Tourism Opportunity

A MANIFESTO FOR GROWING TOURISM AND JOBS

July 2015

Jobs

Competitiveness

"Tourism is one of Ireland's most important economic sectors and has significant potential to play a further role in Ireland's economic renewal."

PEOPLE, PLACE AND POLICY
GROWING TOURISM TO 2025

40% of new jobs created in Ireland over the past 3 years were in Tourism. Presently the sector supports 220,000 jobs, many of these in regions of the country with little alternative employment prospects. It is within the industry's grasp to add a further 30,000 in the coming years, so it is crucial that Government policy continues to facilitate this ambition. The future is bright, but it is not assured unless the correct strategies are implemented.

Marketing Investment

Product Investment

Ibec

itic

Paul Gallagher
Chairman

Tourism is one of Ireland's largest industries making a substantial contribution to economic prosperity. Currently the industry is worth 6 billion euro annually, with over 20,000 businesses supporting 220,000 jobs, many in parts of Ireland with few other employment opportunities. Almost one third of all new jobs created between 2011 and 2014 were directly due to tourism.

But continued growth is not assured and we must be conscious that some current favourable external conditions are unlikely to be sustained. The growth opportunities for tourism are at risk from rising costs, underinvestment in facilitating infrastructure, and a dramatically reduced investment in destination marketing. This report outlines some of the challenges ahead, but also the exciting prospect of growing annual visitor numbers to over 10 million in the coming years.

I am grateful to Ibec for working with us, and to Tourism and Transport Consult, in presenting a compelling case for enhanced investment in tourism.

Danny McCoy
CEO

Following a number of very difficult years the Irish economy is now firmly in recovery. Economic output in 2014 grew by almost 5%. This was driven by surging investment in Irish companies and consumer demand which has begun to normalise. It is evident, however, that this recovery is still uneven and very urban centric. As a result, households and firms in many areas of the country are still treading water.

In this context it is more important than ever that industries like tourism are supported and encouraged to thrive by government policy. The tourism industry is crucial to the regional economies; the sector brings almost €5 billion into the domestic economy every year reaching every part of the country. It purchases the vast majority of its inputs domestically. More importantly, it brings sustainable jobs to areas which have no large domestic industry and little hope of attracting major multinational investment. Two out of every 5 new jobs created in the economy in the last three years has come from the sector and it can continue to play a crucial role in putting more people back to work.

Bringing a recovery to the regions is not without its challenges. The tourism sector will get a boost from low exchange rates this year but the sector still faces major obstacles to growth from legacy debts, high rates bills and the continuing challenge of inadequate regional infrastructure. In this context a more ambitious capital programme, retention of the 9% VAT rate and reform of local government are more important issues than ever if we are to see important indigenous industries like tourism thrive into the future.

EXECUTIVE SUMMARY

Tourism is one of Ireland's largest and fastest growing indigenous industries

- €6+ billion in annual earnings
- 220,000 people employed across the country
- 2 out of every 5 new jobs created in Ireland over the past 3 years were due to tourism.
- €1.25 billion generated in taxes for the Government last year
- 9% increase in overseas arrivals last year

The case for supporting tourism is compelling

- a global growth industry
- a pillar of Ireland's economic recovery, delivering new jobs with potential to create further employment
- an indigenous sector that brings benefits to all parts of the country, with many areas increasingly dependent on tourism
- one of Ireland's fastest growing export earners
- tourism businesses are investing in expansion.

Continued growth of tourism to Ireland is not assured. Some favourable external conditions are unlikely to be sustained, while increasing pressure from economic growth is putting increased strain on Ireland's competitiveness. The growth opportunities for tourism are at risk from rising costs and an increasing regulatory burden, under investment in facilitating infrastructure, and a dramatically reduced investment in destination marketing.

For Ireland to continue to successfully grow tourism, action on 3 fronts is necessary:

1. Maintaining competitiveness: While this has improved in recent years, Ireland is currently ranked more expensive than 10 competitor destinations in Europe. Many cost inputs are under increasing upward pressures, including labour costs. In addition the industry is competitively disadvantaged in the cost of utilities, local government rates and charges, and the supply of qualified staff.

The industry is seeking:

- *Reform of income taxes, changes to the social insurance structure for lower paid workers, and reform of regulatory framework*
- *Maintenance of 9% VAT rate*
- *Education and training programmes better suited to needs of the industry.*

2. Investment for growth: Investment by the state in tourism has been in continuous decline over recent years and relative to the agri-food sector is seriously underinvested when measured against export earnings and employment. The Government target of 10 million visitors by 2025 is without any investment plan to facilitate growth and avoid bottlenecks which could hamper increased tourism activities. Investment will be required in transport and communications, state owned attractors and in education and training.

The industry is seeking:

- *A capital expenditure budget not less than 1% of annual export earnings each year from 2016 to 2020*
- *Innovative Government incentives to stimulate investment*
- *Training incentive for businesses*
- *Reformed regulatory frameworks appropriate to changing demand patterns*

3. Sustaining Destination Marketing: Ireland's spend on destination marketing has almost halved over the past 7 years, despite an increasingly challenging trading environment and more competition in the marketplace. This has resulted in a drop in Ireland's share of voice in its top source markets. The result has inescapably led a damaging loss of impact in winning attention and influencing potential tourists. Recent research shows awareness of Ireland amongst potential visitors is in decline and the choice of Ireland has been pushed further down the list of destinations being considered. The ambitious targets for visitor numbers and revenue set out in the Government's recent tourism policy document are at odds with the trend in investment in destination marketing. Failure to reverse this downward cycle of underinvestment in marketing will ultimately lead to a downturn in demand, a trend which will be costly to reverse.

The industry is seeking:

- *A restoration of the destination marketing budgets to 2008 level in real terms*
- *A transparent measurement system to monitor return on destination marketing investment*
- *A reassessment of organisational arrangements to deliver destination marketing programmes*

Tourism – one of Ireland's best performing industries

Tourism is one of Ireland's largest industries, which makes a substantial contribution to economic prosperity, employment and the Exchequer. Over the past 3 years tourism has been a major source of growth in export earnings and job creation.

Currently the industry is worth over €6 billion annually, providing employment to an estimated 220,000 people, including 140,000 jobs in the accommodation and food services sector. Over 20,000 businesses are engaged in the industry across the country bringing economic activity to many areas with few other industries.

The Exchequer received just under €1.25 billion in taxes from tourism in 2014, as 24.5c of every euro spent by tourists (domestic and overseas) goes to the Government.[1] Without the annual tax take from tourism the Exchequer would have to raise an extra €660 from everyone in the labour force.

TOURISM a driver of economic recovery - THE NUMBERS

Value of overseas tourism in 2014[2]	€4.7 billion
Value of domestic tourism in 2014[3]	€1.5 billion
Total value of tourism earnings 2014	€6.2 billion
Growth in export earnings since 2011	+27%
Jobs created since 2011[4]	30,000

Sources: CSO & Fáilte Ireland

Ireland's tourism has proven to be resilient with 7% growth in overseas arrivals in 2013, followed by a 9% growth in 2014. Visitor arrivals for the first five months of 2015 are up 12%, with the rate of increase for the rolling 12 months to end April at +10%. Tourism has passed from a recovery phase to one of sustainable growth.

Tourism has delivered jobs

Just over two out of every five jobs created between 2011 and 2014 was directly due to tourism. 220,000 people now owe their jobs to tourism, with almost one in every nine jobs in the country directly dependent on tourism. An estimated 5,000 new jobs were created directly by tourism in 2014, as well as more new downstream jobs being supported by tourism.

[1] Source: Fáilte Ireland
[2] Source: CSO overseas visitor expenditure + fares paid to Irish carriers
[3] Source: CSO
[4] Estimated based on applying Fáilte Ireland's multiplier of 1.6 to CSO data for employment in Accommodation & Food Services sector (Q3 '14 v Q3 '11)

The tourism sector has increased employment at a faster rate than most other sectors of the economy over the past three years, and in absolute numbers has provided more employment opportunities than many other business sectors.

