Food Drink Ireland

Ibec

Budget 2023 Submission

September 2022

1. Introduction

The Irish food and drink sector performed strongly in 2021 with exports increasing by 4% to €13.5bn. Whilst growth continues so far in 2022, Irish food and drink businesses are experiencing severe and unprecedented inflationary pressures across most cost headings due to a combination of macro external factors which include global and domestic supply chain constraints, the war in Ukraine as well as Brexit and Covid-19. While manufacturers may have achieved some cost recovery in the market, this has fallen greatly short of cost inflation as evidenced by the massive increases in energy and commodity costs versus the lower level of food inflation recorded in the CPI.

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, significantly higher fuel costs and for international business, the high cost / limited availability of freight containers. While consumers were largely insulated from food price increases during the initial years of Brexit, food and drink companies exhausted their ability to absorb additional costs and implement efficiencies, which has made the current inflation in the cost of commodities, energy and labour particularly challenging for the industry. Government should assess the extent and timing of any new initiatives for their cost impact on the food and drink sector as higher compliance costs for businesses will lead to greater food price inflation for consumers and therefore further upward pressure on the cost of living. Strong consideration should also be given to pausing the implementation of any measures likely to increase costs for the sector.

Despite these challenges the sector has ambitious plans in the areas of decarbonisation, the circular economy and digital transformation. FDI's Budget 2023 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.

The Brexit Adjustment Reserve funds of €600 million in 2023 should be used to future proof the sector from these increased costs of trade due to Brexit, many of which have not yet crystallised with delays in the implementation of some Border controls.

There should be a focus on support for capital investment, innovation, and skills development to improve cost competitiveness for the UK and other markets. Also, there should be additional support for decarbonisation to help meet sustainability requirements in new markets. Trade support measures in market promotion, ECI and other financing tools also remain important.

Recommendations:

- Introduce investment aids to support companies investing 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 and for companies looking to transition their operations to lower-carbon technologies.
- Supports for the above two recommendations should be available to a wider range of companies than the Government's €70m Capital Investment Scheme for the Processing and Marketing of Agricultural Products which goes directly to food producers and processors in the meat and dairy sectors. It should be extended to all food, drink and feed products listed in Annex 1 TFEU and to products processed from Annex 1 TFEU products for use as food.
- 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 were only £125 million over 5 years and were offset by premia income resulting in a positive operating surplus.
- Customs and logistics supports will remain important for SMEs and Mid-Caps impacted by groupage becoming less feasible. Data from the UK (LSE, 2022) has shown a major impact on SMEs in particular selling into the EU market due to fixed costs of non-tariff barriers. Further investment and training will be needed in the coming years to help manage these challenges and ensure SMEs continue to export.
- Introduce a €5 million fund for the Irish food and drinks sector to help companies meet the extremely ambitious reformulation targets set out in a Roadmap for Food Product Reformulation in Ireland. Working towards these targets will be costly for the sector, as it continues to address the ongoing challenges of Brexit and the impacts on market access and disruption arising from the UK's independent trade policy.
- 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.

3. Consumption taxes and the Experience Economy

The Experience Economy spends €4 billion every year on purchases of goods and services including over €1 billion in purchases from domestic food and drink suppliers. With Covid emergency supports being wound down from €7 billion in 2022 to €1 billion in 2023, it is essential to continue to support the sector's competitiveness and productivity.

Recommendations

- Given the significant scarring on the sector, its debt overhang and the significant cost challenges it is facing in the post-Covid era, we believe that from March 2023 the 9% rate of VAT for the Experience Economy should be made permanent. A failure to do so would lead to a rise in inflation in 2023 of approximately 0.5%.
- Reduce excise on alcohol products by at least €50 million - Ireland has a high level of excise duty on key consumer products compared to most of Europe. We have the second-highest rate of excise on beer and the third-highest rate of excise on distilled spirits. Already it is likely that we are at or beyond the point where excise rates are optimising tax take. Ireland is a standout in Europe in excise rates but not in collection due to falling consumption. As such, future increases in excise should be ruled out and rates on drinks products should move gradually toward European norms.
- FDI welcomes the Minister's commitment in last year's budget to expand the reliefs on excise, which are currently available to microbreweries, to cider and perry and other fermented beverages. It is expected that the details of this excise relief will emerge in forthcoming Finance Bill and FDI calls for the relief to offer a 50% reduction to independent small producers of these fermented beverages that produce less than 15,000 hectolitres (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.
- 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.
- As the combined alcohol and non-alcohol beverage industry continues to prepare for the launch of Ireland's transformative Deposit Return Scheme, it is imperative that the system operates entirely free of VAT – both in respect of the deposit itself and the pool of unredeemed deposits which is to be used as an important funding resource.

