

Impact of the Fuel Rebate on the Private Bus and Coach Industry

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Executive Summary

- The private bus and coach industry is an integral provider of transport services in Ireland. This is despite the lack of a level playing field in terms of State support to transport services providers, and the restrictive bus licensing policy in place in the country.
- There are approximately 1,870 private bus operators in Ireland, with an aggregate bus vehicle fleet of approximately 6,000 vehicles. This is more than double the number of vehicles operated by Dublin Bus and Bus Eireann combined.
- Between 1992 and 2006, the number of vehicles operated by the private bus and coach industry has increased by 73 per cent.
- The private bus and coach industry operates approximately 450 million vehicle kilometres annually.
- Operators in the private bus and coach industry in Ireland have a significant presence in several markets, including the coach tourism, private hire, school transport, and scheduled passenger service markets.
- The coach tourism industry has grown significantly in the last decade, catering for over 640,000 overseas coach tourism passengers in 2006. For the most part coach tourism services are provided by private coach operators in Ireland.
- There are at least 7,200 persons directly employed in the private bus and coach industry. The industry is dispersed throughout the country with only 13 per cent of operators being based in Dublin. The industry is thus a stimulant to local regional development, in line with the Government's National Spatial Strategy.
- Transport service providers, both public and private, have benefited from a rebate on fuel purchased within the State, where the fuel is used in the provision of school transport services, scheduled passenger services and coach tour operations.
- The decision by the Minister for Finance to extend the excise fuel rebate to coach tour operations in 2002 was a significant factor in the growth experienced in the coach tourism market in Ireland since 2002.
- Rising oil prices have meant the private bus and coach industry has already witnessed significant increases in fuel costs over recent years. A removal of the rebate will result in a 40 per cent increase in the cost of a litre of diesel to the industry, on previously rebated fuel.
- Owing to its competitive nature, the private bus and coach industry will find it extremely difficult to absorb an increase in fuel costs of this scale. For some

operators the removal of the rebate will necessitate a withdrawal from the provision of local non-profitable services (that previously relied on the rebate to make them profitable).

- In 2005, the rebate was worth €14 million to the private bus and coach industry.
- Depending on the mix of services provided, the abolition of the fuel rebate will result in up to a halving of the rate of profit in the industry.
- The coach tourism industry in particular, owing to its reliance on a short tourist season (5-6 months) and its relatively high investment costs, will significantly feel the brunt of a removal of the rebate in terms of its profitability.
- A removal of the rebate will significantly reduce the capacity of the industry to invest in newer and safer vehicles in the future.
- A removal of the rebate will put the industry at a further disadvantage vis-à-vis CIE, as the latter will have its elevated fuel costs financed by increased subvention payments from the exchequer.
- Given the already high levels of traffic congestion in the country and the importance attached by government to meeting its Kyoto obligations, it is vital that some alternative to the rebate is put in place immediately by the government to ensure public transport services are maintained and promoted going forward.
- Acknowledging the importance of the tourism industry to the Irish economy and the major challenge facing Irish tourism in terms of its competitiveness, it is vital that an alternative to the rebate is put in place to allow tour coach operators to continue to provide competitively priced high quality transport services to tourists.
- The Government must take action to replace the fuel rebate scheme. One option open to it is to put in place a scheme similar to that in England by making a 'grant' available to bus operators (the Bus Service Operator's Grant). The grant reimburses the major part of the excise duty paid on the fuel consumed in operating the bus services.
- The payment of a grant in England has not been found to be incompatible with the EU Energy Tax Directive and State Aid legislation to date.

1. Introduction

The private bus and coach industry is an integral provider of transport services in Ireland. This is despite the lack of a level playing field in terms of State support to transport services providers, and the restrictive bus licensing policy in place in the country.

Transport service providers, both public and private, have benefited from a rebate on fuel purchased within the State, where the fuel is used in the provision of school transport services, scheduled passenger services and coach tour operations. The 2003 European Commission Energy Tax Directive 2003/96/EC however, introduced minimum excise duty rates for energy products including diesel used in the provision of local transport services. The Directive incorporated special derogations which allowed specific excise duty reliefs to be applied in a number of member states. In the Irish content, these derogations allowed for reduced rates to apply to fuel used for scheduled transport services, school transport services and tour group rates. When the derogations expired on 31 December 2006, Ireland and other member states sought retention of their derogations beyond that date. The European Commission has refused all such requests.