Fig. 1: Employment growth 2011-2014

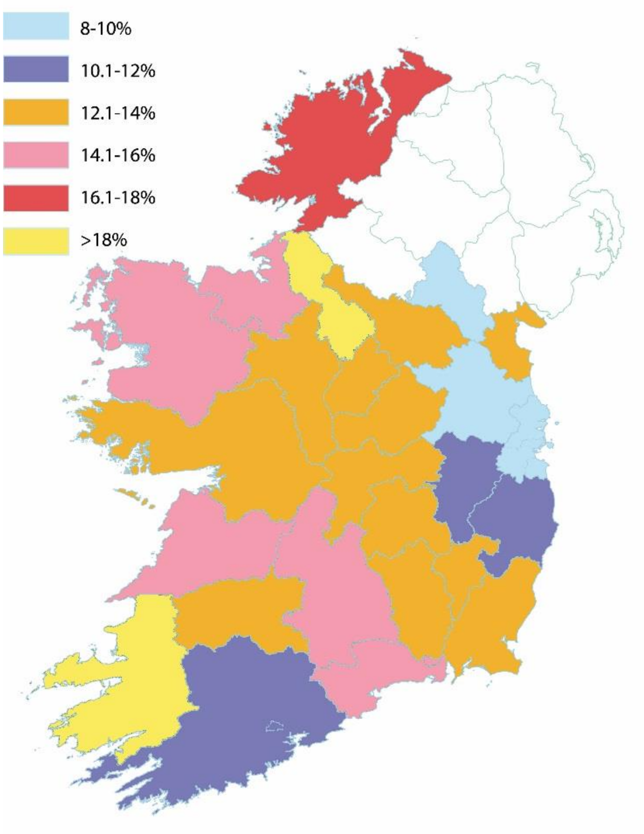
	Q3 2011	Q3 2014	% change	Net new jobs
Total employment	1,846,000	1,927,000	+4%	+81,000
Agri, forestry & fisheries	82,000	110,000	+24%	+28,000
Construction	109,000	112,000	+3%	+3,000
Industry	239,000	239,000	No change	0
Wholesale & retail	277,000	275,000	-0.4%	-2,000
Tourism	**194,000**	**224,000**	**+16%**	**+30,000**
[including Accommodation & food services]	*[121,000]*	*[140,000]*		*[19,000]*

Source: CSO QNQ03 Person aged 15 years and over in Employment by Sex, NACE Rev 2 Economic Sector

Tourism benefits spread across the country

Tourism businesses represent an important contributor to economic activity and employment throughout the country. Tourism businesses account for upwards of one in ten enterprises in all counties with the exception of counties Dublin, Meath and Monaghan, while in counties Donegal, Kerry and Leitrim almost one in five employers are directly engaged in tourism.

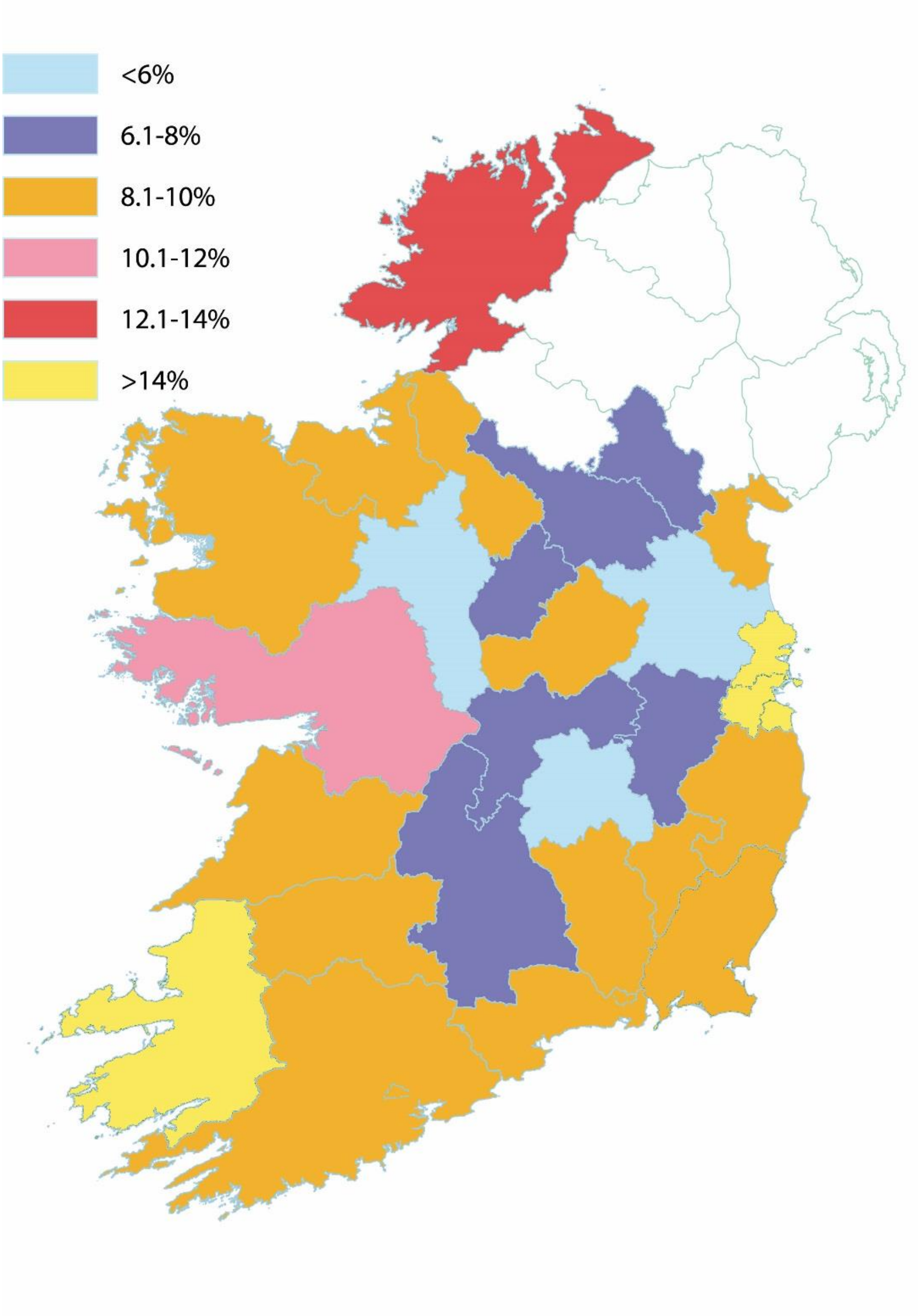
Fig. 2: Regional Tourism Dependency Ratios



Tourism is a significant employer in most counties, with more than one in seven jobs in Kerry and Dublin directly engaged in providing for the visitor, while tourism directly provides more than 10% of jobs in counties Donegal and Galway, with most other counties dependent on tourism for upwards of 6% or 8% of employment.