4. Sustainable and competitive manufacturing

High levels of input cost inflation (energy and commodities) are impacting on margins, competitiveness, and investment decisions. At the same time there is an increased need to build resilience against high ongoing energy costs and wider competitiveness pressures whilst investing heavily in low carbon / resource efficient processes and accelerating digital transformation measures. The recently announced sectoral emissions reductions targets (Agriculture – 25%, Industry – 35%) will require significant government support to assist the food sector in the transition to a low carbon economy in the decades ahead. Dairy, meat and drinks companies are financially supporting the Signpost Farms initiative to ensure the most carbon efficient raw material supply but also need to invest in manufacturing processes.

Recommendations

- To deliver large-scale emissions reduction in the food processing sector, SEAI Project Assistant Grants, the Support Scheme for Renewable Heat, and the Excellence in Energy Efficiency Design (EXEED) programme need to be expanded. The programmes also need to be made accessible to speed up and simply the process of identifying and funding viable projects.
- The accelerated capital allowances for energy-efficient equipment should be regularly reviewed and maintained to ensure uptake of low carbon technologies. FDI recommends an increase in the accelerated capital allowance for energy efficient products and equipment to a super allowance of 130%. This would allow a reduction in corporate tax in year 1 from 12.5% of the value of capital expenditure to 16.25% of the value of capital expenditure.

- Also provide accelerated tax allowances and capital grants for farmers for Slurry Tank Capacity Expansion, and for LESS Slurry Spreading equipment. In seeking to fix the problem areas identified by the Draft Nitrates Action Programme and Nitrates Directive, the dairy sector has engaged with Government Departments in a unique co-funded partnership called the Agricultural Sustainability Support and Advice Programme (ASSAP). In addition, the Co-ops lending programmes provide for lending to farmers to address and drive sustainability improvements on farm, including slurry tank capacity expansion and the acquisition of LESS equipment. As part of a major push to reduce N in waters and significantly improve water quality, accelerated tax allowances should be made available to farmers who wish to expand slurry tank capacity, alongside a time limited capital grant programme. Accelerated tax allowances should also be made available for the acquisition of LESS slurry spreading equipment as part of a major strategy to reduce ammonia.
- Government must bring forward their commitment under Ag Climatise to genotype the national herd. Accelerating genotyping of all calves at birth would see a step-change in terms of the adoption of genetics across the bovine sector and the ability to breed for lower emitting animals.
- The earlier finishing of cattle is recognised in the Climate Action Plan as a key environmental lever for the beef sector, with a target set to reduce the average finishing age from 27 months to 24 months by 2030. This has the potential, combined with genomic advances, to deliver reductions of 1.2Mt CO_2 equivalent GHG emissions. In addition to incentives at beef processing level which are already in place, Government incentivisation of earlier finishing animals must be forthcoming.
- Investment supports such as the EIIS and R&D tax credit should be regularly reviewed to ensure that they are attractive for investment in the most cost-effective low carbon technology.
- Introduce accelerated capital allowances for advanced manufacturing including computerised/computer-aided machinery and robotic machines.
- Leverage the €85m Digital Transition Fund provided for in the National Recovery and Resilience Plan to drive further digital transformation across the food and drink sector through the introduction of a new grants scheme for businesses and the establishment of European Digital Innovation Hubs (EDIHs)
- Increase the Innovation Voucher value to €10,000. For many businesses, these vouchers enable them to engage for the first time in formal research, development and innovation activity. An increase in the maximum amount would allow greater ambition in these initial projects.

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