Food Drink Ireland Executive Council

Budget 2020 Submission

Introduction and Overview

Food Drink Ireland (FDI) is a business sector within Ibec and represents the interests of over 150 companies. Meat Industry Ireland (MII) is the Ibec sector association representing the beef, pig meat, sheep meat and poultry primary processing sector in Ireland. Dairy Industry Ireland (DII) represents primary and secondary dairy manufacturers including the specialised nutrition sector in Ireland.

The Prepared Consumer Foods Council (PCF) represents the prepared consumer foods sector. The Alcohol Beverage Federation of Ireland (ABFI) is the umbrella representative organisation for alcoholic drinks manufacturers and suppliers in Ireland.

All the above fully support the Ibec Budget 2020 Submission and all its proposals. However, we would like to take this opportunity to draw specific attention to the following issues which are of critical importance to the future growth and vibrancy of the Irish food and drink sector.

The economic contribution of the food and drink industry is greater than any other manufacturing sector due to its deep linkages to the wider economy, particularly in regional areas. Whilst the current business environment for food and drink companies is difficult, it is deeply resilient and the longer-term growth opportunities largely remain for the sector. However, the immediate response must be to ensure the sector is fit for purpose to meet the substantial challenges ahead.

1. Brexit Response

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 37%, 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 mitigation measures. A further €4bn of exports go to the other EU-26 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 the event of a no deal Brexit and the immediate imposition of tariffs, it is therefore vital that the EU institutions and national governments recognise the potential for economic disruption and take decisive steps to offset such risks. Tariffs are in effect a tax on trade and commerce. They would decimate much of Ireland’s food and drink exports to the UK. In order to support businesses during a hard Brexit, alleviation measures will be needed to support Irish industry. Tariffs flow back to central exchequers at national and EU level and must be recycled into a tariff stabilisation fund to offset serious damage to exports and job losses. Additionally, a temporary EU state aid framework to support companies through any adjustment period with funds amounting to 5% of the value of current annual export sales to the UK will be needed annually for three years from domestic and EU sources to help Irish companies innovate, diversify into new markets, train staff and invest for the future in capital towards enabling technology, carbon efficiency, plant renewal and expansion geared to improved competitiveness. Measures are also needed to ensure land-bridge access to continental Europe and the provision of sufficient capacity on direct sea-routes.

Recommendations

Investing in Resilience

- Put in place a multi-annual framework for funding Brexit mitigation within a temporary EU state aid framework. 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. Investment aid should be targeted at supporting Irish 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
- Continue work to put in place a broader temporary state aid framework to help Governments provide short-term assistance to companies in the event of a No Deal Brexit.
- Establish a tariff stabilisation fund to help food and drink exporters offset the impact of UK tariffs in the event of a No Deal Brexit.
- Introduce a Compatible Limited Amount of Aid Scheme of up to €5 million over three years for investment or working capital should be introduced as part of a European temporary State-Aid framework. This was introduced in most countries in 2009. This should take the form of direct grants through an enterprise stabilisation fund, but also include guarantees, interest rate subsidies, and rescheduled debt for companies in distress.

Product and Market Diversification

- Introduce direct supports for companies looking to re-tool and re-invest in plant and machinery to produce product lines for new markets. This should take the form of a pre-approved accelerated capital allowance scheme for projects which are deemed necessary under a clear Brexit related contingency plan. Provision must be in line with those already available for energy efficient equipment, with allowances available to be claimed at an accelerated rate of 100% in year 1.

- Reduce the VAT for renewable technologies and energy efficiency equipment and material to 4.8%
- Introduce additional marketing and innovation supports for companies looking to reformulate, re-package or innovate their product lines for new markets.
- Introduce trade support measures, including trade promotion supports, further export trade financing and export credit guarantees to support the continued development of international export markets.
- Introduce a new scheme covering export credit insurance. This would necessitate temporary changes to the EU's "Short-term Export Credit-insurance Communication" allowing exemptions for schemes which are aimed at companies impacted by Brexit and diversifying away from the UK. This could include some private risk (up to 20%).
- Protect the Irish spirit GI's and maintain seamless movements of excisable product.

Human Resources

- Ensure adequate funding is available for training and development of new staff in private sector customs operators. These operators will be significant in helping SMEs operate in a post Brexit environment.
- Prepare a short-time work subsidy scheme (for two years initially) for vulnerable workers in the event of a no-deal Brexit. This would mean a subsidy to the worker of up to 60% of the worker's reduced net wage, for up to 12 months. This would allow workers to go part-time into training/re-training for a temporary period where hours are reduced and would give companies greater flexibility in the case of a demand shock. It would be available only to impacted firms.
- Introduce an Employment Subsidy Scheme with subsidies up to €10,000 over 24 months for employees in firms in distress in the event of no deal.