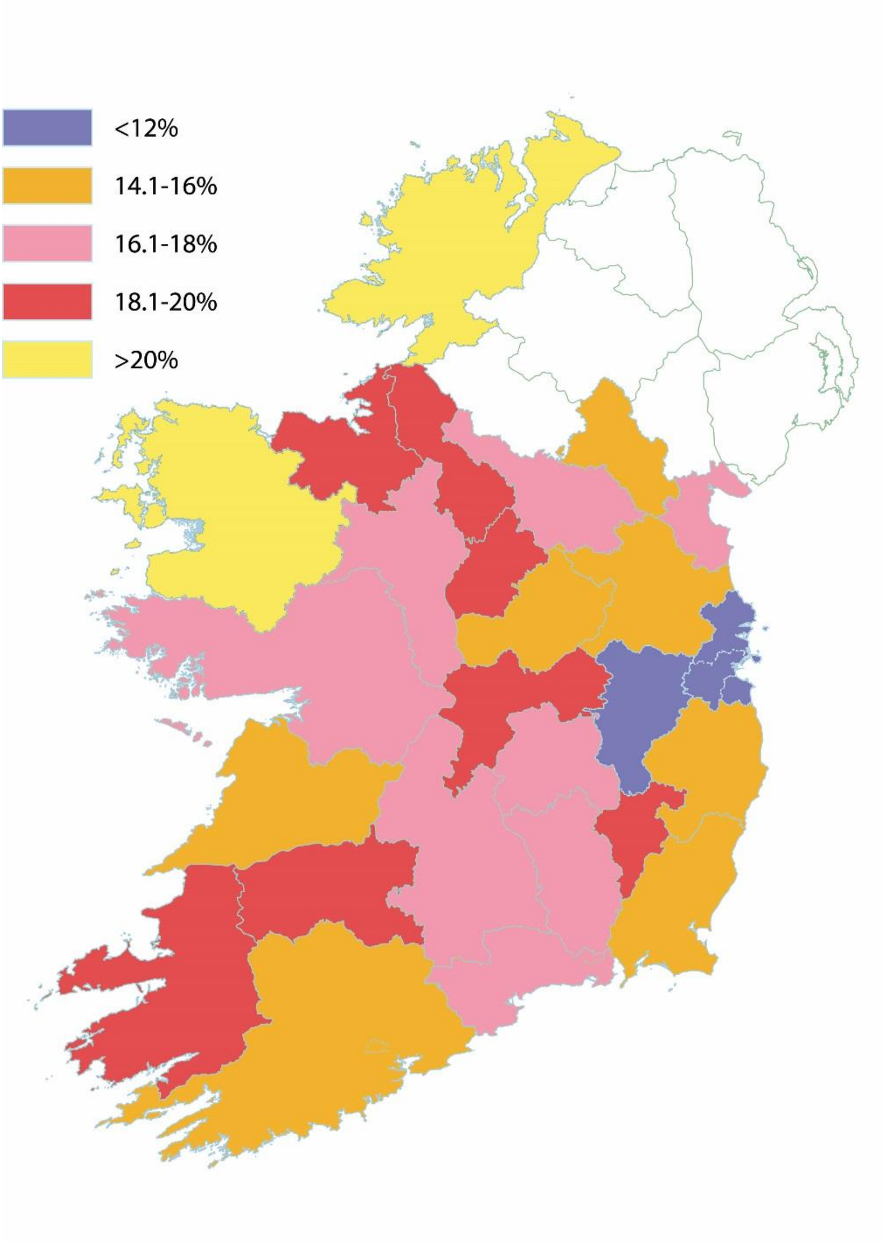
Fig. 3: Regional Tourism Dependency Ratios

- Percentage of Employment in 2011



Tourism has been to the forefront of enterprise development, wealth and job creation outside of the capital region. Start-up businesses in tourism throughout the country accounted for upwards of 14% of all new businesses even at the height of the recession when the economy was struggling to emerge from an unprecedented global downturn.

Fig. 4: Tourism Enterprise 'start-ups' as a percentage of total (2011)

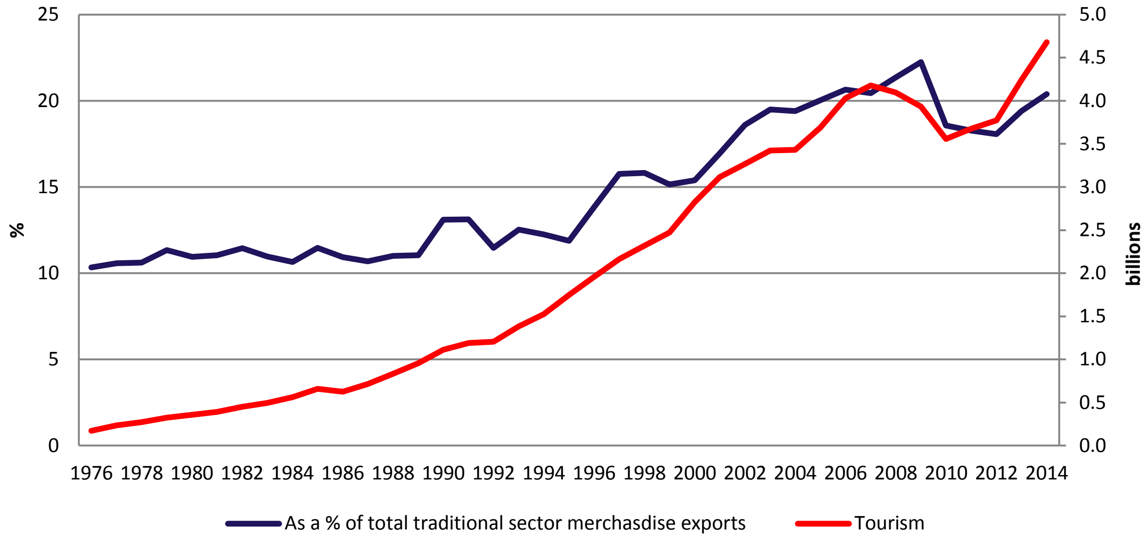


Source: IBEC / CSO

Tourism one of Ireland's fastest growing exports

Exports earnings from tourism reached €4.7 billion in 2014, equivalent to 20% of all traditional merchandise exports, stripping out the impact of multinational dominated sectors such as pharma. Over the past ten years tourism export earnings have grown by almost €1.3 billion with average annual growth rates of over 3%. Since 2011 these annual growth rates have been over 9% with exceptional growth in 2013 and 2014 of over 11.4% per annum. In 1994 tourism was equivalent to just over 12% of traditional merchandise exports, due to the growth in recent years tourism is now equivalent to over 20%. This underlines tourism's position as one of Irelands fastest growing export sectors.

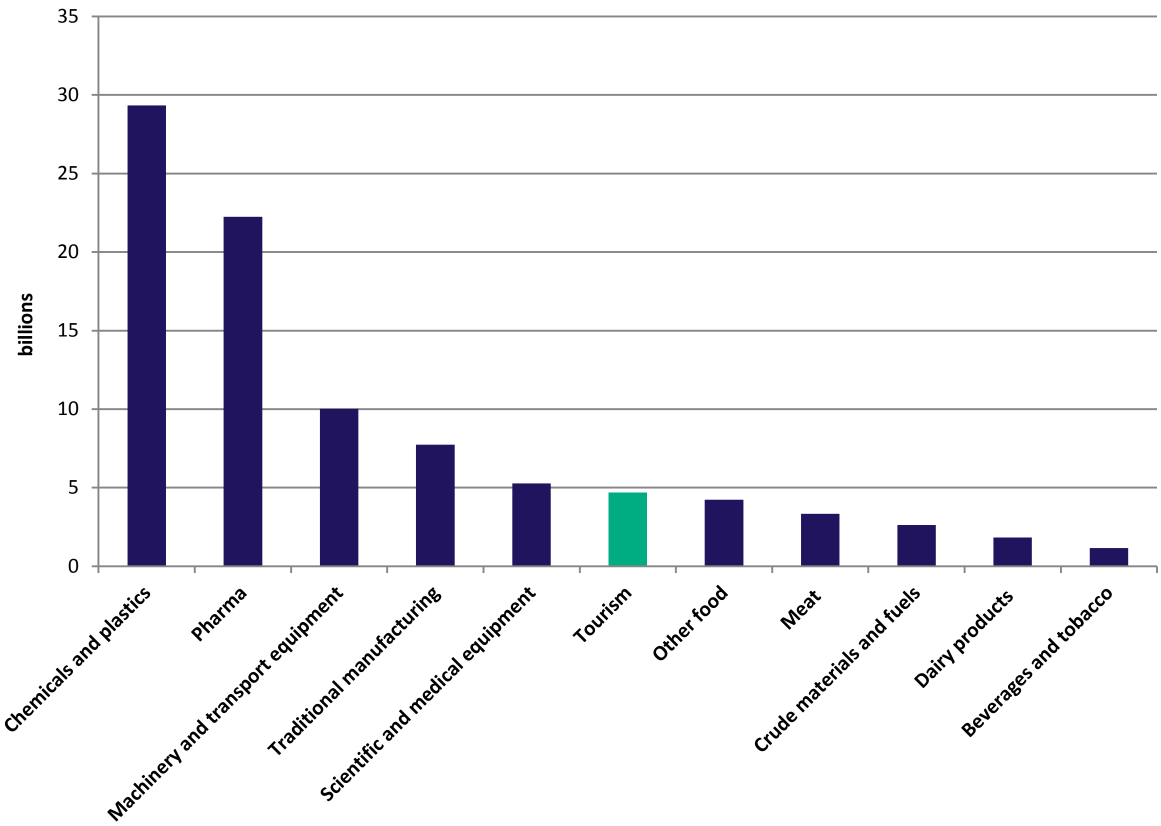
Fig. 5: Irish tourism's growth in importance as an export industry