Fuel costs comprise a significant proportion of the total costs facing bus and coach operators. As such, a removal of the rebate will have serious implications for operators of bus and coach services in the country. The Coach, Tourism and Transport Council of Ireland have commissioned Goodbody Economic Consultants (GEC) to research the implications of the Directive for the private bus and coach industry in Ireland.

The Study will:

- Document the contribution of Irish private bus and coach industry;
- Assess the impact of the Directive on the Industry; and
- Consider alternatives open to the Government in responding to the Directive.

The study involved:

- Consultations with operators in the industry;
- A survey of 51 firms in the industry;
- Desk based research; and
- Consideration of the findings of a major study of the private bus and coach industry undertaken by Goodbody in 2004

The Report is organised as follows. Section 2 sets out the importance of the private bus and coach industry to the economy in terms of the number of operators, the number of vehicles they operate, the vehicle mileage they cover and the number of people employed in the industry. Section 3 describes the effect a removal of the rebate will have on the industry in terms of increased

fuel costs as well as reduced profit levels. The vulnerable position of coach tour operators is also set out. In Section 4 illustrates the effect a removal of the fuel rebate will have on the competitive position of private operators vis-à-vis CIE. Finally, Section 5 sets out options open to the Irish Government in terms of compensating private operators for the removal of the fuel rebate.

2. Importance of the Private Bus and Coach Industry

The private bus and coach industry is a substantial industry that surpasses the scale of public transport provision. This is evident from the number of operators, the vehicles that they operate, and the vehicle mileage they cover.

There are almost 1,900 private bus and coach operators in the country

In the absence of a database listing all private bus and coach operators operating in Ireland, an indicator of the number of operators in the country is the number of Road Passenger Transport Operators Licences (RPTOL) or European Community (EC) Licences¹. In order to operate a large public service vehicle² for 'hire or reward' an operator in Ireland must have a Road Passenger Transport Operators Licence (RPTOL) or a European Community (EC) Licence.

The number of private operators with RPTOL/EC Licences in Ireland was 1,870 in December 2007.

Private bus and coach operators operate over 6,000 vehicles, more than twice the number operated by CIE

Vehicle licensing data from the vehicle registration unit in Shannon indicate that there were 9,071 large public service vehicles (LPSVs) in Ireland in December 2006. Of these, approximately 2,400 were operated by CIE.

Taking account of LPSVs operated by non-transport bodies on a non-commercial basis, it is estimated that the private bus and coach industry operates some 6,000 vehicles.

The private bus and coach fleet is growing at a much faster rate than their CIE counterparts

Table 2.1 outlines the growth in the total number of Large Public Service Vehicles (LPSVs)³ under current license over the period 1992 – 2006. The

¹ Carriers who operate exclusively within the State need a national Road Passenger Transport Operators Licence. Those who wish to carry passengers abroad must hold a European Community Licence. The vehicles owned by the operator with the licence are listed on the licence.

² A large public service vehicle (LPSV) means a public service vehicle having seating passenger accommodation for more than eight persons exclusive of the driver.

³ Including Schoolbuses

number of licensed LPSVs increased from 5,709 in 1992 to 9,071 in 2006, an increase of 59 per cent.

Looking at private sector LPSVs, these increased at a much higher rate of 94 per cent, from 3,440 in 1992 to 6,671⁴ in 2006. The proportion of total LPSVs represented by non-CIE LPSVs increased from 60 per cent in 1992 to 73.5 per cent in 2006.

Table 2.1: Growth in Non-CIE Large Public Service Vehicles (LPSVs)

	1992	1995	1998	2003	2006
Total LPSVs	5,709	6,484	7,194	8,437	9,071
CIE*	2,269	2,369	na	2,578	2,400
Non-CIE LPSVs	3,440	4,115	na	5,859	6,671
Non-CIE LPSVs as a % of total LPSVs	60.3	63.4	na	69.4	73.5

Source: Vehicle Registration Unit Shannon, CIE Annual Report 1992, 1995 and the Road Haulage Section of the Department of Transport.

