Submission to  
Department of Transport, Tourism & Sport  

Statement of Strategy for 2017 - 2019  

5th August 2016

“Tourism is one of Ireland’s most important economic sectors and has significant potential to play a further role in Ireland’s economic renewal”

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The Restaurants Association of Ireland welcomes the opportunity to submit on the Department of Transport, Tourism and Sport Statement of Strategy for 2017 -2019.

The tourism and hospitality sector have played a huge part in the economic recovery of Ireland over the past number of years. This return to growth has been aided by the improvement in competiveness of the Irish tourism industry, the development of our tourism brand as well as a marked improvement in the economic climate of our primary overseas markets.

Government initiatives played a crucial part in ensuring the competitiveness of the tourism industry

- VAT reduction to 9%
- Suspension of the Air Travel Tax
- Employment Incentive Programmes
- Visa programmes
- The Gathering
- Development of the tourism brand (Wild Atlantic Way, Ireland’s Ancient East)

However, the environment within which the department’s new strategy is being prepared differs greatly to that of three years ago. With Great Britain accounting for 40% of our overseas visitors, the implications of Brexit could have huge ramifications for one of our main source markets.

Tourism is a very competitive, labour intensive, and price sensitive sector. The move to 9% took the Irish rate down to European norms and also gave a stimulus to demand on the back of the price reduction that followed the lower VAT rate.

There is a distinct risk that the UK economy will go into recession and sterling could weaken further. Given the uncertainty around Brexit there are no certainties, but the risks to Irish tourism from a sharp slowdown in the UK economy and weaker sterling are clear.

The Restaurants Association of Ireland welcomed the publication of the ‘People, Place & Policy – Growing Tourism to 2025’ report in March 2015. It has set goals for the tourism industry, which we believe are attainable. To meet these goals we believe that the Department should focus on the following policy issues over the next 3 years, namely;

- Skills Shortage
- Cost Competitive Environment
- Ireland’s Tourism Lakelands Brand
- Capital Investment In Tourism
1) **Skills Shortage**

‘People, Place and Policy – Growing Tourism to 2025’ states that;

“Our people and our place remain our biggest assets in terms of our ability to attract an even greater number of overseas visitors in the future. At the same time, these assets must be mobilised within a robust and effective policy framework if Ireland is to reap the economic and social benefits of tourism”.

The Food experience as part of the overall tourism product plays a crucial role in attracting overseas visitors. We want to be able to market Ireland as a centre of food excellence, a true culinary experience with world-class chefs leading the way. Instead, we are finding ourselves in a position where we have a **severe shortage of chefs** in Ireland which is now threatening growth and expansion in the restaurant sector.

The Association is delighted to be a member of the Hospitality Skills Forum, formed on the back of the publication of the Expert Group on Future Skills needs report for the hospitality sector. One of the main findings of the report is that there is an immediate **deficit of 5000 chef trainees annually**.

The development of a Commis Chef Apprenticeship programme is underway but only 86 places will commence in January 2017.

Whilst the forum is examining the various different elements of the hospitality training industry there is no body with a remit for the development of training programmes for the hospitality industry in Ireland.

The statement of strategy for 2017-2019 should address this lack of direction and should set out a pathway for **the re-establishment of CERT - the Council for Education, recruitment and Training for the tourism and hospitality industry**.

Since CERT was merged in to Failte Ireland (2003), there has been little funding for industry training other than that given to the Institute of Technologies.

Currently, circa 1,300 chefs are being trained each year and chefs are needed not just in restaurants but in hotels, gastro pubs, contract caterers, coffee shops, food production units, service stations and much more.

The association receives calls every day with members struggling to find trained chefs. At present through online recruitment sites such as CPL, Jobs.ie, Jobbio among others there are over 800 + vacancies for chefs of all grades.

Research by **Fáilte Ireland (Trade Survey Skills Needs 2014)** covered the tourism industry’s current and anticipated future skills needs. The study was based on an online survey undertaken in 2014 of 1,321 contacts in tourism accommodation, food services, attractions and related businesses.
It found that:

- There are considerable issues in recruiting culinary staff. Two in five (41%) respondents report ‘considerable difficulty’ and a further quarter (24%) ‘some difficulty’.
- There is a common perception that there is a lack of trained candidates to fill culinary and customer service positions.

We have no doubt that if this survey was to be undertaken today, these figures will have increased significantly.