Source: IBEC

Tourism is one of the top indigenous export sectors, growing faster than many of the sectors which go to make up food and drink exports. Tourism now brings in €2.8 billion more than dairy and €3.5 billion more than the drinks and beverage sector. Over the last twenty years tourism has overtaken the meat sector as an export earner, with tourism earning €1.3 billion more in 2014. Tourism exports are now equivalent to almost half of all food, drink and agricultural exports from the country.

Fig. 6: Tourism export income in comparison with main goods export categories 2014



Source: IBEC

In addition, tourism fosters export trade. Empirical research in other destinations has shown that an increase in travel between countries can be linked to subsequent growth in exports volumes and range of goods to tourists' origin markets.

Tourism is a pillar of Ireland's economic growth

The importance of tourism and its economic and social impacts was recognised in 2011 when the Government identified it as one of the pillars that could provide much needed employment and growth to drive economic recovery. Policy decisions to reduce VAT on tourism services, suspend the air passenger tax, liberalise the visa regime for entry from selected markets and provide a stimulus for job creation have combined to deliver significant results from increased tourism activity, with Ireland winning share in several important source markets.

Over the past five years a number of factors have been driving Ireland's success in attracting increasing numbers of international tourists. They have included:

- positive perceptions and a good reputation in the marketplace with Ireland becoming trendy in several markets based on a well-resourced tourism experience and infrastructure;
- improved competitiveness of a quality, well priced tourism product which stands out from the competition, thanks to cost input inflation being brought under control, and business acumen within the sector;
- significant expansion of access routes and capacity into the country, which has seen a 25% increase in summer airline capacity between 2010 and 2015, providing more affordable and convenient travel options;
- improved economic conditions in most source markets and more recently by greater purchasing power due to changes in currency exchange rates (currently the US$ is at a 10 year high against the euro, with £sterling at a seven year high).

The above have been positive influences on performance in recent years. However, the conditions over the coming years are far from certain. Growth in the future will be far more challenging, including the worrying and counterproductive trend of reduced investment in marketing the destination.

Tourism has proven potential to generate jobs

International tourism is one of the world's fastest growing industries, with 1.1 billion international arrivals globally spending US$1.5 trillion in 2014[5]. Over the past 12 years global receipts from tourism have more than doubled. Since the global financial crisis of 2008, international tourism has proven its resilience with tourism demand outpacing GDP growth. The consensus forecasts point to a significant rise in international travellers in the years to come.

The tourism industry worldwide continues to grow more quickly than the global economy as a whole. The rise of travel and tourism has shown significant resilience globally. Despite slow economic growth in advanced economies and geopolitical tensions in some regions, the travel and tourism sector still accounts for a large part of the global economy, estimated to be approximately 9% of global GDP or US$7 trillion. According to the World Travel & Tourism Council (WTTC), the sector is forecast to continue growing at 4% annually—faster than financial services, transport and manufacturing.

The proof of the industry's resilience is amply demonstrated by growth in Ireland's tourism - increased international arrivals reflected in higher occupancy rates in hotels and growth in demand for other visitor services – after the sharpest ever downturn in demand.

Ireland has a tremendous opportunity to win an increasing share of the expanding demand for international travel, but there are challenges.

[5] Source: UNWTO

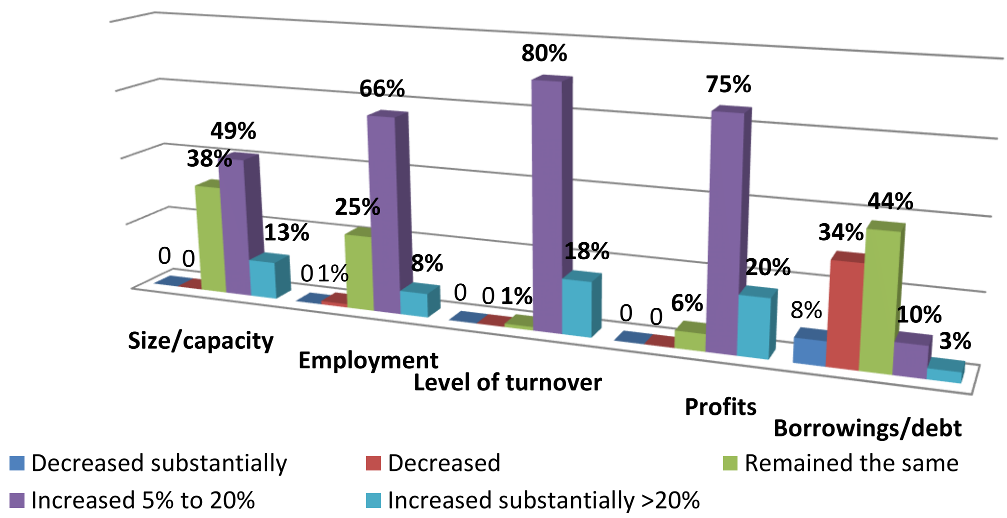
The tourism industry is committed to continued growth

Ireland's top tourism executives are positive about the state of the industry, cautiously optimistic about the future and are planning to exploit the opportunities for growth. A recent survey of business leaders[6] in the tourism and hospitality sector found there is almost unanimity in planning for sustainable growth in tourism over the next 2 to 3 years. 60% think the growth will be 'modest', with 40% expecting 'significant increases'. The majority of businesses have strategies in place to adapt to a changed marketplace environment and to make significant investment in expansion, thereby creating thousands of new jobs in the sector

The survey findings point to the potential for an expanded tourism industry where the majority of businesses will be more profitable and employing more people.

- **Capacity:** Three out of five businesses are planning to increase capacity over the next 3 years, with half of these businesses increasing capacity by between 5% and 20%.
- **Employment:** Two out of three businesses foresee the number of employees increasing by up to 20% within 3 years, with a minority of businesses (8%) delivering more than a 20% increase in employment.
- **Turnover & profitability:** Almost 20% expect their turnover and profitability to grow by more than 20% within 3 years. 80% expect turnover to increase by up to 20% with 75% predicting that their operating profit will be up to 20% better.
- **Borrowing/debt:** 13% of businesses are planning to increase their borrowings, with 42% planning to reduce their level of debt and 44% maintaining borrowings at about the same level.

Fig. 7: An industry perspective on business over the next 2 to 3 years



Source: ITIC Industry Leaders Survey (April 2015)

[6] ITIC's 2015 Tourism industry Outlook Survey (April 2015) based on responses from 88 senior industry executives.

Tourism growth is far from assured – the challenges, obstacles & risks

Tourism as an international traded service will always to be subject to external factors, such as the global economic conditions, geopolitical factors and extraneous events – factors over which Government or the industry have no control. However, a number of risks to continued growth have been identified which are within the control of Government and the industry.

