Food
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Food Drink Ireland Budget 2018 Submission

Introduction

Food Drink Ireland (FDI) is a business sector within Ibec and represents the interests of over 150 companies. FDI fully supports the Ibec Budget 2018 Submission[1] and all its proposals. However FDI would like to take this opportunity to draw specific attention to the following issues which are of critical importance to the future growth and scale of the Irish food and drink sector.

Brexit proofing the budget

Introduce a Brexit mitigation fund to help firms retool for a post-Brexit world

Brexit involves an unprecedented fracture of the Single Market, with Ireland and Irish Agrifood particularly exposed. The agri-food sector has already been hit hard by the depreciation of sterling, resulting in a reduction in the value of trade to the UK by €570 million in 2016. This equates to 5,700 job losses. The continued depreciation of sterling is a major concern, now that the UK government has triggered Article 50 of the EU Treaties and formally set out its approach to Brexit negotiations.

A further weakening of Sterling will give rise to greater trade losses, enterprise and job losses for companies most exposed to UK markets and downward pressure on farm incomes. The future value of UK good exports, valued at €4.1 billion in 2016, will be determined by exchange rate losses in the short-term and ultimately, post Brexit, by the nature of the trading relationship that will exist between the UK and EU, In a worst case 'Hard Brexit' scenario, ESRI have estimated a disastrous outcome for trade with the UK for many food sectors including 80% reductions in primary and processed meat exports, a 68% reduction in dairy and over 70% for many other food preparations.

As such, it is vital that the EU institutions and national governments recognise the potential for economic disruption, take decisive steps to offset such risks and introduce measures to assist the sector, which is of 'strategic importance to the Irish economy'. In order to support businesses, funding should be provided over a three year period to help companies trade through any period of disruption, adapt and succeed into the future. The resources required will be in the region of 5% of the value of current annual export sales to the UK by Irish agrifood or €600 million over three years. This would be funded from both government and EU sources to allow the Irish Government to introduce investment aids to support Irish companies invest in enabling technology, management training, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following single market fracture. These resources, where appropriate, should be available to

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[1] "Building for the future", Ibec submission Budget 2018. http://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom~resources-for-budget-2018-E400-million-more-than-estimated-24-07-2017/$file/Ibec+Budget+2018+Submission+Web.pdf

both exporters and smaller Irish producers which risk being displaced by cheaper UK imports in their home market.

Why?

The impact of Brexit will be felt most among firms which are most embedded in the domestic economy. Overall, it is the indigenous sectors of the economy and particularly Agrifood that are most reliant on the UK. Agri-food alone spends over €4.3 billion on purchases from primary producers directly along with a further €2.1 billion on wages of employees who primarily live in rural locations. In the region of 46,000 jobs in the sector are linked directly or indirectly to exports to the UK with 230,000 jobs linked to Agrifood in total. The impact of Brexit on the producers of UK Agrifood exports will be felt across the wider economy as a result.

FDI recommends:

In Budget 2018 the government should:

- Put in place a multi-annual framework for funding Brexit mitigation. Funds should be targeted at supporting innovation, market diversification, upskilling and capital expenditure in plant, equipment and machinery.
- Working with the European Commission, the government must deliver a temporary state aid regime allowing for enterprise stabilisation funding to be released for otherwise viable business.
- Government departments must be provided with the necessary resources to support rapid market access. Government should allocate €25 million in Budget 2018 to support the following;
    - State agencies (Bord Bia and Enterprise Ireland) must be provided with the necessary resources to support market development – in-market intelligence; in-market promotion, and in market trade support in the UK and other markets;
    - Enterprises must be provided with support through the state agencies for market development and investment in international sales and marketing in the UK and other markets. This should include support for placement of marketing executives in international markets by food and drink businesses.
- Introduce medium term measures to allow the Irish Government to introduce investment aids to support Irish companies invest in enabling technology, management training, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following single market fracture.
- Introduce trade support measures including export trade financing and export credit guarantees to support the continued development of international export markets.
- Make sure that more SMEs can gain access to the online trading voucher by expanding its upper limit on employment to 50 and turnover limit to €10 million.
- Work with larger and mid-sized retailers to provide international supply chain opportunities and training to smaller producers.
- Retain the 9% VAT rate and invest in Ireland’s regional tourism infrastructure.

Consumer Taxation

VAT and Excise

The threat of increased cross-border shopping and black market activity due to Brexit and a more volatile sterling means that Ireland will have to keep a careful watch on relative prices for consumer goods. The Republic currently has a significant price differential to the North in most categories of consumer goods including food, drink and alcohol, primarily driven by higher costs of doing business. Further tax induced price increases should be avoided where possible.

As it stands, Ireland has some of Europe's highest taxes on food and alcohol. All available evidence suggests we have hit diminishing marginal returns in terms of the tax take from those sources. That is, further increases will lead to losses of revenue. In addition, we remain in fundamental disagreement with the principle of additional discriminatory food and beverage taxes. Further increases in these taxes at a time of great uncertainty around customs regimes, risks encouraging the development of a mature grey market along the border counties at great loss to the exchequer.

FDI recommends:

In Budget 2018 the government should at no immediate exchequer cost:

- Reduce alcohol excise by 3.5% across the board with no level increases to other excises.
- Don't change existing VAT rates.

Food and Beverage Taxation

A sugar sweetened drinks (SSD) tax was announced in Budget 2017. Whilst industry is aligned with government on the need to address obesity, FDI does not agree with further taxation. This would effectively be an additional tax on soft drinks; to which 23% VAT already applies. The proposal to introduce a tax has been made without recognition of industry's own efforts to reformulate and provide choice.
FDI is opposed to the principle of discriminatory taxation on particular types of food and drink products. Furthermore, scientific evidence proving that taxation represents an effective means of changing consumer behaviour and of successfully tackling population obesity and other lifestyle related non-communicable diseases is inconclusive.
Such taxes, instead, can damage the competitiveness of the food and drink sector and prompt unfair competition and cross-border shopping as they:

- are economically regressive.
- are discriminatory as they target certain products and ingredients.
- generate uncertainty for on-going investment plans.
- threaten Irish businesses and the jobs they support.

FDI recommends

FDI urges the Minister to protect consumers and business, and to discourage cross-border shopping and grey & black market trade, by not levying an additional tax on soft drinks in Budget 2018.

Deposit Return Schemes for Packaging

The food and drink industry in Ireland is committed to increasing the collecting and recycling of packaging. Recycling rates of packaging material in Ireland are amongst the highest in Europe. As part of the current extended producer responsibility scheme (REPAK) industry pay over €26 million to support segregation, recycling, recovery and educational awareness campaigns. In 2013, Ireland recycled 70% of our packaging waste, 15% above the EU target.

In 2015, Ireland recycled 96,000 tonnes of plastic with a further 141,000 tonnes used as a fossil fuel replacement to generate energy. The combined total of those two processes resulted in 84% recycled/ recovered in 2015. Ireland currently recycles 86% of our glass. Only 5 of the EU member states have a deposit return scheme, Denmark (which has a deposit return scheme but no extended producer responsibility scheme) recycles 89% of their glass while Estonia achieved an 87% recycling rate in 2015.

The environmental benefit set up and operating costs for a deposit return scheme has been estimated at €200 million.

FDI recommends

FDI urges the Minister to oppose proposals to introduce a deposit return scheme for packaging.

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