*The number of LPSVs owned by CIE bus companies for the years 1992, 1995 and 2006 were obtained from CIE annual reports and the CIE website. In respect of the year 2003, the number of LPSVs owned by CIE bus companies was obtained from the RPTOL database.

The private bus and coach industry operates approximately 450m vehicle kilometres per annum – almost three times that of CIE

The Goodbody survey of private bus and coach operators found that the private bus and coach industry vehicle fleet operates approximately 450 million vehicle kilometres per annum. In 2007, the CIE group of companies operated 152 million vehicle kilometres⁵.

Table 2.2: Annual Vehicle Kilometres

	Private Operators	Bus Eireann	Dublin Bus
Total Kilometres (million)	450	92	60

Source: Goodbody Economic Consultants and CIE Annual Reports.

⁴ The figure 6,671 differs from the previously quoted 6,000 figure because the 6,671 figure includes all LPSVs with 9 or more seats registered in Ireland, i.e. it includes large public service vehicles owned by the healthboards, charities and local clubs/organisations used on a non-commercial basis, these vehicles do not require an RPTOL licence

⁵ This figure excludes contracted services.

Private bus and coach transport operators provide the full range of passenger transport services

The private bus and coach industry provides services in several distinct markets, including:

- Coach tourism;
- Private hire;
- Schools transport; and
- Scheduled services.

Over 600,000 overseas tourists to Ireland availed of coach tours services in 2006

Bus and Coach Tours are provided on a fixed route basis as well as on an ad-hoc basis to both foreign and domestic tourists, for tours lasting from one day to several days. While there are no data available on the overall scale of coach tourism activity in Ireland, according to Fáilte Ireland, there were approximately 415,000 tourists availing of day coach tour services in Ireland in 2006. In addition, approximately 226,500 overseas tourists availed of overnight coach tour services provided by Irish operators. Among these, 191,000 arrived by air and approximately 35,000 arrived by sea⁶. In total, it is therefore estimated that the industry catered for approximately 640,000 overseas coach tourism passengers in 2006. This figure does not include domestic coach tourism passengers.

It is estimated within the industry that there are at least 600 private coaches operating annually in the coach tourism market. The Coach Tourism and Transport Council of Ireland (CTTC) comprise the majority of operators in the Irish coach tourism sector. The members of the CTTC operate in conformity with criteria agreed between the CTTC and Fáilte Ireland regarding compliance with specified quality standards for coaches as well as other statutory requirements, including safety requirements.

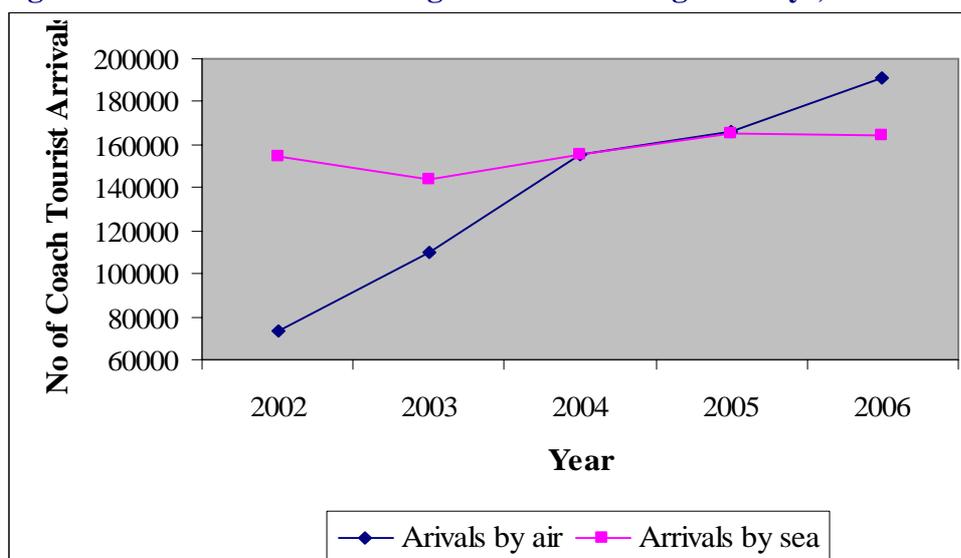
The decision to extend the excise fuel rebate to the coach tourism market was a significant factor in the expanded coach tourism market in recent years

⁶ In total 164,511 tourists visiting Ireland by sea in 2006 were overnight coach tourists. Of these approximately 35,000 availed of Irish coach tour services.

