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Mr Paschal Donohoe T.D.

Minister for Finance

Merrion Street Upper

Dublin 2

By email

2nd October 2020

RE: BUDGET 2021

Dear Minister

Food Drink Ireland is the main trade association for the food and drink industry in Ireland and is part of Ibec. It represents the interests of over 150 food, drink and non-food grocery manufacturers and suppliers.

Brexit involves an unprecedented fracture of the Single Market, with Ireland particularly exposed. The food and drink industry remain particularly reliant on the UK market and is the sector most exposed to Brexit. Whilst the UK as a percentage of our overall exports has dropped in recent years and now stands at 34%, in absolute value terms it continues to increase and now stands at €4.5bn (a 32% increase since 2010). This demonstrates the importance of maintaining our market position in this high value, high quality market that has a substantial food deficit and not relinquishing the market to global competitors. Irish food and drink exposure in absolute value terms is similar to other large exporters to the UK (France, Belgium, Netherlands, Germany, Italy). However, in percentage terms we are 4-5 times higher. Typically, less than 10% of those other member states food and drink exports are to UK. This highlights the unique circumstances faced by Irish industry and the need for exceptional aid measures.

A further €4.5bn of exports go to EU26 with most using the UK land-bridge. Protecting our connectivity to continental EU markets is critical. It is also an important trade route for food and drink ingredients and finished goods travelling from the continent to Ireland.

In addition, in the event of no deal, Irish agri-food and drink will also see tariffs of up to €1.5bn imposed on exports to the UK. In turn imported food and drink from the UK will face tariffs which will be collected by the Irish Exchequer / EU. Some or all of this should be used to offset the tariff impact on Irish exporters and indigenous manufacturers who import critical raw materials.

In September in the Brexit Readiness Action Plan, Government committed to further targeted measures to support businesses and the most-affected sectors will be considered in the context of Budget 2021. It would "*consider further supports and programmes needed to support the agri-food and fishing sector in light of Brexit, including as part of the preparation of Budget 2021*".

In March, the European Commission adopted for the second time a Temporary Framework to enable Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the COVID-19 outbreak. Together with existing State aid rules the Temporary Framework enabled Member States to ensure that sufficient liquidity remained available to businesses of all types and to preserve the continuity of economic activity during and after the COVID-19 outbreak. This State aid Temporary Framework to support the economy in the context of the COVID-19 outbreak, based on Article 107(3)(b) of the Treaty on the

Functioning of the European Union, recognises that the entire EU economy is experiencing a serious disturbance. The Communication noted "*this shock is affecting the economy through different channels. There is a supply shock resulting from the disruption of supply chains, there is a demand shock caused by lower consumer demand and there is the negative effect of uncertainty on investment plans and the impact of liquidity constraints for undertakings*". To remedy that, the Temporary Framework provides for five types of aid including direct grants, loan guarantees / subsidies and short- term export credit insurance.

In July, at the Summit on the EU Multi-Annual Financial Framework and the COVID-19 Recovery Instrument, EU leaders agreed to make €5 billion available to a special Brexit Adjustment Reserve to counter the adverse consequences of Brexit on the most affected Member States and sectors. The European Council's Final Conclusions states that "*a new special Brexit Adjustment Reserve to be established to counter unforeseen and adverse consequences in Member States and sectors that are worst affected*". The Commission will make a legislative proposal for the new reserve in November 2020. In the Brexit Readiness Action Plan, the Irish Government noted "*As one of the Member States most impacted by Brexit, Ireland is working with the Commission to ensure Irish businesses and sectors benefit from the Reserve, to the maximum extent possible*" and that "*Government will remain actively engaged in promoting Irelands' interests in relation to the Brexit Adjustment Reserve*".

Ireland and in particular the food and drink sector now faces a serious economic disturbance. Moreover, the unique position and importance of the Irish food and drink sector in the overall Irish economy means that the fracture to the single market and its deep and unique impact on the food and drink sector in Ireland have an economy wide impact.

Recommendations

Exceptional targeted policy responses continue to be required for our sector. These should include accessing the existing €4 billion in Brexit contingency funding set aside for the years 2020 to 2025, an extension beyond December 2020 of the Temporary Framework for State aid supports as well as substantial funding from the Brexit Adjustment Reserve and any increased tariff revenue from UK imports in order to maintain and sustain economic activity and jobs. The more immediate Covid-19 lockdown impacts on the hospitality sector, an important outlet for Irish agri-food and drink, also need to be addressed. The supports should be targeted at the food and drink sector and their scope should not be restricted to SMEs but rather should include all companies in the sector.

Funds amounting to 5% of the value of current annual export sales to the UK will be needed annually from domestic and EU sources for at least three years. These state aid supports and funds from the Brexit Adjustment Reserve should be targeted as follows:

- **Enterprise Stabilisation** – Short term measures to allow the Irish Government to re-introduce the Employer Wage Subsidy Scheme for Brexit impacted companies in a no-deal scenario. The scheme should be put on a scenario contingent footing and be reintroduced on a temporary basis where firms are struggling due to immediate loss of income or substantial cost increases due to Brexit.
- **Investment in Competitiveness** – Medium term measures to allow the Irish Government to introduce investment aids to support Irish food and drink companies invest in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following single market fracture
- **Improve export capability –** Introduce a state supported export credit insurance scheme to ensure the expected gap in supply of export credit insurance does not impact on the ability of Irish firms to export.
- **Diversification and Innovation**– Additional funding for direct grant supports for innovation, marketing and trade promotion for companies looking to build new markets in the EU and internationally. Ensure State agencies make full use of the new state-aid guidelines to fund up to 50% of Research and Development projects which support future business growth.

- **Direct connectivity to continental markets** – support measures (PSO designations or otherwise) to ensure sufficient accompanied roll on / roll off capacity for direct ferry routes to the continent should be provided.
- **Customs skills** – provide direct supports to cover the additional ongoing costs associated with developing and maintaining customs clearance capability.

In addition, a Tariff Support Mechanism will be required in the event of no deal:

- A fund to offset the tariff amount imposed by the UK on the most exposed sectors. This would allow industry to keep trading with our UK customer base, maintain our UK market position and avoid massive displacement of produce onto EU markets with consequent price collapse. The fund should also offset the impact of EU tariffs on indigenous manufacturers importing critical raw materials.
- It would not drive additional volumes as the Tariff Support Mechanism would be at a rate comparable to the tariff applied to the products exported/imported and conditions could be applied to ensure it only operates for the most exposed sectors.

An important part of the customer base of Irish agri-food and drink is the hospitality sector. The sector is facing into Brexit having incurred serious financials losses generally and have also received very little notice of the requirement to close/remain closed by the Government due to Covid-19 lockdowns. A targeted financial support is needed for the hospitality/supply sector to specifically compensate for the losses associated with perishable products (e.g. beer/cider/baked goods/fish/meat/fruit & vegetables) going off on foot of the introduction of short notice lockdown restrictions by Government.

Yours sincerely,

Paul Kelly

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Director