# Budget 2024 Submission

## September 2023

## 1. Introduction

The Irish food and drink sector performed strongly in 2022 with exports increasing by 22% to reach a new record high of €16.7bn. Despite this growth, the sector has endured unprecedented inflationary pressures across most cost headings over the last three years, 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. Although peaks have now been reached in some cost headings, prices remain largely above those prior to March 2020.

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.

Whilst cost inflation is particularly challenging, the sector must also respond to the challenges of public health, sustainability, skills and wider industry competitiveness. FDI's Budget 2024 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.

Brexit Adjustment Reserve fundings should be extended into 2024 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, export credit insurance 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 €100m 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 Irish firms 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.
- Continue to invest in customs and logistic supports. Customs and logistics supports will remain important for SMEs and Mid-Caps impacted by groupage becoming less feasible. Data from the UK 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.
- The government should seek an extension from the European Commission to the end 2024 for Brexit Adjustment Reserve funds to be spent – e.g. The National Genotyping scheme.

## 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 a permanent retention of the VAT rate for the sector at 9% for businesses in the Experience Economy is necessary to protect demand in the sector against growing economic uncertainty.

- Reduce excise on alcohol products by 7.5%. Ireland has a high level of excise duty on key consumer products in Europe. Across a range of consumer goods, Ireland has the highest rate of excise on wine, Sugar-Sweetened Drinks (SSDs) and Tobacco in 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. If future increases in excise are undertaken, they should not be costed as revenue raising in the Budget process.

- Extend the Alcohol Products Tax relief on cider and perry to other fermented drinks. The relief from Alcohol Products Tax of 50% on cider and perry, produced by qualifying small producers must be extended to producers of other fermented drinks (as defined under the Revenue heading "other than cider and perry"), wine (from grapes) and intermediate products.

- 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.

- Avoid any further discriminatory taxes on food and drink products.

**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 2030 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**

- For Ireland's food and drink sector to remain an attractive and competitive place to do business, coming budgets must help support the decarbonisation. The mitigation options in this sector are costly and complex. To deliver large scale emissions reduction in this sector, SEAI Project Assistant Grants, the Support Scheme for Renewable Heat, and the Excellence in Energy Efficiency Design (EXEED) programme need to be expanded and made more accessible. The scale of support offered under the SSRH needs to be increased to support large scale decarbonisation. Meanwhile, the high attrition rates in all support schemes need to be addressed through enhanced guidance and training for applicants.

- The accelerated capital allowances for energy-efficient equipment, which is due to end in 2023, should be 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.

- The food and drink sector will need a range of technologies and solutions to meet the ambitious climate targets set out for the sector. While the role of certain technologies like wind power, solar PV, battery storage, electric vehicles, district heating, and electric heat pumps is becoming clear, it remains unclear how these will work together in an efficient mutually positive way. Meanwhile, there remains great regulatory, investment and technology uncertainty in other areas of the transition particularly in the areas of industrial heat and the use of renewable gases and liquid fuels. State investment is needed to help identify the optimum solutions. This could be achieved through the funding of industry pathfinder projects, aligned with third level research partners, to lead by example.

- Microgeneration provides significant opportunities for businesses to decarbonise energy use and better manage energy costs. The accelerated uptake in microgeneration, especially rooftop solar PV, since the start of 2022 European energy crisis indicates that small scale distributed renewables could play a more significant role in the energy transition than previously expected. Budget 2024 must drive increased uptake through the full roll out of the MSS, the Clean Export Guarantee (CEG), the Clean Export Premium tariff, the NSPM, and ancillary informational supports and resources for end-users.

- An extension of the welcome accelerated tax allowances and capital grants for farmers for Slurry Tank Capacity Expansion, and for LESS Slurry Spreading equipment announced in 2022. 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 Nitrogen 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 should incentivise dairy farmers to use sexed semen (possible VAT adjustment) for replacement heifers. There is significant investment needed in dairy calf to beef systems. A new cohort of farmers is needed to take these calves from the farm of birth and rear them for at least 6 months before onward sale to beef finishers and this will require further investment in on-farm facilities. A payment per calf under a properly resourced calf welfare scheme is urgently required to complement this investment.

- The earlier finishing of cattle is recognised in the Climate Action Plan as the key environmental lever for the beef sector, with a target set to reduce the average finishing age from 26 months to 22/23 months by 2030. This has the potential, combined with genomic advances, to deliver GHG emissions reductions of 1.2Mt $CO_2$ equivalent. The recent publication of the Teagasc MACC identifies this as the single most important measure for the agriculture sector to reduce emissions. In addition to incentives at beef processing level which are already in place, Government should consider financial incentives via earlier slaughter premia.

- 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.

- The bioeconomy is crucial for decarbonisation, sustainability and circularity while also providing an impetus to competitiveness and rural and regional development and employment. Incentives need to be introduced to scale up the bioeconomy and to encourage more innovation and joined up thinking. The National Policy Statement on the Bioeconomy must be developed further to inform integrated measures to overcome barriers and facilitate exploitation of commercial opportunities for the expansion of the Irish bioeconomy.

- The development of the Irish waste management infrastructure is a major non-regulatory barrier that will need to be addressed for the further development of the circular economy

in Ireland. More supports are needed for the continued development of recycling infrastructure and to work with the waste sector to encourage investment in technologies to develop the circular economy.

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