The coach tourism industry in Ireland has grown significantly in recent years. According to a report prepared by CHL Consulting Company⁷ for the Irish Tourist Industry Confederation in 2008 highlights the number of overseas tourists travelling by coach in Ireland increased by 56 per cent over the period 2002 – 2006, compared to an increase of just 25 per cent in the number of overseas tourists visiting Ireland over the same period. The above average growth in the coach tour market has occurred as a result of a number of factors including the increased number of overseas tourists holidaying in Ireland annually from Central Europe and North America. However, the decision by the Minister for Finance to extend the excise fuel rebate to the coach tourism market in 2002 was a vital stimulant to the coach tourism market as it enabled the cost of tours to be kept at an affordable level thereby allowing the sector to compete effectively with their counterparts in other countries, in particular the UK and Northern Ireland where operators can claim VAT inputs on fuel, spares and maintenance while also benefiting from a non-transparent vehicle registration system.

Figure 1 sets out the number of coach tourism arrivals by both air and sea over the period 2002 to 2006. It is evident from the figure that the growth experienced in the overnight coach tourism market has been concentrated in tour programmes combining air transport with an Irish coach tour service. This market has increased by 160 per cent over the past five years. On the other hand, the numbers arriving by sea, which includes some coach tourists availing of Irish coach tour services as well as coach tourists bringing their own touring coaches, has only increased by 7 per cent. The implication is clear, there has been a steep increase in both the demand for and the supply of locally-supplied coach tours. The extension of the fuel rebate to coach tour operations in 2002 was a significant catalyst in the decision by operators to investment in the coach tour sector in Ireland.

Figure 2.1: Demand for Overnight Coach Touring Holidays, 2002 - 2006



Source: Fáilte Ireland 2007

⁷ Review of Staffing and Recruitment Needs in the Coach Tourism and Guided Tours Sectors, CHL Consulting Company LTD, January 2008

Private hire services account for over half of the total services provided by the private bus and coach industry

Private hire encompasses a wide variety of services. It includes corporate, conference and incentive coach services as well as sporting fixtures, social outings, school trips, weddings and evening functions. This type of service is now a well-established form of business for many private operators in the country.

Private bus and coach operators provide 80 per cent of the school transport fleet

Since 1967, private independent operators have operated as sub-contractors to CIE, who hold the contract for school transport from the Department of Education and Science. According to the Department of Education and Science, there are 2,300 privately owned vehicles providing school transport services on a contract basis to CIE. This amounts to approximately 80 per cent of the total fleet used in the provision of school transport services.

Despite the quality and range of services that they provide, the private bus and coach industry is still deterred from operating scheduled services

In Ireland it is illegal for a private bus and coach operator to commence the operation of a stage carriage passenger road service⁸, without first obtaining a passenger road licence from the Government Department responsible for Transport⁹. The Department issues passenger road licences for either ‘omnibus’ or ‘motor coach’ services¹⁰.

⁸ A stage carriage passenger road service refers to a service ‘carrying passengers between specified terminal points or along a specified route for separate charges in respect of each passenger’.

⁹ Bus Licensing Section, Department of Transport

¹⁰ The expression “omnibus service” means a passenger road service taking up and setting down passengers along its route on request or at fixed stopping places without pre-arrangement as between the passenger and the licensee. The expression “motor coach” service means any other passenger road service.

The private bus and coach industry employs over 7,200 people

At a minimum, there are an estimated 7,200 people employed in the private bus and coach industry in Ireland. It should be noted that this figure which is derived from survey data is likely to be an underestimate, as respondents may have understated their employment levels by excluding family members, for example.

The industry is dispersed throughout the country with only 13 per cent of operators being based in Dublin. The industry is thus a stimulant to local regional development, in line with the Government's National Spatial Strategy.