Consumer Taxes

- Ensure further price differentials do not emerge between the Republic and Northern Ireland due to increases in taxes, excises or the introduction of minimum unit pricing which have the potential to drive cross-border/ unlicensed activity and reduce excise on alcohol by 7% in 2020.
- Do not increase other areas of VAT or duties on potentially mobile products or services.

2. Taxing Indigenous Enterprise and SMEs

94% of Irish food and drink companies are SMEs. Taxation of entrepreneurs and small business is an issue which has received a lot of warranted attention in recent times. Over the past decade, policymakers across the board have lauded entrepreneurs as being central to developing indigenous firms which can compete globally. The signals we send through our tax system, however, differ greatly from the rhetoric. FDI has made a detailed submission to the recent Department of Finance consultations on SME taxation which addresses the following issues:

- Irish SMEs are at a distinct disadvantage to their UK counterparts in terms of Capital Gains Tax (CGT) treatment. Without significant improvement in the treatment of capital gains relative to the UK, Ireland risks losing high potential SMEs to the UK. This is a particular concern in areas such as food and drink where reliance on the UK market is highest.
- Previous Government reviews of the R&D tax credit scheme have shown that it is very effective in supporting R&D activity and provides a good return on investment for the Irish economy. However, many SMEs are not engaging with the credit due to its complexity and administrative requirements. In order to maximise its impact for SMEs, we recommend that the scheme is amended.
- Whilst there have been a number of positive amendments to the EIIS scheme, a number of problems remain. Specifically, the current spending restrictions on employment growth/R&D create unnecessary levels of complexity for both firms and investors and the approval process are slow. Such conditions add a level of uncertainty and can encourage bad business decisions when it comes to capital allocation.

Recommendations

Capital Gains Tax (CGT) Entrepreneurs' relief

- Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs' relief by introducing a 12.5% rate with no lifetime limit on capital gains.
- Remove the €3m cap on value which can qualify for Retirement Relief on the transfer of shares for those aged 66 years of age or older;
- Consider removing the 90% cap to provide full relief from CAT under Business Relief
- Introduce 'future use' test in regard to 'surplus cash', thereby providing a clear basis for allowing cash reserves which are required for future business commitments to be regarded as relevant business assets for Business Relief purposes
- Expand CGT entrepreneurs' relief to passive investors to increase the supply of equity for Irish companies.

- In the case of earn-outs, where some of the gains from selling a company is reliant on future events or paid in instalments, CGT should only be charged on receipt for entrepreneurs. As it stands, the current system ties up cash to re-invest for several years and can lead to high levels of debt for entrepreneurs without access to cash.

An improved R&D tax credit model

- A pro-forma R&D tax credit should be introduced to help smaller firms overcome these costs and engage with the credit. This would include the use of pro-forma templates for R&D project management, recording R&D activity and calculation of eligible costs and revenue benefit associated with the credit. Simple on-line calculators demonstrating the benefit and eligibility rules of the credit would be a useful resource for SMEs and would also greatly improve awareness and promotion of the scheme. The UK's Research and development tax relief for SMEs gives a good example on which to base an Irish version.
- Most innovation within the sector is incremental. It is not registered or patented due to the nature of the innovation, the associated costs, and commercial sensitivities. Revenue Commissioners interpretation of R&D must take account of this plus marketing intangibles which often include post development research and analysis. These play a fundamental role in the development of new products for new markets and the enhancement of existing products. Further engagement with the industry is needed by the Department / Revenue Commissioners so that they understand the innovation ecosystem in food and drink.

An EIIS Scheme that works for the food and drink sector

- The UK increased its limit for investment in specific firms from £1 million to £2 million. We believe a similar limit should be introduced here (from the current limit of €150,000).
- The current system of split relief based on employment levels or R&D expenditure introduces a level of uncertainty for the investor over which they have very little control. This has long been a limiting factor on the attractiveness of the scheme and should be removed with full relief given in the investment year.
- An introductory version of the SEIS scheme similar to its UK equivalent would remove a barrier to small start-up businesses, while also encouraging first-time investors into the market. Associates should be permitted to invest up to an aggregate amount of €250,000 in the first 24 months of establishment of a company employing fewer than 10 people.
- Consider reviewing EIIS rules to incentivise investors to invest for the long term (10 - 12 years). This would help sectors which have longer returns on investment e.g. distilleries.

