Budget 2022 Submission

September 2021

1 Introduction

The food and drink sector is deeply resilient but now faces major disruption to its markets from Brexit in the midst of a global pandemic. The Irish food and drink sector is by far the most exposed of any sector in any country in Europe to Brexit. In 2020 33% of Irish food and drink exports went to the UK market with Irish food products accounting for seven of the ten most exposed country/ food and drink product matches in the EU. Ireland needs to maintain our market position in this high value, high quality market that has a substantial food deficit and not relinquish it to global competitors.

The closure of the valuable on-trade channel for long periods of time, due to Government lockdown restrictions both here and in important overseas markets, along with the decimation of global travel retail, has impacted heavily on the supply sector, with overall alcohol consumption declining by 6% globally and by 6.6% here in Ireland. Within that draught beer and cider producers have been most heavily impacted.

Irish food and drink businesses are also experiencing inflationary pressures across most cost headings due to a combination of macro external factors which include global and domestic supply chain constraints and raw material inputs as well as Brexit and Covid-19.

FDI surveyed member companies in July to assess the extent and impact of input cost increases. The survey[1] found that the majority of food and drink companies experienced substantial increases across a range of inputs over the last 12 months including:

Cost increase over last 12 months by input	20% or greater increase	10 – 20% increase	5 – 10% increase	0 – 5% increase	No increase	Decrease	Total
Raw materials	15%	40%	26%	11%	4%	4%	100%
Energy	22%	41%	19%	11%	7%	0%	100%
Packaging	11%	44%	22%	19%	4%	0%	100%
Transport/Shipping	26%	23%	30%	15%	6%	0%	100%
Insurance	15%	15%	12%	38%	20%	0%	100%

Lower but still significant increases were experienced for other inputs including 37% experiencing 5-20% cost increases for water/wastewater and 30% experiencing 5-20% cost increases for labour.

Respondents were very clear in the main factors they attributed the input costs to:

- 100% considered Brexit very relevant or relevant
- 96% considered Covid impacts very relevant or relevant
- 96% considered global supply chain constraints very relevant or relevant
- 81% considered domestic supply chain constraints very relevant or relevant
- 78% considered raw material inputs very relevant or relevant

All businesses operating throughout the Covid pandemic have had to make significant investments to adjust operations in line with public health guidelines.

Brexit has added significantly to trading costs including transport and logistics and additional administration both for trade with the UK but also for trade with the EU using the land-bridge. Transport costs have also been affected by the major driver shortage impacting that sector and for international business, the cost of freight containers has exploded since the beginning of the year.

Food businesses are also identifying strong increases in utility costs, in particular energy and also in packaging.

[1] 27 members responded to the FDI survey which was carried out in the first half of July 2021.

Respondents also expected a continuation of inflationary trends in the months ahead and that this would impact on margins and competitiveness in export markets.

FDI's Budget 2022 recommendations are framed to ensure that Ireland's most important indigenous manufacturing sector can control its cost base whilst also innovating and improving both productivity and sustainability.

2 Brexit Adjustment Reserve

The EU/UK Trade and Cooperation Agreement, whilst largely avoiding tariffs, has introduced significant additional costs for Irish food and drink companies arising from additional customs procedures, regulatory burdens, and rising transport costs. Additional paperwork, certification and delays in trade will gradually erode the efficiency of interlinked supply chains, both with the UK and through the land bridge to the continent. This will add extra costs at each step of production and distribution.

In July 2020, 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 made 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*".

Recommendations

- As the most affected member state, Ireland is to receive the largest allocation from the Reserve. To address the competitiveness challenge of Brexit now faced by Ireland's largest and most exposed indigenous sector, Government must ensure that qualification criteria for Brexit supports is cost, and margin focused. Given the majority of the impact of Brexit will be felt in margins and increased trading costs, qualification for schemes cannot be based on a narrow turnover metric. Any scheme based on turnover loss alone is likely to be poorly targeted and ineffective. As such, schemes must include metrics linked to increased costs or decreased margins on sales.
- Keep the EWSS and grant support under review including for those significantly impacted by Brexit. The extension of the Employment Wage Subsidy Scheme beyond 30 June until 31 December 2021 was a welcome development, but it should also be available for Brexit impacted companies. The scheme should be reintroduced on a temporary basis where firms are struggling due to immediate loss of income or substantial cost increases due to Brexit. It should also include a commitment to graduate the cliff-edge turnover threshold in the EWSS between 70% and 90% with firms losing part of the subsidy as they hit turnover or order milestones.
- Introduce a State-supported export credit insurance scheme, to ensure the general lack of private export credit insurance capacity to cover all economically justifiable risks for exports does not impact the ability of Irish firms to export or remain competitive against other EU competitors that can access such schemes. 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 was only £125 million over 5 years and was offset by premia income resulting in a positive operating surplus.