3. Impact of Abolition of the Fuel Rebate

An abolition of the fuel rebate will raise the cost of diesel by 40 per cent

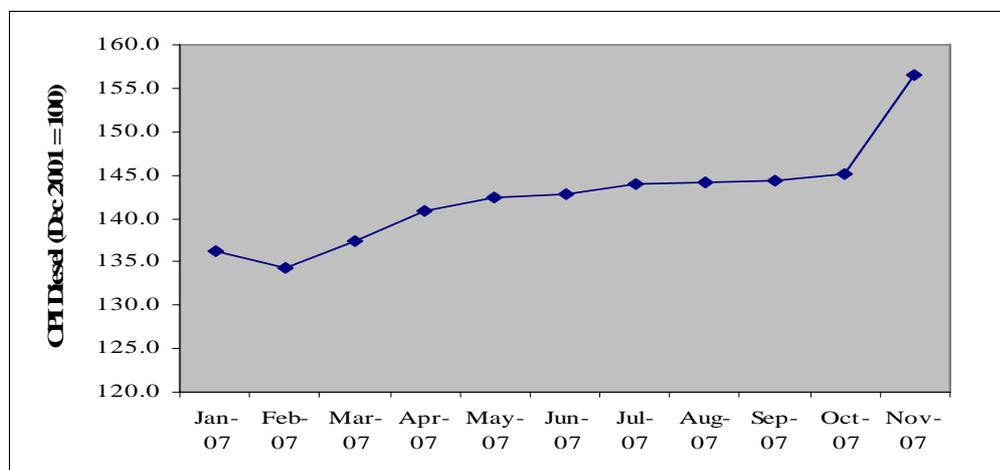
Fuel costs comprise a significant proportion of the total costs facing bus and coach operators. As such, a removal of the rebate will have serious implications for operators of bus and coach services in the country. At December 2007, the retail price of a litre of diesel in Ireland averaged 119.8 cents. The fuel rebate currently amounts to 34 cent per litre, hence a litre of diesel costs bus and coach operators approximately 85.8 cents. A removal of the 34 cent rebate will result in a 40 per cent increase in the cost of a litre of diesel to the industry, on previously rebated fuel. If the operator obtains a discount on the retail price of, say 10 per cent, then the impact of the abolition of the fuel rebate would be to raise the cost of diesel by 45 per cent.

In effect, the removal of the rebate will result in an almost doubling of the fuel costs facing bus and coach operators in the country.

Diesel prices have already been increasing rapidly due to oil price inflation

The industry has already experienced significant upward pressure on fuel costs. Fuelled by strong demand, worries over supplies and the eroding purchasing power of the dollar, crude oil prices have continued to rise in recent years. During the last year alone the price of diesel in Ireland has increased by almost 15 per cent. Increasing fuel costs result in tighter profit margins for private bus and coach operators.

Figure 3.1: Changes in Diesel Prices as per CPI Sub Index, Jan – Nov 2007



Source: CSO

The abolition of the fuel rebate will cost the private bus and coach industry €14m per annum based on 2005 levels of rebate

To determine the overall cost to the private bus and coach industry of a removal of the fuel rebate, Goodbody Economic Consultants made a request to the Revenue Commissioners for information pertaining to the overall value of the fuel rebate paid to private bus and coach operators annually. As this data was not forthcoming from the Revenue Commissioners, Goodbody used data available in the Revenue Commissioner's Annual Statistical Reports relating to excise duty rates, the quantity of fuel purchased in the State and total excise revenue receipts together with data relating to the annual vehicle mileage operated by CIE companies to provide an approximate estimate the total value of the rebate paid to private bus and coach industry annually.

Based on Goodbody calculations it is estimated that the overall value of the fuel rebate was €35m in 2005. Of this, the private bus and coach industry received €14m in fuel rebate payments, or 41 per cent of the total rebate in that year. The estimated share of the rebate paid to private bus and coach operators has increased from 20 per cent in 2003 to reach 41 per cent in 2005.

The industry will find it difficult to absorb these increased fuel costs

The private bus and coach industry is a highly competitive industry. Ease of entry and tight profits margins are just two of the features of the industry that make it highly competitive. As a result the capacity of private operators to pass on increased fuels costs to customers is severely limited.