Limiting factors to tourism business growth as identified by industry leaders are ranked as follows:

- Capacity/supply issues
- Labour – skills; costs; and overall supply
- Regulation
- Market size

The findings from this survey clearly show that the constraints on growing business are primarily on the supply side. The top finding is that current capacity is a limiting factor and further growth requires investment in expansion to cope for an increase in demand. The availability of a suitably qualified labour force, at cost levels comparable to competitor destinations, is also seen as a serious constraint on growth. Respondents identified the increasing burden of regulation and compliance costs as a limiting factor which has a varied impact across sectors of the industry. It would appear that access to finance is improving although one in four businesses identified this as a current limitation on their enterprises.

Fig. 8: Risks to sustainable tourism growth

Risk Ranking		Considered Risk/Serious risk by industry leaders
#1	Rising costs	66%
#2	Under investment in tourism plant	61%
#3	Under investment in infrastructure	54%
#4	Regulatory environment	49%
#5	Competition within sector	41%

Source: ITIC Industry Leaders Survey (April 2015)

Government working in partnership with the industry can address a number of factors under its control to ensure that Ireland can realise the potential for continued growth in tourism. The opportunities for sustainable growth and job creation are great and Ireland is well poised to capture an increasing share of the forecast growth in international travel. Failure to address a number of issues will result in expansion opportunities being lost.

"Tourism is one of Ireland's most important economic sectors and has significant potential to play a further role in Ireland's economic renewal."

PEOPLE, PLACE AND POLICY GROWING TOURISM TO 2025 - Government Policy Framework, published March 2015

The analysis of the current state of the industry points clearly to 3 areas for priority actions by Government to ensure that the tourism industry can continue to deliver further growth and employment

1. MAINTAINING COMPETITIVENESS

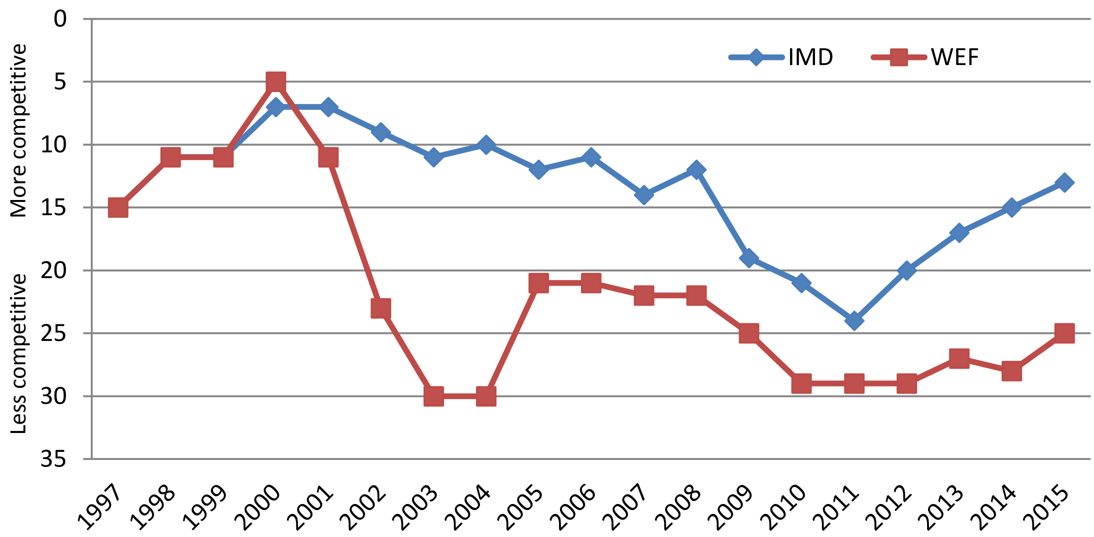
2. INVESTING FOR GROWTH

3. SUSTAINING DESTINATION MARKETING

1. MAINTAINING COMPETITIVENESS

Ireland's economic global competitiveness position has improved in recent years as is evident from a number of international benchmark metrics. Ireland is currently ranked 25th by the World Economic Forum's[7] analysis of competiveness landscape of 144 economies, while the IMD World Competitiveness Scoreboard[8] shows that Ireland is ranked 15th of 61 economies. However, despite improving competitiveness in recent years, Ireland still lags the more competitive positioning it enjoyed more than a decade ago.

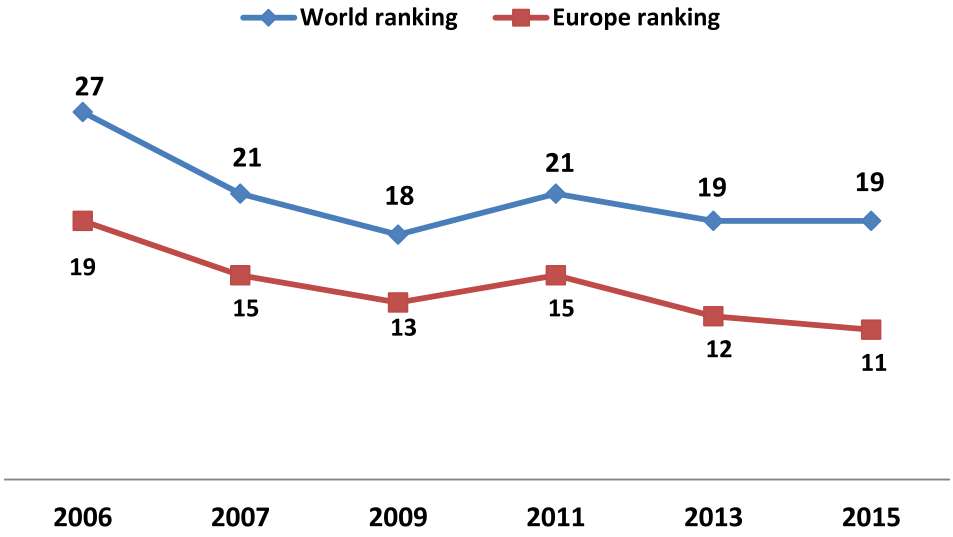
Fig. 9: International ranking of Ireland's competitiveness



Ireland's competitiveness as a tourist destination has also improved in recent years, reflecting better cost controls, improved productivity in the sector and less rapid inflationary pressures on inputs for businesses. While the improvement compared to 10 years ago is welcome, Ireland is still rated as 19th in the world and 11th in Europe, where 10 competitor destinations are ranked as having a better competitive positioning in the tourism marketplace.

[7] World Economic Forum: *Global Competitiveness Report 2014-2015*
[8] IMD World Competitiveness Yearbook 2015

Fig. 10: Ireland's competitiveness ranking as a tourist destination



Source: World Economic Forum

Against a backdrop of modest recovery, cost pressures are already emerging across a range of sectors, with particular pressures evident in the labour, energy, and business services sectors. The current rapid increases in house prices and residential rents have the potential to produce adverse knock-on consequences in terms of prices and wage expectations across the entire economy

Ensuring the competitiveness of the Ireland offering is seen as the greatest threat to sustained growth in tourism. Four out of five visitors indicate that good all round value for money is important in considering a visit[9]. The danger of rising costs – labour and other inputs – leading to a loss of competitiveness against competing destinations needs to be the prime policy focus for Government and the industry. Businesses do not wish to see a repeat of the experience of the early noughties where Ireland, as a result of high wage and import inflation, effectively priced itself out of markets.

The level and cost of regulatory compliance together with state induced cost burdens are also high on the list of factors endangering the industry's ability to remain competitive.

As tourism has very low import content, the price of what the tourist to Ireland consumes is largely determined by domestic economic factors such as the cost, and rate of inflation, of labour, regulatory charges, property, energy, water, waste, communications and business services. There is an imminent danger that the weakness of the euro will mask domestic cost increases as they add to tourist price inflation.

