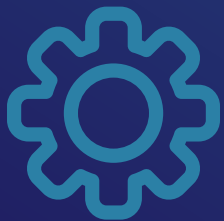


Engineering a better future

Budget Submission 2023

September 2022



**Engineering
Industries Ireland**
Ibec

About us

As Ireland's engineering business representative group and Ibec's newest Trade Association launched in November 2021, Engineering Industries Ireland represents over 150 industrial engineering manufacturing and services companies in Ireland.

The engineering sectors we represent have exports at €8.8 billion or 3.6% of national exports, 10,800 enterprises employing 50,751 people and 65% indigenous companies. Our members are involved in industrial automation, precision engineering, agriculture machinery, material handling, packaging, energy and environment, process engineering, automotive, metal fabrication & processing, renewables and engineering services.

Engineering Industries Ireland supports the development of engineering industries both at domestic and international levels and launched its strategy Engineering a better future 2022 – 2025 in February 2022 which sets out the key objectives under four pillars Innovation, Sustainability, People and Regulation. The Association brings together multiple engineering sectors and channels industry issues through Engineering Industries Ireland and Ibec's powerful advocacy voice.

Through our various activities, we work to protect and promote the policy interests of Irish engineering business and to ensure that Ireland remains a foremost location in which to do business. We advocate for a supportive business environment and support the growth and development of a sustainable business model.

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Executive Summary

Irish engineering technology sectors are highly integrated upstream and downstream, which makes them very susceptible to indirect effects that are felt when demand or supply sectors fail. In addition, there are other indirect consequences of the Russia-Ukraine war, which have led to an enormous increase in the prices of energy, industrial metals and other raw materials.

And the war alone is not the only thing that throws the market off balance. The COVID-19 pandemic continues to have a negative impact on the free movement of goods in our sectors with supply shortages, stock building and increased demand aggravating supply bottlenecks. In short, there are many reasons to believe that Ireland's engineering and technology industries will need to continue to adapt to volatile times. As we face into Budget 2023, we have a range of challenges amongst them, the impact of the changing international tax landscape, the war on talent, the impact of inflation on engineering businesses especially small and medium enterprises and increased regulation.

In this context, the Board of Engineering Industries Ireland have made a range of recommendations to support our strategy, *Engineering a better future*, for inclusion in Budget 2023.

Pauline O'Flanagan,
Director, Engineering
Industries Ireland



Barry Morrissey
VP UK & Irl. Cartamundi,
Chairman



Summary of Measures for Budget 2023



To support competitiveness of engineering business, government should:

Measure 1:

Put in place a State backed export credit insurance scheme and an Export Credit Agency to ensure Irish engineering businesses can compete on a level playing field on the international markets.



To support the development of an innovation ecosystem for engineering industries and encourage companies to play a leading role in the development of new technologies and sustainable products and processes and services, government should:

Measure 2:

Improve R&D tax credit scheme to allow smaller engineering firms to participate.



To support Engineering Industries Ireland ambition to play a leading role in climate change to achieve Ireland's 2030 emissions targets of 51% (from 2018 levels) and in the development of new sustainable products and processes, government should:

Measure 3:

Accelerate the transformation of the energy sector to renewables energy generation and support Irish businesses transition to low carbon sources.



To develop and attract talent to the sector and to foster engagement and lifelong learning, government should:

Measure 4:

Improve gender balance, equity and inclusion in STEM education, targeted towards higher percentages of women in engineering and technology professions.

Measure 5:

Give broader access to engineering subjects at second level education.

Measure 6:

Leverage the national training fund to deliver a future skills analysis for all engineering sectors.

Measure 7:

Put in place "a fit for purpose" agile Irish employment permit scheme to meet the needs of the present and future labour market.



To encourage and embrace a progressive and value-driven regulatory ecosystem that sustains the evolution of the engineering industries in Ireland government should:

Measure 8:

Embrace Ireland's role in EU sustainability and digital regulation, strengthen regulatory capacities and lead on policy issues at an EU level.