Without action key skills shortages are anticipated to increase over time. In order to assist the growth and development of the industry we would like to see the following implemented;

- Re-establishment of CERT, the former State training agency for the sector
- Developing more training centres throughout the country
- On and off the job training courses (Apprenticeship model underway)
- Packaging of ‘A career in hospitality’ - Link to obesity issue – Food education in schools
- Short-term solution for the Chef shortage, two year work visas for those outside of the EU
- Short CPD courses for upskilling those in the industry
- Digital Skills

2) **Cost Competitive Environment**

**VAT at 9% - Job Creation**

In July 2011, the VAT rate for Tourism related goods & services was temporarily reduced from 13.5% to 9% by Government as part of a measure to promote job creation. This incentive was due to expire at the end of 2013, but has been subsequently extended due to the fact that it continues to have a positive impact on the sector in terms of activity and employment.

Between Q2 2011 and Q1 2016, on a seasonally adjusted basis, the number of people working in the Accommodation & Food Services Sector nationally increased by 31,000, taking total employment from 114,900 to 145,900. This increase of 27% compares to an increase of 7.2% in overall employment over the same period.

While the national average unemployment rate stood at 8.4% of the labour force in the first quarter, and has subsequently fallen to 7.8%, the regional variation is stark. The unemployment rate stood at 6.9% in Dublin; 8.6% in the Border region; 11.6% in the Midland region; 10.2% in the West; 5.9% in the Mid-East and 7.7% in the Southwest region.
The Southeast had the highest unemployment rate at 12.5%. These variations, along with lots of other real and anecdotal evidence illustrate just how significant a problem regional economic growth and development is. It has been given some priority in ‘A Programme for Partnership Government’.

**Brexit** has already generated considerable uncertainty for Ireland and clearly has the potential for considerably more uncertainty over the next couple of years. The Accommodation & Food Services Sector would clearly be very vulnerable to a UK recession and ongoing sterling weakness and vulnerability.

Given the intense uncertainty around how the Brexit process may develop and its economic implications for Ireland and the UK, there are no certainties. The risks to Irish tourism from a sharp slowdown in the UK economy and weaker sterling are clear.

Against this background of intense uncertainty for the Irish economy in general and the Accommodation & Food Services sector in particular, it would not make sense to increase the VAT rate applying to the sector, given the extra vulnerability that has arise from the Brexit vote.

**COMPETITIVENESS**

It is widely recognized that generating sustainable broad based export-led growth is essential in rebuilding a sustainable Irish economic model. To achieve this objective, cost competitiveness is an essential ingredient. A high cost base undermines the attraction of FDI and business expansion; it makes firms selling into foreign markets less competitive; and it creates the potential for import substitution.

For a service export like tourism, international competitiveness is absolutely crucial to success. If the tourism product is not competitive, foreign visitors will be diverted to other cheaper markets, and domestic tourists will have a stronger incentive to go overseas.

Ireland’s international competitiveness deteriorated significantly between 2000 and 2008 as all of the costs of doing business were allowed escalate in a very damaging way. From 2009 onwards, there was a significant improvement, helped by the weakness of the euro against sterling and the dollar, but also an improvement in the costs of doing business as the economy contracted.

Over the past year there has been some deterioration again. The Real Harmonised Competitiveness Indicator (Real HCI) increased by 3.7% between April 2015 and April 2016. The Nominal Harmonised Competitiveness Indicator (Nominal HCI) increased by 4.9% over the same period. Exchange rate movements have made a significant contribution to this deterioration in competitiveness. For example, since March 2015 the euro has appreciated by 5.8% against the dollar and since July 2015 it has appreciated by 20% against sterling. However, there is also clear evidence that many of the costs of doing business are increasing in line with the economy.

In the period from 2011 to 2015, average consumer prices for Cafes & Restaurants increased by 6% and average prices for Accommodation Services increased by 10.4%. The price rises for both of these items are being heavily driven by Dublin, where there is a shortage of hotel
rooms and business costs are rising more strongly than in the rest of the country. When the 9% VAT rate was introduced it helped keep prices low for a protracted period, but some price pressures are now starting to build.