In the short term another factor to consider relates to school transport services. Contracts for the provision of these services are already in place for 2008 based on operating costs levels that reflected the existence of the rebate. An abolition of the rebate will make these contracts unprofitable. This is unfair in its impact on operators and will pose difficulties for the supply of school transport services in the future.

The abolition of the fuel rebate could result in a halving of the industry rate of profit, thereby severely reducing the capacity to invest in new vehicles

The impact of an abolition of the rebate will depend on the proportion of the operator's total vehicle mileage that is currently allowed the rebate. Table 3.1 illustrates the impact of the rebate for two scenarios which are drawn from real data provided by firms in the industry.

Scenario A is for an operator who achieves 100 per cent rebate on fuel used in the provision of transport services and has a profit rate typical of the industry at 10 per cent.¹¹ The second Scenario B is one where only 60 per cent of total vehicle kilometres are subject to the rebate and the rate of profitability is 6 per cent.

In Scenario A, fuel costs will rise by some 40 per cent. As a result of the 40 per cent increase in fuel costs, the profitability of the industry will be reduced by 40 per cent to stand at 6 per cent. In Scenario B, 60 per cent of fuel costs will increase by 40 per cent, thereby reducing the rate of profitability from 6 to 2.6 per cent.

These examples illustrate that the impact of a removal of the rebate could be typically such as to halve the profit rate of operators. This would seriously impair the capacity of the industry to invest in new vehicles using its own resources or through loan finance.

Table 3.1: Impact of Abolition of Fuel Rebate on Operator Profitability

Cost Category	Scenario	
	A: Rebate on all services (%)	B: Rebate on 60 % of services (%)
Fuel Costs Net of Rebate	10	14
Direct Wages	21	21
Other Expenses	41	41
Depreciation and interest	18	18
Profit	10	6
Total	100	100
Fuel Costs Gross of Rebate		
Revised Profit	14	17.4
	6	2.6

Source: Goodbody Economic Consultants

The above illustrated scenarios assume that operators will continue to provide the same level of service post rebate removal. However, many operators will find it extremely difficult to provide the same level of service at current prices as a result of the increased costs they will face. Consequently some private operators will be forced to reduce the level of services provided. Inevitably

¹¹ As per the 2006 Survey of Private Bus and Coach Operators data.

it will be the less profitable services, which relied on rebate to make them profitable, which will be the first to be withdrawn. These services, many of which are local in nature with low profit margins are unlikely to be replaced on a commercial basis, thereby leaving many dependant customers without affordable transport services to cater for their needs.

Owing to its inherent characteristics, the Coach Tourism industry will be significantly impacted by a removal of the fuel rebate

Among the various types of services provided by private bus and coach operators, coach tour services involve the highest capital investment costs. In addition, tour coaches are reliant on a relatively short tourist season, with the associated costs of vehicle down time during the winter months when coach tour vehicles are precluded from many other types of bus services. Owing to these inherent features, a removal of the rebate will have a greater impact on the coach tour market than other types of bus services. According to industry sources, a removal of the rebate will result in an increase in costs facing coach tour operators of approximately €30 per vehicle per day. A removal of the rebate will thus significantly affect the profitability within this industry with clear implications for operators considering remaining and reinvesting in the industry.

The Coach Tourism Industry has already experienced upward pressure on costs owing to the EU Transport Working Time Directive (2002/15/EU)

The Transport Working Time Directive, which was implemented in Ireland in 2005, has had a significant impact on employment in the private bus and coach industry and in the coach touring sector in particular. The Directive places restrictions on the length of time employees are allowed to work in any daily, weekly or monthly period. As a result of the Directive, the demand for drivers has increased in the coach touring market with a corresponding upward pressure on tour prices.

4. Impact on the Competitive Position of the Private Bus and Coach Industry

The private bus and coach industry already suffers from a number of factors that mean that it does not have the benefit of a level playing field vis-à-vis CIE. Abolition of the rebate will further worsen this situation.