Industry Outlook

The latest Ibec quarterly economic outlook reveals that the welcome bounce back from the pandemic has been tempered by ongoing cost and competitiveness pressures. These pressures derive from global trends in rising energy costs, ongoing supply chain disruption, increasing regulation and a tight labour market across economies. The strong recovery momentum, which was evident in the first half of the year, is expected to fade as the year progresses. Worldwide events and political strains, including tariffs and COVID-19, have exposed the precarious vulnerability of the global supply chain. As is also the case in other industries, mechanical engineering is directly dependent on the availability of parts. The lack of electronic components, for example, can result in significant delays or shortages of machine controls and a machine without a control cannot be delivered.

Gas price futures are running above 400 pence a therm. Temporary increases in commodity or energy costs, such as these, will act as a sort of time limited tax on households and businesses. As a result, consumer spending growth is expected to fall from 6.6% to 4% in 2023 and domestic investment to fall from 8.6% to just under 4%.

In the skilled labour market, an overheating of the market can be observed; the lack of specialised or niche skills is holding back the upswing of the engineering industries in Ireland. The engineering sector is delivering innovative technologies to support renewable energies and supporting greener global supply chains through sustainable local manufacturing and engineering services. However, our continued success will depend more than ever on our ability to adapt in a disruptive world.

The disruption following the Russian invasion on global trade is having potentially devastating consequences for energy and grain importers while also generating ripple effects across a world still struggling with pandemic-induced supply chain disruptions. Russia is a leading exporter of grains and a major supplier of crude oil, metals, wood and plastics — all used worldwide in a range of products and by a multitude of engineering industries from steelmakers to car manufacturers and their sub supply sectors.

Ireland is also likely to suffer a greater competitiveness challenge from Brexit, from international tax reform and due to our laggard status in completing the low carbon transition.

The key to weathering an exceptionally volatile external environment is ensuring we protect our competitiveness. This can only be done by controlling costs where we can and prioritising strategic investments in SME growth, innovation, and skills.

Measures for Budget 2023

Competitiveness

Support the competitiveness of engineering business.

At the heart of Ireland's national competitiveness is creating an environment in which Irish engineering businesses are able to compete successfully in international markets. As a small, open economy, we are particularly vulnerable to external shocks such as pandemics, wars and trade wars. Consequently, we cannot afford to be complacent about our performance and must continuously strive for improvement, so that we remain a highly competitive economy, especially for small and medium enterprises. We need to encourage companies to export and grow beyond the Irish market. Ireland's GDP growth continues to be driven by strong exports of multinational enterprises in a few key sectors, therefore, Ireland should broaden the corporation tax base and support the growth of small medium enterprises to reduce reliance on the tax receipts from the highly concentrated multinational sector. We are also acutely aware of the role the SMEs play in job creation and the need for Ireland to remain competitive and remain an attractive place for SMEs and entrepreneurs to establish and grow their own businesses.

Measure 1:

Put in place a State backed export credit insurance scheme and an Export Credit Agency to ensure Irish engineering businesses can compete on a level playing field on the international markets.



With international trade facing many new barriers and previously stable economies looking increasingly risky, the lack of an export credit agency is becoming even more of a serious problem for Irish engineering exporters. As the only material EU country that does not have a **state-backed export credit insurance or agency**, Ireland is putting itself at a competitive disadvantage against other EU competitors that can access such schemes and we are at risk of losing, long established engineering multinationals with a base here. We are also making it more difficult to diversify our economy; more difficult to develop a thriving home-grown green engineering sector, and more difficult to have a thriving sector of exporting SMEs. This is unlikely to cost any significant amount – the UK equivalent has in the last five years supported over £29 billion worth of business transactions with an average claim paid as a proportion of the average amount at risk of only 0.1%, including COVID-19. Total claims paid in their scheme were only £125 million over 5 years and were offset by premia income resulting in a positive

operating surplus. **The estimated set up cost is €20 million from the Brexit Adjustment Reserve.**