It is undoubtedly the case that the tourist is receiving significantly better value for money since 2009, when one in four visitors stated that the high cost of living here was a disadvantage. Downward pressure on the cost of inputs coupled with greater efficiencies and productivity of businesses engaged in the sector have combined

[9] *Visitor Attitude Research*, Fáilte Ireland

to improve the competitiveness of the Irish tourism offering. This has been dramatically reflected in the rating reported by tourists in recent years. However, Ireland remains an expensive location in which to do business, relative to some of our key competitors. Ireland is also the 3rd most expensive location in the euro area for consumer goods and services.

Over the past five years the value for money rating for Ireland as a destination has continued to trend upwards as the number of overseas visitors who rated their experience as poor value has dropped significantly. In 2014 more than half of all overseas holidaymakers rated value in Ireland as good and an additional two out of five rated it as fair. This compares with less than one in three rating Ireland as good value for money in 2009.

Fig. 11: How visitors rated 'value for money' of their holiday in Ireland

	2009	2011	2013	2014
Good	29%	39%	49%	55%
Fair	31%	36%	37%	38%
Poor	41%	25%	13%	6%

Source: Fáilte Ireland surveys

Nevertheless there is no room for complacency as value, based on the cost of living, undoubtedly will continue to be important in the perception of the Irish tourism product into the future.

In relative terms, Irish cost competitiveness is improving despite costs continuing to rise, as they are increasing at a slower rate than in many of our competitors. However, there is a danger that this improvement is largely being driven by external factors beyond the control of domestic policymakers: a weak euro, low interest rates, and low oil prices which have all combined to improve Irish cost competiveness.

There is the imminent risk that recent falls in prices in Ireland will be reversed as the economy returns to growth and demand increases. Already there are warning signs and domestically determined cost competitiveness is no longer improving. The Irish tourism industry cannot rely on favourable exchange rate movements to protect its international competitiveness. To allow the industry to compete, and to support growth and new jobs, increases in those input costs over which the state has some control have to be minimised. Productivity growth is the only basis on which the industry's competitiveness relative to key competitor destinations can be protected. This in turn will deliver sustainable employment and growth in economic prosperity.

Three cost factors of particular concern to the tourism industry:

Labour costs

As labour constitutes a significant cost input for businesses in tourism, the absolute level of pay, wage inflation and labour regulations, are key determinants of competitiveness of the sector. Currently Ireland has the 4th highest minimum wage (out of 21 countries) at €8.65 and the 5th highest minimum wage in PPS terms[10]. While Ireland has the 8th lowest rate of total social contributions as a percentage of average wages in the OECD-32, unlike many other countries there is no cap on employer social security cost or a reduced rate above a certain income threshold in Ireland. The flat rate charge on the full salary effectively erodes Ireland's competitive position as salaries increase.

VAT

Ireland's standard rate at 23% is the 7th highest within the European Community. Despite a drive towards harmonisation the standard rate of VAT across the 28 Member States ranges from 17% (Luxembourg) to 27% (Hungary).

VAT as a consumption tax is recognised as an important determinant of visitor behaviour and as a consequence most Governments across Europe have applied a reduced rate of VAT to spending by tourists on accommodation, eating out and admission to cultural services. Currently VAT on hotel stays is set at 10% or below in 20 of the 28 Member States, while a similar reduced rate applies to restaurant prices in 9 EU countries. The current rate of 9% applied in Ireland has restored Ireland's competitiveness amongst European tourist destinations; any increase would place Ireland at a seriously competitive disadvantage.

Fig.12: VAT rate in selected European tourist destinations

	Standard rate	Hotels	Restaurants
Belgium	21%	6%	12%
Netherlands	21%	6%	6%
Portugal	23%	6%	23%
Germany	19%	7%	19%
Poland	23%	8%	8%
Ireland	23%	9%	9%
Austria	20%	10%	10%
Finland	24%	10%	14%
France	20%	10%	10%
Italy	22%	10%	10%
Spain	21%	10%	10%
Czech Republic	21%	15%	21%
UK	20%	20%	20%

Source: European Commission (January 2015)

[10] Eurostat 2013

Local Authority Commercial Rates

The revenue collected through commercial rates doubled over the period 2002 to 2014, as Local Authorities relied increasingly on businesses as a source of income to compensate for a decline in funding from Central Government. Commercial rates grew as a proportion of revenue from 24% in 2002 to 36% in 2014. The bill to tourism enterprises, most particularly hotels, has become a hefty burden and increased significantly as a percentage of annual operating costs.

POLICY ACTIONS

- **Enhance labour cost competitiveness by reform of income taxes; changes to the social insurance structure for lower paid workers; and reform of regulatory framework**
- **Maintain the reduced VAT rate for tourism services**
- **Ensure supply of essential skills to enterprise through structures that provide better high quality, flexible and responsive education and training programmes**
- **Support competitiveness of tourism by reducing the excise rate on alcohol**

2. INVESTING FOR GROWTH

Product differentiation, innovation, and investment are key factors in maintaining a competitive positioning for Ireland in the international marketplace. This requires continuous investment, long-term focused investments in product renewal and innovation to ensure that Ireland's tourist offering keeps pace with changing tastes and global competition. Failure to renew and innovate will result in a decline in demand and a falling price point.

The underinvestment in tourism an indigenous growth sector

The national economic development strategy, with its high dependence on FDI for growth in employment and exports, needs to shift focus to indigenous business sectors with export growth opportunities, in order to ensure longer term sustainability. Agri-food and tourism, two sectors that complement each other, are recognised as the top two indigenous sectors with export potential. Furthermore, tourism can boost the local economies in areas not agriculturally rich, such as west Kerry, Connemara, west Mayo, Clare, Donegal and west Cork. The agri-food and tourism sectors are each 'home based', and cannot be 'off-shored'. The sectors are high earners of foreign exchange, largely rural based, employment intensive, and are almost exclusively dependent on Irish produced inputs.

The complementary sectors of agri-food and tourism are the main pillars of indigenous export growth potential with the latter currently being constrained by investment which is disproportionately low as measured against its potential. Currently state capital investment in tourism is approximately one-tenth of that invested annually in the agri-food sector - a sector which is in receipt of subsidies paid by the Department of Agriculture, Food and the Marine, less taxes on production, estimated at €1.5 billion in 2013.[11]

Fig. 13: Agriculture & Tourism – a comparison

	Agri-food sector	Tourism	Ratio
State capital investment 2014	€168m	€17m[12]	9.9:1
Export earnings est. 2014	€9.3 billion	€3.9 billion	2.4:1
Employment Q4 2014	105,900	137,500[13]	0.8:1

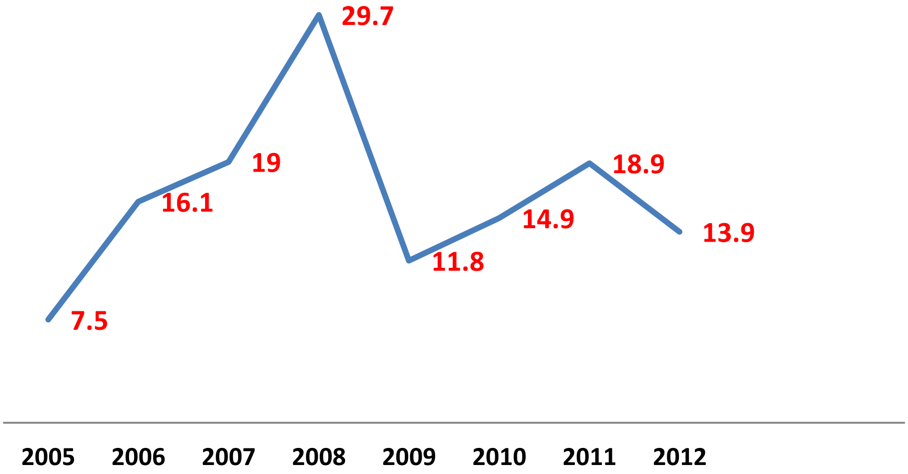
Sources: Government publications, incl. CSO

State investment in the tourism sector has been in steady decline in recent years.

