence. The original cost for this inspection process was €1,370 per annum for hotels, regardless or size or production of FOG and was based on four inspection visits in the year. During 2009 the Federation successfully negotiated with DCC to have this fee reduced by 50% to €685 and to have the inspections cut to two per year, where the premises is working with DCC to ensure the conditions in the licence are being fulfilled.

In addition, in conjunction with the National Standards Authority of Ireland (NSAI), and other industry representative bodies the Federation is working on a voluntary nationally recognised standard for the operation, control and maintenance of FOG. This should be finalised early in 2010. This will give guidance to the FSE on their requirements under the FOG programme and remove any areas of concern as the FOG programme is rolled out nationally by the various County Councils.

HOTREC

HOTREC represents the hotel, restaurant and café sector at European level. This sector accounts for 1.6 million businesses covering nine million jobs in the EU. Some of the main areas dealt with by HOTREC in 2009 included:

Economic Crisis – A Wounded Industry

Hospitality business trends reported across Europe are still very worrying and the recovery is currently not in sight in many EU Member States. Investment projects are frozen, access to credit almost evaporated and demand is plunging across Europe. Most participants to the General Assembly in November reported calamitous business trends in their respective countries, and most consider that the recovery is not in sight yet. Given this persistent hostile economic climate, the President of HOTREC, Mr. Kent Nyström, renewed the call for a shift in EU policies to hasten the recovery. In this context, HOTREC supports the Member States which already make use of the possibility offered to apply reduced VAT rates to hospitality services and strongly encourages other member states to follow the same path to help hospitality businesses survive the economic crisis.

Food Labelling

HOTREC called on the Council and the European Parliament to strongly oppose the EU Commission's proposal to impose food labelling requirements for non-prepacked food as the new legislation, if adopted as such, will cause the industry billions, will force standardisation and may drive smaller restaurants and other food outlets out of business.

Health Issues

The participants at HOTREC's General Assembly discussed the latest developments in relation to EU health policies affecting hospitality businesses. In relation to the Alcohol and Health Forum, the participants adopted a new guidance document addressed to national associations, which will be communicated to the Commission and to other forum members.

VAT

HOTREC made a call to the EU Member States to make use of the possibility to apply reduced VAT rates to accommodation, meals as well as accompanying beverages served in restaurants to help the hospitality industry survive the current economic crisis. Such a pro-business policy could allow a quicker recovery of the tourism industry, a sector that is key to the economy of many Member States.

BRANCH ACTIVITIES

Seminars and workshops took place on issues such as Irelandhotels.com and interpretation of employment legislation. Many branches are very actively involved with other representative bodies in their region and this will continue and be increased in future.

ASSOCIATE MEMBERS

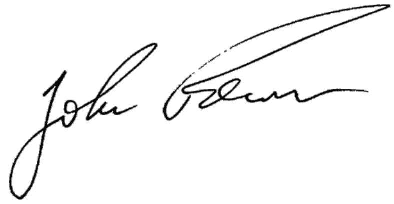
We continue to promote associate membership and we currently have 55 members. Their association with the Federation is of great benefit to us and we urge our members to support them where appropriate.

APPRECIATION

I wish to thank our President, Matthew Ryan for the enormous assistance, support and guidance which he has given me and the staff at Northbrook Road over the last two year. Matthew's accessibility, encouragement and willingness to travel in order to lead and support the activities of the Federation serve to inspire and motivate us all.

I also welcome the guidance and support that Federation management and staff receive from Council, Management Committee, subcommittees and general membership of the Federation. The willingness of so many members to actively lobby when requested to do so always helps strengthen the profile and impact of such lobbying.

As always, the staff at Northbrook Road displayed dedication, patience and support without which my role would not have been effective and for this I am truly grateful.



John Power
Chief Executive