We would also encourage flexibility in this area with consideration given to other forms of Credit guarantee such as the availability of **Government backed Advance Payment and Performance Guarantees** which would serve as credit support to banks which provide Bank Guarantees. These are a common feature of contracts for high value capital equipment export orders for Engineering technology whereby the foreign purchasing company is willing to make an Advance Payment provided they receive an Advance Payment Guarantee and Performance Guarantee. Currently these Guarantees are only available from the exporting company's Bank and the process of getting them approved is very onerous and time consuming. In particular, they are treated by banks as equivalent to an overdraft and rapidly use up an exporter's credit facility headroom. In other countries the Export Credit Agencies have increased the amount of such support for exporters in response to more stringent capital requirements at the banks.



Support the development of an innovation ecosystem for engineering industries and encourage companies to play a leading role in the development of new technologies and sustainable products and processes and services.

It is widely regarded that most of the growth in Europe's technology industries is stemming from the innovative products, processes and systems developed by companies in the EU and commercialised worldwide. R&D and innovation in the sectors takes many forms: companies can carry out research in-house or through contracted projects, or they can participate in collaborative projects with universities, research institutes or other companies and start-ups.

Engineering Industries Ireland promotes these connections across domains and sectors, as it is the diversity of R&D and innovation strategies that makes for such a rich innovation ecosystem within Ireland and the EU. Ireland also provides a tax credit of 25% of capital and revenue spend on qualifying R&D which is critical to support innovation in the engineering sector. We are living in an age of unparalleled technological disruption and accelerated business transformation.

Expected growth is in engineering and industrial technologies with opportunities among companies in industrial automation, packaging and engineering design and among companies that support digitisation across the wider economy. The renewable energy space will present growth opportunities, as will activities linked to electrification and connected and autonomous vehicles. The very real threat of climate change around the globe requires flexibility and agility from the Government and the engineering sector, collaborating to reduce the dependency on carbon and manage industry activities in a more sustainable way.

Measure 2:

Improve R&D tax credit scheme to allow smaller firms to participate



The existing Irish R&D Tax relief scheme has a lot of uncertainty, professional services costs, and administrative burden for SMEs and therefore take up is low. Small companies should be provided with clear simple guidance like the UK's Research and development tax relief for SMEs. The tax treatment is more generous (particularly if you have outsourced your R&D), but the key advantage for small operators is that you only need to file the claim with your tax return and a short form outlining how you qualify. There are no additional recordkeeping requirements, and you receive 'advanced assurance' for the first three times you claim it.

Many engineering SMEs do not have the resources to employ a dedicated R&D team on site unlike larger companies and therefore engage third party expertise to assist with innovation projects. The threshold of €100k for outside contractors is limiting R&D investment and therefore should be increased to €500k for engagement of third-party expertise.

For companies with tax losses carried forward, the 25% claim is spread over three years. Consideration should be given to have the full credit refunded in line with the related expenditure. Finally, it is necessary to continually review R&D qualifying activities to ensure they keep pace with ongoing scientific progress.



Irish Engineering firms are playing a leading role in climate change to achieve Ireland's 2030 emissions targets of 51% (from 2018 levels) and in the development of new sustainable products and processes.

Access to secure, clean and affordable energy is essential for business and the future development of the Irish economy. We are ideally placed to become a major player in the areas of wind-generated electricity and hydrogen and have the natural resources needed to be a major exporter of green energy as well as generating 100% of our own energy requirements.

Measure 3:

Accelerate the transformation of the energy sector to renewables energy generation and support Irish businesses transition to low carbon sources.