- Invest €300 million in competitiveness and trade promotion. Medium-term measures to allow the Irish Government to introduce investment aids to support companies invest in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following a single market fracture. Additional funding should also be put in place for direct grant supports for marketing and trade promotion for companies looking to build new markets in the EU and internationally.
- Extend the Revenue Warehousing Scheme to Brexit impacted companies. This scheme has proven an effective mechanism to remove a cashflow burden from companies at no immediate cost to the Exchequer. An inability to pass on additional costs to consumers given tight timelines means that emergency support for cash flow will be needed.
- Extend the Foreign Earnings Deduction to more markets. As it stands the scheme works well, but we think the scheme should be extended to include all countries that are classified as emerging and developing economies by the IMF. This would support trade to countries and regions that are expected to grow faster than Ireland's traditional trading partners such as the UK and the USA, generating wide-ranging export opportunities. This will be particularly important given the need to diversify in the face of Brexit.
- Extend and re-finance the 'Ready for Customs' grant scheme. The scheme should be extended to December 2022 to reflect the implementation of the UK border operating model and provided with new funding of the order of €10 million.

3. Consumption taxes

Recommendations

- Allow alcohol excise on bad debts to be written off. Our members are now encountering difficulties with regard to bad debts arising from the repeated closures and restrictions in the hospitality sector, arising from Covid-19. Whilst VAT on bad debts is recoverable by our members under the VAT Acts, unfortunately, as the legislation stands, excise is not. This will require new law, either by inserting a refund scheme into the 2003 Finance Act or the Alcohol Products Tax Regulation. Such a change would seem logical and reasonable to us, as a similar provision already exists for VAT. In addition, it would prove invaluable in our members continuing to support the provision of extra credit to the hospitality sector, which they have extensively done since the onset of Covid. One of our distributer members estimates that 55% of any bad debt in the hospitality sector is excise duty.
- Budget 2022 should reduce alcohol excise rates by 7.5%. This should be the first stage in a longer-term programme of bringing Ireland's alcohol excise into line with our partner countries in the EU and our closest neighbour, the UK. There should be a 15% reduction in excise rates over the next two budgets with a 7.5% reduction in each year followed by additional reductions thereafter. These are modest and reasonable reductions on the long-term path to average EU excise levels. Very high excise levels by EU standards impact negatively on the national, regional and local economies currently and in the medium to long terms.
- Introduce a new craft cider excise exemption scheme. In line with recent changes to the EU Structures Directive on relief on Excise and reliefs which are currently available to microbreweries, Budget 2022 should extend excise relief to producers of other fermented drinks (such as cider and perry and other than cider and perry) wine (from grapes) and intermediate products. The relief must offer a 50% reduction to independent small producers

of these fermented beverages that produce less than 15,000 hl per annum. The excise relief should also be extended to manufacturers of wine (from grapes) and intermediate products that produce less than 1000 hl and 250 hl respectively per annum.
- Do not increase other areas of VAT or duties. Ensure further price differentials do not emerge between the Republic and Northern Ireland due to increases in taxes or excises which have the potential to drive cross-border/ unlicensed activity.