The case for capital investment in tourism is compelling and is urgently needed if Ireland's tourism industry is to continue to generate increased earnings from overseas visitors and achieve the Government's target of 10 million overseas visitors spending €5 billion by 2025. Capital investment by the Government in tourism infrastructure and visitor attractors through the OPW, Local Authorities, National Parks & Wildlife Service, Fáilte Ireland, and other state agencies can provide a powerful stimulus to wider economic activity across the Irish economy.

[11] CSO: Preliminary Estimate, February 2014
[12] An allocation of €20 million has been made to Fáilte Ireland in 2015 to administer the Tourism Capital Investment Programme The funds available under that the programme are fully committed to the end of 2016.
[13] CSO 'Accommodation and Food services' not including an estimated 75,000 jobs in other tourism services

Fig. 14: Fáilte Ireland's Capital Budget 2005-2012 (€m)



Source: Fáilte Ireland Annual Reports 2005 – 2012 (Capital Development projects)

The historic and cultural environment has a significant impact on people's decisions to visit Ireland, based on Fáilte Ireland research. Furthermore, over 3 million overseas visitors are estimated to visit cultural historic sites annually. A recent analysis[14] concluded that 'certain forms of tourism will be conditioned to a greater extent than others by the range and quality of Ireland's heritage assets.' The Office of Public Works (OPW), which manages, maintains and presents approximately 70 national monuments and historic sites for visitors, has suffered a cut back in its capital programmes over the past 10 years. The annual capital investment programme has dropped from €17 million in the mid 2000s, to €8 million in 2008 and to just €350,000 in 2014 and 2015. This degree of underinvestment in key visitor attractors has serious implications for the sustainability of tourism demand throughout the country.

Failure to invest in the tourism plant – accommodation, attractions and services – or in enabling infrastructure, including communications and transport, represents an almost equally serious risk. Growth is predicated on attracting investment into public and private sector tourism experiences and services as well as ensuring adequate investment by the state in enabling infrastructure. There is a danger that lack of investment in tourism infrastructure and facilities will lag behind industry growth and, more seriously, act as an obstacle to future growth.

[14] 'Economic Value of Ireland's Historic Environment' for The Heritage Council (2012) ECORYS

Need for enabling infrastructure

For the tourism industry to continue to grow strongly, investment in enabling infrastructure including transport, communications and other public services, is required. Failure to continue to invest in airport development, road and rail, and communication technologies will lead to significant bottlenecks. With tourism numbers set to increase by up to 40% over the next 10 years, there is a need to ensure that Ireland's infrastructure is adequate in capacity and quality to cope. Priorities include runway capacity at Dublin Airport, Ireland's top gateway for tourist arrivals; a modern inter-modal public transport network; and the availability of broadband throughout the country. New technologies and innovations are revolutionizing the travel and hospitality industry, such as GPS-enabled smartphones and growing trust in online transactions driving the sharing economy.

The quality of the natural environment is a key issue at the heart of Ireland's tourism product and the experience offered to visitors. Repeated market research findings confirm that the natural beauty is a key motivator and component of the Ireland experience. Government policy must place the environment protection and conservation as a central policy element and one of the specified policy actions for the tourism agencies and local authorities, as well as other relevant government departments.[15]

Investment in visitor experiences

The recent deep and prolonged recession has taken a significant toll on the wear-and-tear of existing tourist attractions, due to understandable under-investment over the past 5 years. Furthermore, changes in the composition of tourist demand dictates that the product offering needs to be adapted to meet the expectations of visitors from new emerging markets as well as catering to a changed demographic profile. The most recent Product Development Strategy for tourism, produced in 2007, is largely redundant having been overtaken by events. A new Product Development Plan 2016-2020 is urgently needed.

ITIC is proposing that a capital budget of not less than €250 million be provided for tourism specific projects over the period 2016-2020. At an average of €50 million per annum, this equate to 1% of tourism's annual export receipts, and in absolute terms is very modest compared to the state capital investment in the agri-food and FDI sectors.

It is envisaged that the capital investment, supported by evidence based strategies, would be used to encourage and support investment in both the public and private sector. The focus should be on sustainable projects which can be demonstrated to enhance the appeal and experience for the visitor as well as generating employment and increased expenditure in the country. Specifically projects would be required to meet a number of criteria, including:

- Enhancement of the local attractions, facilities and amenities in a tourism area;

[15] Reference: Protecting the Irish Environment and Landscape - A Critical Issue for Irish Tourism, ITIC 2014

- The ability to attract additional visitors; and
- The capability to operate without recourse to operational support funding.

Investment in people

Tourism, as a service industry, relies heavily on people and has proven capacity to create jobs. A culture of hospitality and quality service is crucial to the competitiveness of the sector. Growth in tourism requires an expansion of the skilled labour force. However, career paths and skills progression are not always apparent to prospective entrants or employees. This perception is being addressed by a proactive continuous professional development strategy being pursued by industry representative associations and individual businesses.

A particular need of the sector is continuous learning and up-skilling in culinary arts, food service, customer care and e-marketing. Training programmes and schedules need to combine the needs of the employee with the demand patterns of the business. The industry is committed to an ‘earn to learn’ approach which offers mutual benefits by providing greater career path opportunities with enhanced customer experience. Training policy for the hospitality and tourism sectors needs to be reformed to focus on continuous education, up-skilling, and equipping people for career progression. Reforms could include mainstreaming training for the hospitality sector, within the remit of the Department of Education & Skills and the Department of Jobs, Enterprise and Innovation, as well as the introduction of apprenticeship schemes.

POLICY ACTIONS

- **Reverse some of the cuts to the capital expenditure budget in recent years with a capital programme, equivalent to not less than 1% of annual export earnings from tourism, in each of the next five years**
- **The prioritisation of capital investment projects in tourism, by Fáilte Ireland, OPW, the Parks and Wildlife Service and Local Authorities, must have a clear market focus on boosting visitor export earnings**
- **An innovative approach on the part of Government to stimulate investment from indigenous enterprises and FDI in the tourism sector, including measures to enhance productivity, innovation and R&D**
- **The inclusion of tourism enterprises in eligibility for capital supports currently available to export business in other sectors of the economy**
- **Training incentive for businesses, for example, allowing investment in training to be offset against employer's PRSI**
- **The need to redefine regulatory frameworks in the context of changing consumer behaviours and the growth of the shared economy**