The reliable provision of energy is increasingly seen as a key factor in economic growth of indigenous firms and in attracting and retaining foreign direct investment. Therefore, we need to accelerate the deployment of renewables on and offshore and the delivery of vital national energy infrastructure, transparent and fair regulation and a cost competitive power supply. We need to develop an integrated hydrogen strategy for Ireland, set clear national targets for hydrogen and renewable gas, and begin work on a new framework to permit the development of new emergency energy storage in Ireland.

Energy security and affordability is a major challenge for business particularly looking ahead to winter 2022/23. A State aid scheme needs to be developed and delivered in a timely manner to support energy intensive businesses.

To deliver large-scale emissions reduction in engineering industry, Project Assistant Grants, the Support Scheme for Renewable Heat, and the Excellence in Energy Efficiency Design (EXEED) programme need to be expanded and made more accessible. Meanwhile, high attrition rates need to be addressed through enhanced guidance and training for applicants.



Develop and attract talent to the engineering sector and foster engagement and lifelong learning.

Ireland has an excellent skills base, a first-class education system, a thriving R&D sector, and a track record of bringing innovative products and services to market quickly. However, in the skilled labour market, an overheating of the market can be observed; the lack of specialised or niche skills is holding back the upswing of the engineering industries in Ireland. There is also an underrepresentation of certain groups progressing into engineering, particularly females and those from socioeconomically disadvantaged backgrounds. Engineering is a varied, stimulating and rewarding career choice and we need to work harder than ever to ensure that it is accessible for the current and future generations of young people so that we have a diverse and insightful workforce that enables the engineering sector to thrive. We need to work together to foster the critical engineering and technology skills needed for Ireland to be a leader in innovation and improve societal and economic resilience and environmental sustainability. As a small open island economy, our ability to withstand shocks into the future will depend on helping businesses improve productivity, adopt new technology, innovate and upskill. Strategic innovation places businesses ahead of the curve by boosting creativity, ideation and productivity and helps workers adapt to the new world of work by future proofing their skills. If we get this right, we can look forward with renewed confidence.

Improve gender balance, equity and inclusion in STEM education, targeted towards higher percentages of women in engineering and technology professions.



Accelerate the implementation of the STEM Education Policy Statement 2017-2026 and the Recommendations on Gender Balance in STEM Education in March 2022 which acknowledges that there is an urgent need to increase broader participation in STEM Education and to enhance STEM learning for learners of all backgrounds, abilities and gender, with a particular focus on increasing participation in engineering and technology by females. The implementation of the recommendations needs to be closely monitored and a review and evaluation process put in place urgently focussing on engineering careers from craft level 6 to Master level supported by the engineering sectors most affected.

Measure 5:

Give broader access to engineering subjects at second level education.



Engineering and technology should be integrated into the structure of Science education at all levels. The core ideas of engineering design should be accorded with the same status as core ideas in the other major science disciplines. Give broader access to post primary students to a range of engineering subjects and as Leaving Certificate curriculum subjects. This is critical to address the current and future skills deficit in engineering and technology sectors in Ireland.

Measure 6:

Leverage the national training fund to deliver a future skills analysis for Engineering sectors.



Determine the future requirements for high-level skills in the engineering sectors and identify the proactive actions required to ensure that the supply of these skills will support its growth potential.

Measure 7:

Upgrade the Irish employment permit scheme to meets the needs of the labour market.



Engineering industries Ireland welcomes the planned revision of the Employment Permits system to allow us to compete for global talent, to fill urgent market gaps e.g. engineering, technical welding, fabricating in line with the evolving labour market. We urgently need an agile, responsive employment permit system that can adapt rapidly to changes in Irish labour market.



The association seeks to encourage and embrace a progressive and value-driven regulatory ecosystem that sustains the evolution of the engineering industries in Ireland.