4. Sustainability

Recommendations

- Provide an additional €400m to drive low carbon investment in industry by scaling up and expanding industry supports. For Ireland to remain an attractive and competitive place to do business, coming Budgets must help support the decarbonisation of Irish industry. The mitigation options in this sector are costly and complex. There is no one solution, and the appropriate alternative fuel will largely be determined by individual production needs and location. Biomass, renewable biomethane, AD biogas, hydrogen, electricity, waste-heat use, and natural gas with carbon capture will all play a role. To deliver large-scale emissions reduction in this sector, the Support Scheme for Renewable Heat must be reviewed and refinanced over the lifetime of the new NDP, and the scheme opened to large industry. Additional funding must also be provided for the Excellence in Energy Efficiency Design (EXEED) programme.
- Following the transposition of the Single-Use Plastic Directive (SUPD) into national law, additional funding should be allocated to the Environmental Protection Agency (EPA). The SUPD aims to reduce the volume and impact of specific plastic products on the environment through the reduction of the impact of certain plastic products on the environment, particularly marine litter. The EPA has been assigned the enforcement responsibilities to ensure the SUPD is implemented by industry. In order for the EPA to implement and enforce the SUPD, the Compliance and Enforcement Unit in the EPA must be adequately funded to take on the additional role of enforcing the SUPD at national level. The Food and Drink industry is eager to work with the EPA to ensure the SUPD is implemented and to move towards a more circular economy.
- The Irish Cosmetics and Detergents Association (ICDA) would like to see additional funding allocated to the Biocides Unit in the Department of Agriculture, Food and the Marine to streamline the process to register biocidal products. Over the last 12 – 16 months our members have experienced significant delays that have been encountered during the application process for PT1 (hand-hygiene), PT2 and PT4 (anti-bacterial cleaning products) products. We understand and appreciate the processes that have been put in place to approve such products, however, in the midst of a global public health crisis, we would ask that additional funding is allocated to the Biocides Unit and particularly the Pesticide Registration & Controls Divisions to ensure that PT1, PT2 and PT4 applications can be processed in a timely manner, while also maintaining the necessary due diligence, so that these products can be made available to benefit Irish consumers.
- The commercial rates exemption scheme should be revamped to incentivise occupiers of commercial property to carry out much needed maintenance, improvements and retrofitting or energy saving investments. Due to the rising price of construction many food business operators and Cold Storage companies are delaying investment in improving and extending premises and upgrading their commercial building to be more energy efficient. A once-off government-backed commercial rates exemption scheme could support such investment. Ireland's Cold Storage sector will require substantial investment to recommission premises and carry out upgrades to transition

to a low carbon industry. Food Business Operators could use such investment to create sustainable infrastructure, support new product development and reduce food and packaging waste.

5. Skills

Recommendations:

- Provide additional funding to Skillnets. Skillnets are a crucial part of the countries training infrastructure, linking employees and employers. Funding should be increased by €10 million in 2022.
- Include everyone in further digital opportunities. Invest, foster, and attract necessary digital talent; enable everyone to gain the necessary skills and realise their potential in a digitalised recovery. Deliver and resource new 10-year Adult Literacy, Numeracy and Digital Literacy (ALND) Strategy for Ireland. Promote digital literacy and skills, promote inclusion and awareness of the opportunities presented in a more digitalised Ireland.

6. Employment and Investment Incentive Scheme (EIIS)

The EIIS was originally intended to facilitate financing of early-stage start-ups where traditional banking was limited or unsupportive, create employment and to encourage Irish individual taxpayers to release some of the capital they hold on deposit and invest it in the Irish economy by sharing generous tax relief with them – which is the "incentive".

The ongoing review of the scheme should look to return to its original purpose which is to assist better small and medium sized companies at early stage especially in rural parts of the country where the creation of smaller numbers of jobs can have as beneficial an effect as the large number of jobs created in urban areas.

Recommendations:

The following are aspects of the scheme which could be amended with a view to enhancing its support for start-ups in the Irish whiskey /spirits sector in Ireland:

- Extend opportunity to invest up to seven years with additional encouragement in the form of tax breaks for staying in past the end of year four.
- The EIIS has a seven-year cut off rule (after trading commences). The growth stage for Irish distilleries only commences some seven to eight years after start-up (i.e., commencement of production). It would be appropriate therefore that they should be able raise funds under EIIS when they are in their growth stage rather than seven years after commencement of company's trading.
- Make the scheme more attractive to potential investors and address the fact that the EIIS is less beneficial to investors when compared to other similar schemes in different countries (e.g., EIS in the UK). Allow the gains from EIIS investments to be:
  - free from capital gains tax
  - inheritance tax, and
  - provide the possibility to write off losses against other gains.

- It is worth considering extending the deadline for investment from 31 December each year to 31 January the following year and similar to the pension regime allow contributions to be made that apply retrospectively to the previous tax year.
- ‘Advance Assurance’ should be provided by the Revenue Commissioners with a view to offering certainty and enabling Irish distilleries to apply for reliefs prior to the issue of shares.

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