- In line, with the recommendations of the Indecon review losses on EII investment should be allowed for CGT purposes and any capital gains on the sale of shares are taxed as capital gains rather than as income, as is currently the case.
- Investors should be allowed to claim CGT loss relief if the investment fails.
- Review direct ownership rules to remove the restriction on founders of EII companies holding their investment through personal holding companies.
- Rules around share buybacks should be relaxed to achieve a CGT outcome on exit (rather than income tax), particularly where the investor is unconnected with the company / founding or controlling shareholders.
- Revenue's approach to put & call option agreements (as used to facilitate the investor's exit on expiry of investment term) has become very restrictive and this should be reconsidered.
- Amend SCI legislation to enable a parent to make a qualifying investment in a company that is controlled by their child.

Excise Relief

- Proactively promote equality amongst drink categories by seeking an extension of excise relief for craft Irish spirits and cider producers.

3. Skills, Innovation and Competitiveness

The development of the Irish food and drink sector over the last 50 years has been supported by the development of a wide range of expertise and knowledge in both private and public sectors and across all levels of the sector. Food and drink companies spend over €20m annually on formal training, the highest amount of any manufacturing sector. This skills and knowledge base provide a valuable and solid footing for the continued development of the sector and there is a clear need to ensure that those working in the food and beverage industry are valued and recognised as key to the industry's success. However, with the changing economic landscape and for the sector to reach its full potential, there are numerous challenges and skills gaps which must be filled up and down the supply and value chains. These include:

- The need to attract and develop management and leadership capability.
- Lack of 'in-company' capability to accelerate market development and direct market access.
- Capability to access finance through business and financial planning expertise.
- Lack of technical capacity to absorb new research and innovation from research bodies.
- Inability to develop management teams, implement succession planning, plan for mergers and acquisitions and professionalise corporate governance structures.

- Limited ability to attract and access third level graduates with skillsets to address these gaps.
- Lack of skilled operatives in certain key areas such as engineering, maintenance and technicians.

There is a need to ensure the skills base of the agri-food industry reflects not just the current business demands but the challenges of future growth in existing and new markets.

Innovation is a key driver of competitiveness and growth and can improve both productivity and sustainability as well as supporting new market development. Budget 2020 must look at boosting food and drink company's capacity for innovation. Indigenous companies experience greater challenges to dedicate and develop internal resources needed to engage successfully with universities/research bodies and to capitalise on their research outputs. These enterprises require additional state support to build the absorptive capacity and to participate in any research collaboration. The OECD have highlighted that the productivity gap between indigenous companies and larger multinational organisation is widening. Too many indigenous companies, particularly SMEs miss opportunities to fully realise the potential of research activity in higher education institutions, and too few have the knowledge and skills to develop, value and exploit the situation.

Whilst the food and drink industry are most at risk in any Brexit outcome, most particularly in a hard Brexit, the sector must also respond to the challenges of public health, sustainability and competitiveness. A hugely important measure to mitigate the risks and challenges faced by the sector is to implement policies to control our cost base whilst helping companies innovate and improve both productivity and sustainability.

Recommendations

Skills

- Increase funding support for higher education and enterprise led initiatives including Skillnets and industrial apprenticeships.
- Orient the National Training Fund more towards in-employment training and use funding from the increase in the Fund to develop voucher-style, cost reimbursement scheme to enable employers to choose suitable training services from accredited education and training providers.
- Renew the focus on apprenticeships and address the key challenges:
    - Provide greater resources for promotion and marketing to employers
    - Review funding model to ensure adequate recourses to run the apprenticeship programme and address affordability/value issues for companies due to off-the-job costs
    - Develop an incentive scheme for business to offset the cost of training against corporation tax to build long-term sustainability of Generation Apprenticeship programmes

    - Reduce the administrative burden on employers, which is currently prohibitive
- Provide funding for an agri-food careers portal from the National Training Fund.

Innovation

- Introduce funding for a targeted, paid internship programme for PhD students, aimed at installing innovation expertise directly into businesses operation to identify new product and process development opportunities, highlighting development and commercial opportunities to increase innovation within the business. A critical feature of the programme will be that the internship provides a supporting link to higher education consultancy services, business and legal schools, research programmes, spin-out companies and state-backed innovation supports.
- Continue the strong focus on and investment in industry-led applied and fundamental research (e.g. Dairy Processing Technology Centre; Meat Technology Ireland, Prepared Consumer Foods Centre).
- Increase the Innovation Voucher value to €10,000 to encourage higher levels of research, development and innovation activity within business.

Competitiveness

- Avoid disproportionate increases in commercial water charges for arising from the ongoing review of the Non-Domestic Tariff Framework.
- Implement the Cost of Insurance Working Group's report on Employer and Public Liability Insurance in particular the recommendations on claims transparency, benchmarking the level of personal injury damages, and streamlining the litigation process.