Private bus and coach operators face restrictions in entering the scheduled passenger bus market

In Ireland it is illegal for a private bus and coach operator to commence the operation of a scheduled passenger road services without first obtaining a passenger road licence from the Government Department responsible for Transport. Analysis of the passenger road licenses granted to the private sector as part of the 2004 Goodbody Study of the Private Bus and Coach Industry revealed that they tend to be restrictive in nature, and their number exaggerates the extent to which the private sector has access to this market. The impact of the licensing restrictions placed on the private bus and coach industry has been to curtail both the level and the type of scheduled passenger road services provided by the private bus and coach operators in Ireland.

CIE benefits from NDP Funding and Subsidies to State Bus Operators

Unlike Dublin Bus and Bus Eireann, private bus and coach operators are not in receipt of National Development Plan 2000-2006 investment. NDP investments in Dublin Bus and Bus Eireann comprise expenditure on fleet replacement, fleet development and transport infrastructure development. According to the Indecon 2005 Update Evaluation of the Economic and Social Infrastructure Operational Programme, NDP expenditure on Dublin Bus totalled €177.8m over period 2000 - 2004. The equivalent Bus Eireann figure is €92.2m. The bulk of the NDP funding of Bus Eireann and Dublin Bus comes from the Exchequer and EU sources, with only a minor amount coming from CIE's own resources.

In addition to NDP funding, Bus Eireann and Dublin Bus also receive annual public service obligation payments from the government for the provision of services which are not commercially viable. No attempt has been made by CIE to account for the operating subvention in an open and transparent manner and therefore there is the possibility of cross subsidisation. In 2006, the total public service obligations payments to both companies totalled €6.3m. An additional €6m was paid to Bus Eireann and Dublin Bus in subvention payments in that year.

The cost to CIE of the abolition of the rebate will automatically be made good by increased State subsidies

The abolition of the fuel rebate will raise CIE passenger transport costs by some €1m. As the CIE companies are currently loss making and require subvention through the public service obligation mechanism, this cost will be passed on to the State in form of larger subvention payments. Thus, the CIE services will be able to maintain their current prices, improving their competitive position vis-à-vis the private sector.

5. Action to Maintain the Competitiveness of the Private Bus and Coach Industry

Action is needed to maintain the competitiveness of the bus and coach industry

We have already seen in Section 4 that a failure on the part of government to introduce an alternative non-tax support mechanism to achieve the same policy outcome as the fuel duty rebate will serve to worsen the anti-competitive environment in which private bus and coach operators already operate, as any increased level of deficit in CIE companies as a result of the removal of the fuel rebate will be financed by increased subvention payments from the State.

Maintaining public transport services is vital in terms of Ireland's Kyoto obligations

Given the size of the private bus and coach industry, its importance in terms of the scale of transport services it provides, the already high levels of traffic congestion in the country and the importance attached by government to reducing emission levels, it is vital that some alternative to the rebate is put in place immediately by the government to ensure public transport services are maintained and promoted going forward.

The Irish Tourism Industry is facing regional and competitive challenges

Tourism is an important industry in Ireland. The total value of tourism to the Irish economy was €6.1 billion in 2006 made up of foreign earnings of €4.7 billion and domestic earnings of €1.4 billion.

In their Strategy Statement 2005 – 2007 Fáilte Ireland clearly set out that one of the key challenges facing Irish tourism over the coming years will be to address the tendency of visitors to stay along the east coast by promoting a more balanced regional spread of overseas tourists to Ireland. The provision of adequate transport services to ensure all regions of Ireland are easily accessible will be a vital component in meeting this objective. Owing to the affects a removal of the rebate will have on the profitability of the bus and coach industry and the coach tourism industry in particular, an alternative to the rebate will be instrumental in Ireland fulfilling its objective of attaining a more balanced regional spread of tourism.

A further challenge currently facing the Irish tourism industry as highlighted in Fáilte Ireland's Strategy Statement 2005 -2007 relates to competitiveness. The increased price transparency associated with the euro, together with the comparatively high level of inflation in Ireland's services sector in recent years has resulted in a declining satisfaction with value for money among visitors to Ireland. Affordability and value for money are vital in attracting tourists to Ireland. The fuel rebate has been instrumental in enabling bus and coach operators provide competitively priced quality bus and coach services. A removal of the rebate, will its implications for profitability within the industry, will have clear implications for operators in terms of their ability to reinvesting in their fleet while offering competitively priced transport services to their customers.