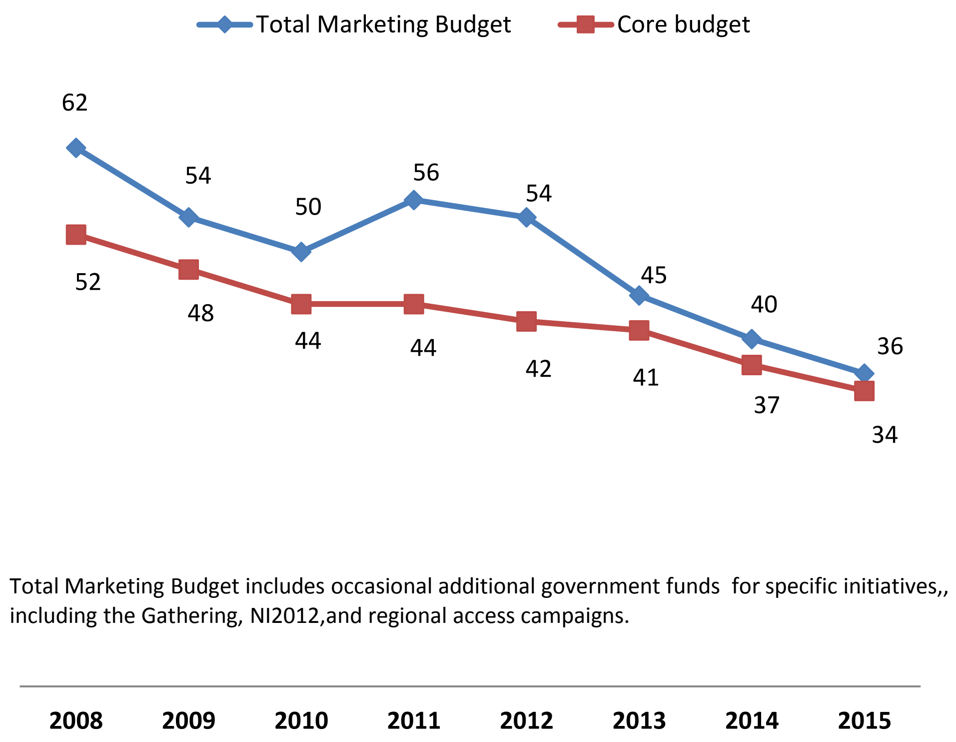
3. DESTINATION MARKETING

Spend on marketing Ireland has been decimated in recent years

Ireland's spend on destination marketing has almost halved over the past 7 years, despite an increasingly challenging trading environment and more competition in the marketplace. This year an estimated €36 million will be spent by Tourism Ireland on marketing the island of Ireland overseas. This compares to a spend of €62 million in 2008. The budget allocations to Tourism Ireland and Fáilte Ireland have been subject to continuous cutbacks in recent years and look set to be further reduced in 2016.

Furthermore, the purchasing power of the marketing budget in Britain and the USA has been further eroded by currency exchange rates over the past 12 months. The weakened euro would cost Tourism Ireland €2 million more this year to maintain purchasing power in non-euro currency markets.

Fig. 15: Tourism Ireland Marketing Budget (€m current terms)



Source: Tourism Ireland

While Ireland is not unique in suffering cut backs in National Tourist Offices' (NTOs) marketing budgets during a time of tight public finances, the level of reduction in the case of Ireland has been more severe than most of its competitors. Indeed, several European competitor destinations have increased their expenditure on destination marketing over the past number of years to more effectively compete in a tight market situation.

Destination marketing is an investment not a cost

Ireland's biggest and best brands on the global stage – Guinness, Kerrygold and Jameson, amongst others – understand the need to consistently market their products in an effective way to create consumer demand. The empirical evidence is compelling, namely that consistent, well executed marketing programmes can produce significant positive return on investment. While tourism is an easy target for chopping the budget in comparison to essential services, destination marketing represents an investment, not a cost to taxpayers. Tourism revenue helps pay for a range of Government services as it puts cash into public coffers, creates jobs, and enhances the lifestyle of both tourists and residents.

Every euro invested by the state in destination advertising in the top source markets resulted in a visitor spend of €34 in the country. This impressive rate of return on investment, ranged from a high of 52:1 in the USA to 17:1 in Germany.[16]

Ireland is losing 'share of voice' in key markets

While the expenditure on destination marketing by Tourism Ireland accounts for a small share of total spending on tourism promotion in each of the key source markets, the cuts in budgets have significantly reduced Ireland's share of voice in the marketplace. Over the past 5 years some of Ireland's competitors have invested more and grown their share of voice in the marketplace. For example Ireland's main competitors in Britain - Visit Britain, Visit Scotland and Iceland - increased their spend on advertising in the market, while in Germany competitor destinations including Britain, Norway, and Sweden upped their media presence. As a result Ireland has a diminished visibility in most source markets compared to 5 years ago.

Fig. 16: Ireland's declining share of voice amongst competitor set in top source markets

Market	2010	2014
Britain	10%	2%
USA	84%	55%
Germany	50%	36%

Source: 2014 Competitor Analysis, by Carat Global for Tourism Ireland (March 2015)

The findings from research suggest that Ireland's share of voice has fallen in its 3 top source markets, most startlingly in Britain to 20% of what it was 5 years ago, while share of voice in USA and Germany has each fallen by approximately one third. The result will inescapably lead to a damaging loss of impact in winning attention and influencing potential tourists.

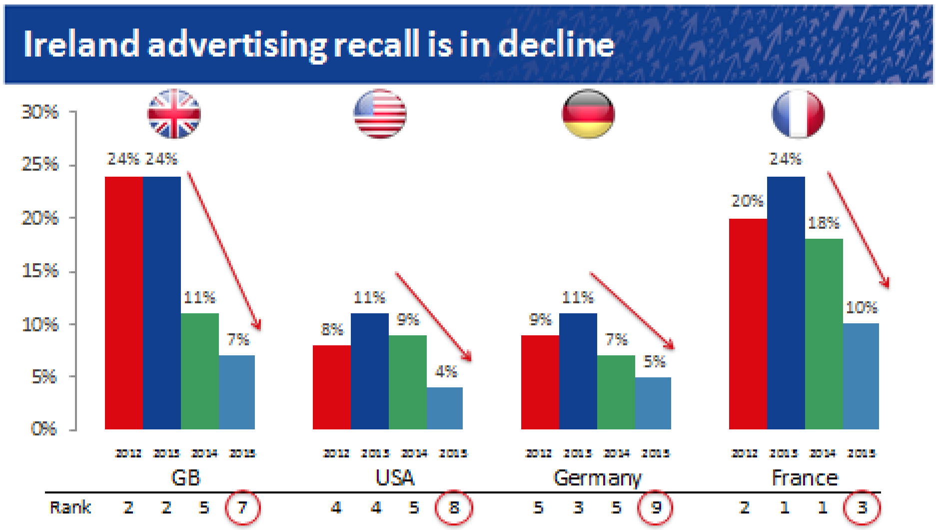
[16] RoMI research by B&A for Tourism Ireland (2013)

Awareness of Ireland is in free fall - The inescapable downside of cutting marketing budgets

The inevitable outcome of loss of presence in the mind of potential travellers is a decrease in demand for visits to Ireland.

The evidence is already apparent as spontaneous recall of advertising for Ireland has fallen in each of our top source markets over the past 4 years. The drop has been significant in Britain, USA, Germany and France. Ireland has now dropped to the 7th most recalled holiday destination in Britain, 8th in the USA, 9th in Germany. In 2012 Ireland was ranked 2nd in terms of spontaneous recall awareness in Britain, 4th in the USA and 5th position in Germany. The ranking of Ireland in France, while still in the top three destinations, the proportion of potential travellers recalling advertising has more than halved.

Fig. 17: Awareness of Ireland in top source markets 2012-2015



Source: Tourism Ireland research (2015)

Tracking research in 2014 indicated that while the proportion of people interested in visiting Ireland has held steady in Britain, France and Germany, the choice of Ireland has been pushed further down the list of destinations being considered.

The ambitious targets for visitor numbers and revenue set out in the Government's recent tourism policy document[17] are at odds with the trend in investment in destination marketing.

Failure to reverse this downward cycle of underinvestment in marketing leading to loss of awareness of the destination in Ireland's top 4 holiday source markets will ultimately lead to a downturn in demand and a continued slide which will be costly to reverse.

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[17] *'People, Place and Policy – Growing Tourism to 2025'* Government Policy, March 2015

TOURISM POLICY ACTIONS

- **Reverse the cuts to the destination marketing budgets – restore to 2008 level in real terms, with a focus on key growth markets, as the favourable conditions currently driving growth are unlikely to continue over the next 5 years.**
- **Institute a transparent measurement system to monitor return on destination marketing investment**
- **Maximise efficiency in the organisational arrangements for the delivery of destination marketing programmes and establishment costs in order to ensure maximum efficiency and effectiveness of limited state resources.**

Tourism Opportunity

A MANIFESTO FOR GROWING TOURISM AND JOBS

itic

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