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IRISH HOTELS FEDERATION

PRESENTATION TO THE

JOINT COMMITTEE ON JOBS, ENTERPRISE AND INNOVATION

TOPIC: THE COST OF DOING BUSINESS

OCTOBER 17TH 2017

Introduction

Chairman, Deputies and Senators. Thank you for inviting the Irish Hotels Federation to address the Joint Committee on Jobs, Enterprise and Innovation. I am joined today by Joe Dolan, President of the IHF.

The IHF, founded in 1937, is the national representative organisation of the hotel and guesthouse sector in Ireland, representing the interests of over 1,000 businesses. As a key stakeholder in Irish tourism, we work with our industry partners to ensure the right conditions are in place for tourism to grow and prosper, thereby contributing to recovery and job creation in the economy.

Tourism is one of Ireland's largest indigenous industries and is essential for Ireland's economic well-being. It is a major source of employment generation nationally and is of enormous importance to many areas of the country that have an otherwise weak economic base. In 2016, tourism generated total revenues of €8.3 billion for the economy, made up of €1.8 billion in domestic tourism revenue and €6.5 billion in foreign exchange earnings and carrier receipts. Overall, tourism accounts for 4% of GNP and contributed an estimated €2 billion in taxes to the exchequer last year.

Having supported the creation of over 60,000 new jobs since 2011, tourism and hospitality now accounts for approximately 230,000 jobs throughout the country, equivalent to 11% of total employment. In particular, our industry is continuing to play a vital role in supporting economic activity in the regions, with 66% of tourism related jobs located outside of Dublin.

The hotels sector is a large employer within Irish tourism, employing over 60,000 people directly in hotels and guesthouses throughout every town and county. Hoteliers are recruiting significant numbers of additional staff across all areas of their operations. Employment generation depends, however, on ensuring the right conditions are in place to support sustainable long-term growth in the industry.

Having achieved significant recovery in recent years, Irish tourism is now under severe threat from Brexit, particularly in regions heavily reliant on visitors from the UK. This has been

brought into sharp focus during the first eight months of 2017, which saw a 7.1% drop in the number of trips to Ireland from Great Britain compared with the same period in 2016. Some 69% of IHF members are reporting a fall in business from this market and we are also seeing a significant weakening in visitor numbers from Northern Ireland.

This worrying trend is being reflected in figures for advance bookings for the remainder of 2017 and there is considerable concern that we will see a further decline next year. It is therefore essential that the necessary steps are taken to safeguard Irish tourism and mitigate, as far as possible, the risks arising from Brexit. Cost competitiveness is a key factor in relation to this.

As outlined in further detail in our submission to the Committee, the recovery experienced by the industry in recent years has been underpinned by a number of important Government policy initiatives such as the 9% tourism VAT rate, which has brought Ireland more closely in line with tourism VAT rates in other European countries with which we compete. This has made Irish tourism more competitive when marketing Ireland internationally.

This measure continues to be one of the most successful job-creation initiatives in modern times with the positive impact on tourism exceeding all expectations. In addition to supporting the creation of tens of thousands of new tourism jobs throughout the country, it has resulted in the generation of additional revenues that are being used in the sector on an ongoing basis to expand employment and increase investment in maintenance, refurbishment, renovation, innovation and sales and marketing. This investment is critical for improving competitiveness and ensuring sustained growth in the industry. It is an essential element of the sector's response to the direct and indirect consequences of Brexit.

We therefore welcome the decision by the Government to retain this important measure as part of Budget 2018.

Other important policy measures include the zero rate air passenger tax and the liberalisation of the visa regime for visitors from selected markets. Irish tourism has also benefited enormously from external factors that have supported growth in overseas visitor numbers, including good economic performances in our major overseas markets such as North America and mainland Europe.

The strong tourism growth achieved in recent years illustrates the economic and job creation potential of our industry and the capabilities of tourism entrepreneurs and enterprises. However, there is no room for complacency. Irish tourism faces a number of significant challenges that require a coordinated policy response in addition to the efforts of the industry. These include cost competitiveness issues within the Irish economy which are compounded by Brexit.

Brexit poses a particular challenge given Ireland's heavy reliance on holidaymakers and business travellers from Great Britain, which last year accounted for approximately 41.5% of overseas visitors. Combined with visitors from Northern Ireland, the UK as a whole accounted for 49.4% of out-of-state visitors last year. As such, this market is a very strong determinant of our overall tourism performance.

The drop in the value of Sterling verses the Euro is therefore very worrying. More broadly, a sustained weakness in Sterling poses a threat to tourism businesses in relation to our other key markets such as North America and the rest of Europe. We compete with the UK to attract visitors and holidaymakers from these markets with price being a significant competitive factor. We therefore risk losing future market share.

We recognise that the Government cannot influence economic conditions affecting the UK. However, there is a wide range of policy measures within the control of the Government. From a tourism perspective, these include enhancing competitiveness within the economy and supporting an environment that encourages investment by tourism businesses throughout the country.

Recommended Tourism Priorities for Improving Cost Competitiveness

As identified by the National Competitiveness Council, Ireland remains a high-cost location for doing business. Given the exceptionally competitive nature of the international tourism market, this has a major impact on the viability of Irish tourism and our ability to attract visitors and holidaymakers. Every €1 in tourism expenditure by visitors to Ireland is hard won and corresponds to €2.16 in revenue generated within the wider economy, so it is important that the Government prioritises policies and actions that are within its control to enhance competitiveness.

In this regard, we have identified a series of policy areas in our submission to the Committee that we believe should be prioritised in relation to our international cost competitiveness, particularly in the context Brexit.

In summary:

- **Response to Brexit**: The Government should continue to seek to mitigate the current negative effects of Brexit, which have resulted in increased economic uncertainty and a significant weakening of Irish tourism's position in the UK market following the fall in the value of Sterling;
- **9% Tourism VAT Rate**: Retention of the tourism VAT rate is very welcome. The 9% rate has been shown to be the correct and appropriate level in relation to the international competitiveness of Irish tourism and will continue to enable further recovery and growth.
- **Insurance Costs**: More needs to be done to address the escalating cost of insurance for businesses, which is having a detrimental impact on hotels and guesthouses. Measures are required to address the excessive levels of awards, to reduce the high legal costs of administering claims, to tackle unacceptable levels of exaggerated claims and to support additional participation by insurers in the Irish market;
- **Local Authority Rates**: Full implementation of the Valuation Act is required as committed to in the Programme for a Partnership Government. Pending the full revaluation of hotels, local authorities that have not yet been revised should reduce hotel and guesthouse rates bills by 30%;
- **Other State-Determined Costs**: It is vital that the Government avoids any increases in Government-controlled costs, particularly in relation to labour regulation, public sector taxes and the Public Service Obligation (PSO) energy levy.

Finally, Chairman thank you for giving us the opportunity to address this Joint Committee and we look forward to addressing any matters that the members may wish to raise.