There is a need to introduce a grant system to compensate for the loss of the fuel rebate

We have seen above why the Government must take action to replace the fuel rebate scheme.

One option open to it is to put in place a grant scheme similar to that in England by making a grant available to bus and coach operators.

Implementing a grant similar to the Bus Service Operator's Grant in England is one option

In 2002, the Bus Service Operators Grant (BSOG) in England replaced a grant previously called the Fuel Duty Rebate (FDR). It is noteworthy that the BSOG operates in England despite the fact that private operators in the UK do not have subsidised State carriers to compete against.

The grant in England reimburses the major part of the excise duty paid on the fuel consumed in operating bus services, based on relevant qualifying operated kilometres. It does not fall within the compass of the Energy Tax Directive on the basis that it is a 'grant payment' which happens to be calculated on the basis of fuel excise duty rates as opposed to an actual refund of excise duty rates paid on fuel.

It is vital that a grant system is put in place in Ireland to replace the fuel rebate. In order to ensure its conformity with the Energy Tax Directive the grant payments implemented in Ireland could be based on some other metric other than excise duty.

6. Summary and Conclusions

The private bus and coach industry is an integral provider of transport services in Ireland. There are currently approximately 1,870 private bus operators in the country, with an aggregate bus vehicle fleet of approximately 6,000 vehicles. This is more than double the number of vehicles operated by Dublin Bus and Bus Eireann combined.

Operators in the private bus and coach industry in Ireland have a significant presence in several markets, including the coach tourism, private hire, school transport, and scheduled passenger service markets. It is estimated private operators operate approximately 450 million vehicle kilometres annually. There are at least 7,200 persons directly employed in the private bus and coach industry.

The coach tourism industry in Ireland has grown significantly in recent years. The number of overseas tourists travelling by coach in Ireland increased by 56 per cent over the period 2002 – 2006 compared to an increase of just 25 per cent in the number of overseas tourists visiting Ireland over the same period. For the most part coach tourism services are provided by private coach operators in Ireland.

Transport service providers, both public and private, have benefited from a rebate on fuel purchased within the State, where the fuel is used in the provision of school transport services, scheduled passenger services and coach tour operations. The decision by the Minister for Finance to extend the excise fuel rebate to coach tour operations in 2002 was a significant factor in the growth experienced in the coach tourism market in Ireland since 2002.

Rising oil prices have meant the private bus and coach industry has already witnessed significant increases in fuel costs over recent years. A removal of the rebate will result in a further 40 per cent increase in the cost of a litre of diesel to the industry, on previously rebated fuel. Owing to its competitive nature, the private bus and coach industry will find it extremely difficult to absorb an increase in fuel costs of this scale. The coach tourism industry in particular, owing to its reliance on a short tourist season (5-6 months) and its relatively high investment costs, will significantly feel the brunt of a removal of the rebate.

Based on Goodbody estimates a removal of the rebate will cost the private bus and coach industry €14m annually and could result in a halving of the rate of profit in the industry. A removal of the rebate will thus significantly reduce the capacity of the industry to invest in newer and safer vehicles in the future. It will also put the industry at a further disadvantage vis-à-vis CIE, as the latter will have its elevated fuel costs (circa €21m annually) financed by increased subvention payments from the exchequer.

Given the already high levels of traffic congestion in the country and the importance attached by government to meeting its Kyoto obligations, it is vital that some alternative to the rebate is put in place immediately by the

government to ensure public transport services are maintained and promoted going forward.

Acknowledging the importance of the tourism industry to the Irish economy and the major challenge facing Irish tourism in terms of its competitiveness, it is vital that an alternative to the rebate is put in place to allow tour coach operators to continue to provide competitively priced high quality transport services to tourists.

The Government must take action to replace the fuel rebate scheme. One option open to it is to put in place a scheme similar to that in England by making a ‘grant’ available to bus operators (the Bus Service Operator’s Grant). The grant reimburses the major part of the excise duty paid on the fuel consumed in operating the bus services. The payment of a grant in England has not been found to be incompatible with the EU Energy Tax Directive and State Aid legislation to date.