The *Costs of Doing Business in Ireland 2016* report does give some cause for concern in relation to the recent trends in business costs. Its key findings include:

- Ireland remains an expensive location in which to do business with a price profile, which can be described as ‘high cost, rising slowly’;
- In the year to Q3 2015, Irish labour costs grew by 2.1%, compared with growth of 1.9% in the EU-28 and 1.2% in the euro area;
- In 2016, Ireland had the 2nd highest monthly minimum wage and the 5th highest in PPP terms of 18 countries considered;
- Ireland is the 6th most expensive location in the euro area for prime retail rents. Rents increased by 22% in 2015;
- Commercial rate increase as a proportion of total Local Authority revenue from 24% in 2002 to 38% in 2015. Over the same period, the proportion received from Central Government fell from 46% to 29%;
- Ireland was the 5th most expensive country in Europe for diesel in January 2016;
- Industrial electricity prices for SME energy users are 6% higher in Ireland than the euro area, making Ireland the 6th most expensive location. Between 2010 and 2015, Irish prices for SMEs increased by over 20%;
- Water and waste-water costs for industrial users compare favourably to those in competitor markets; and
- Irish interest rate on business loans have been consistently higher than equivalent euro area rate. In December 2015, the interest rate on loans of up to €0.25 million was 80% higher than the euro area average, and 60% higher for loans of up to €1 million.

Another cause for concern are the increasing Insurance premiums. To date in 2016 our members are reporting an average 30-40% increase in their premiums.

It is clear that over the past 18 months, as the economy has recovered, Irish competitiveness has deteriorated. Exchange rate movements are outside of our control, so there is a strong imperative to manage business costs carefully.

Lower prices boost demand for tourism products. If the VAT rate was put back up to 13.5%, it is inevitable that this would result in an increase in prices and damage demand, tourism revenues and employment.

The industry must be re-assured that the 9% VAT rate is a permanent fixture and that it cannot afford to see each year if it will be maintained. Tour operator groups, large conferences and events are all booked in nearly a year in advance with set prices being agreed. It does not make good business sense to operate in the ‘unknown’.

A co-ordinated approach to addressing the cost of doing business, a full review of all regulatory burdens and the streamlining of regulatory enforcement activities out of a merger

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and rationalisation of existing structures and agencies would go a long way to help reduce costs.

3) **Investing in Rural Ireland – Ireland’s Tourism Lakelands Brand**

The development of the Wild Atlantic Way, Ireland’s Ancient East and the Dublin brand has been most welcome to operators in these areas. These brands are and will continue to reap benefit.

There are however, many areas that do not fall in to these brands. The strategy for the next three years should be to ensure the development of the Lakelands brand encompassing the River Shannon flowing through Cavan, Leitrim, Longford, Roscommon, Westmeath, East Galway, Offaly, Tipperary, Clare and Limerick all of its tributaries plus the canal network across the Midlands.

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“G) €100million Capital Investment in Wild Atlantic Way & Greenways

One of the biggest achievements in revitalising tourism has been the creation of the Wild Atlantic Way. We will seek to set aside €100million in additional capital funding to take the Wild Atlantic Way to the next level, including an Atlantic blueway route, and the Ireland Way, and to invest further in developing a nationwide Greenway network.

As part of this additional funding, we will double the funding available for the Rural Walks Scheme from €2million to €4million to increase the number of walks covered from 40 to 80.

We will also direct Fáilte Ireland to develop the ‘Ireland’s Lakelands’ brand as a separate proposition to sit alongside the Wild Atlantic Way and Ireland’s Ancient East. To assist with sustainability of tourist accommodation and small tourism ventures, a support scheme will be introduced for businesses operating along these routes”.

Without the development of a co-ordinated tourism brand for these areas it will have a negative effect on local tourism and hospitality businesses.

4) **Capital Investment in Tourism**

In 2014, capital investment in tourism was only €17m. The total expenditure by overseas visitors to Ireland has increased from a low of €2.9 billion in 2011 to €4.2 billion in 2015. The tourism sector has also increased employment at a faster rate than any other industry up 16% from 194,000 (2011) to 224,999 (2014).

Based on the expenditure alone by overseas tourists in Ireland, investment in tourism is certainly worth a lot more than €17m.

Over the next three years a co-ordinated approach across departments and local authorities should see investment being placed in the following;

- Training Courses and training centres of hospitality excellence
- Tourism Infrastructure and attractions
- Investment in our Digital Infrastructure
- Support tourism businesses to become more energy efficient

We trust that the above information may be of assistance. Once again, our thanks for being afforded the opportunity to submit the views of the Restaurants Association of Ireland.