The planned auto enrolment, the living wage, pensions, statutory sick pay, and other leave proposals already announced will add 9% to total labour costs in Ireland over the coming decade. Whilst many of these additions to the so-called Social Wage have merit on their own terms, they come at a time of heightened sector-based regulation for most goods and services supporting the circular transition. Government must intensify work through with sector-based representatives and the Labour Employer Economic Forum to ensure better coordination of policies that can address inflationary pressures in the run-up to Budget 2023.

Measure 8:

Embrace Ireland's role in EU sustainability and digital regulation, strengthen regulatory capacities and lead on policy issues at an EU level



To support our ambition as a global engineering hub, we should deepen our capacities as a sustainability and digital hub. Ireland should ensure its capacities in the governance of digital and sustainability innovation are adequately resourced to match its role and provide for a robust and predictable regulatory environment. Ensure adequate resources are provided for the Data Protection Commission and expected EU regulatory and enforcement requirements for new markets and services.

Engineering Industries Ireland Strategy 2022-2025

Engineering Industries Ireland's vision is for Ireland to be a global engineering centre of excellence, where multinationals and home-grown companies collaborate strategically to help companies become more sustainable, innovate, prosper and drive economic growth. To realise the vision, in February 2022, the Association launched its strategy *Engineering a better future 2022 – 2025* which sets out the key objectives below under four pillars Innovation, Sustainability, People and Regulation.

The Strategy highlights key goals to support the development of an innovation ecosystems for engineering industries and encourage companies to play a leading role in the development of new technologies and sustainable products and services. It also commits to support engineering companies to play a leading role in climate change to achieve Ireland's 2030 emissions targets of 51% (from 2018 levels) and in the development of new sustainable products and processes. The strategy also sets out key objectives to develop and attract a diverse talent to the sector and to foster engagement and promote lifelong learning.



Pillar 1 Innovation

Support the development of an innovation ecosystems for engineering industries and encourage member companies to play a leading role in the development of new technologies, and sustainable products, processes, and services.

- Higher proportion of engineering business engaged in technological innovation
- Increased R&D activity in engineering businesses
- Increased number of companies engaging with academic research centres and technology centres
- Greater provision of sector-based education and training



Pillar 2 Sustainability

Support engineering industries to play a leading role in climate change to achieve Ireland's 2030 emissions targets of 51% (from 2018 levels) and in the development of new sustainable products and processes.

- Greater number of businesses with a sustainability business strategy
- Increased number of high-quality training and education programmes on sustainability for business leaders and their employees
- Access to government support for business in reduction of their carbon footprint



Pillar 3 People

To develop and attract talent to the sector and to foster engagement and promote lifelong learning

- More pathways to careers in the engineering sector
- More diverse talent in engineering sector
- More people engaged in relevant formal training and upskilling in the workplace



Pillar 4 Regulation

To encourage and embrace a progressive and value-driven regulatory ecosystem that sustains the evolution of the engineering industries in Ireland.

- Facilitate regulatory best practice sharing to keep the sector abreast of current and new legislation
- Built an effective relationship with sector regulators
- More active participation in design and implementation of sector regulation and technical standards

Board of Engineering Industries Ireland



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Chairman



Niall Fay
Grant Engineering Ltd
Director
Vice Chairman



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Group Managing Director



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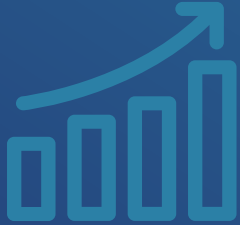
About Ibec

Ibec is Ireland's largest lobby and business representative group. Our purpose is to help build a better, sustainable future by influencing, supporting and delivering for business success. With over 270 employees, Ibec engages with key stakeholders in Ireland and internationally through our six regional offices and our Brussels office, along with an extensive international network in the UK and US.

Ibec positions are shaped by our diverse membership, which range from small to large, domestic to multinational and our 39 trade associations cover a wide range of industry sectors. Ibec members employ over 70% of the private sector workforce in Ireland. As well as lobbying, Ibec provides a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.



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