IRISH exporters association

Irish Exporters Association

Pre-Budget Submission

Budget 2018

Contents

Introduction

The Irish Exporters Association (IEA) assists its members to grow their exports to world markets. We drive and support the growth and development of all exporting businesses based in Ireland by:

- **Representation** – leading the export agenda as the voice of Irish exporters
- **Membership development** – enhancing the export knowledge and skillset of members through a range of training services and export development programmes
- **Networking & Connectivity** – connecting our members with Government and business stakeholders domestically and in market
- **Export Services** – enabling our members with practical assistance and critical support services

The IEA represents the whole spectrum of companies within the export industry including SMEs who are beginning to think about exporting for the first time right through to global multinational companies who are already extensively exporting from Ireland. It is the connecting force for Irish exporters, providing practical knowledge and support across the Island of Ireland and in foreign markets.

The IEA Pre-Budget 2018 Submission has been drafted in consultation with the IEA National Council and a survey with its members in August 2017. In addition, a number of seminars and working group consultations have taken place across the country. The IEA Supply Chain Series 2017 and the National Export Hub have been particularly active.

The IEA Supply Chain Series is sponsored by Ulster Bank, Iarnród Éireann Irish Rail, Rhenus Logistics and Fleet Magazine and comprises of:

- **4 Large Seminars** covering thought leadership and best practice focus covering many areas including but not limited to: Supply Chain Diversification, Supply Chain/Trade Finance, Supply Chain Integration and Partnering, along with an industry specific focus in the sectors such as life sciences, food & drink, ICT, manufacturing and include updates on regulatory and legal changes.
- **4 IEA Exporters Working Group** meetings are in place to provide a forum for the increasing complexity and challenges of the global supply chain across all sectors. The the IEA understands there is a requirement to offer members an open forum for addressing supply chain issues and the need to highlight solutions. These events are for manufacturing companies, exporters and each local regional committee to focus on national and regional issues including trade, finance, energy, transport while address issues across the main sectors: food & drink, finance, life sciences, ICT, energy and engineering.
- **4 IEA Multimodal Working Group** meetings aimed at corporate exporters and provides an open forum to focus on national and regional issues including international trade, trade finance, energy and transport while addressing sector specific issues; and which provides a platform to discuss the importance of multimodal partnering in the supply chain and associated opportunities and challenges.

About the National Export HUB

> The National Export Hub is an initiative of the IEA and National Export Hub partners: ABP Ireland, AIB, DHL Express, Euler Hermes and PwC in conjunction with Bord Bia and the Department of Foreign Affairs and Trade which aims to increase the number of Irish businesses exporting for the first time, assist Irish businesses to enter new export markets and to support Irish exporters to grow their exports in existing markets. The initiative is made up of 2 large Seminars, 6 workshops and the Export Knowledge programme – a series of educational workshops in partnership with IntertradeIreland.

Ireland's exporting sector is one of this country's greatest strengths and has been the key driving force behind Irish economic recovery, economic growth and job creation. It is critical for the Government to recognise how vital Irish exporters are to our nation's economic growth and use this year's budget to maximise the opportunities that arise from an increase in global demand. Although the value of Irish exports as a whole last year rose to nearly €117 billion, the highest annual total on record, the fluctuation of sterling resulted in a loss of nearly €600 million in the value of exports to the UK, half of which was in food and live animals. While CSO figures from the first six months of 2017 show an increase of 9% in exports of food and live animals to the UK (compared to the same period last year) and an increase of 14% in overall exports to the UK, our business community remains extremely vulnerable to both the prospect and the outcome of Brexit.

We are now one year on from the UK voting to leave the EU and the prognosis for the Irish export industry shows that the impact will be severe. We are aware that Brexit shouldn't dictate everything we do for the next 2 years but it is important that we use this budget to prepare for the challenges and invest in the possible opportunities that exist here. This submission will look at Brexit with the view that we should use this opportunity to put procedures in place that safeguard Ireland's future, support Irish business and help exporters to diversify their export markets. Ireland is a strong, open economy which leaves us vulnerable to global uncertainties. This commitment to openness helped us to navigate through and recover from the economic crisis of 2008 and we now need to put procedures in place to assist us to strengthen this openness so as not to leave us over-reliant on a single market in the future.

Exports continue to lead the way in driving the Irish economy forward and are the most significant contributor to making Ireland one of the fastest growing economies in the world, helping to reduce unemployment, create new employment in fast growing innovative companies, and reduce our national debt. Exporting is the success story of the Irish economy and has helped to position Ireland as a competitive country to do business with internationally and to attract Foreign Direct Investment as well as foster the development of home grown Irish companies by encouraging more and more entrepreneurs to grow their businesses internationally. We are asking that investments are made to grow the infrastructure required to support the export markets of at least the next 50 years.

Budget Recommendations Summary

The Irish Exporters Association (IEA) are advising that the Government prepare a prudent Budget 2018 that will encourage the growth of Irish exports to world markets. If Ireland is to maintain growth, we need the Government to design a budget that shows a genuine commitment to:

1. Maintaining and improving our National **Cost Competitiveness**;
2. Putting measures in place that will combat the **War for Talent**;
3. Broadening our Export Base and **Diversification of Export Markets**, and
4. Encouraging and fostering **Entrepreneurship**.

The IEA Pre-Budget 2018 Submission sets out recommendations in the following areas:

Cost Competitiveness

Brexit

- State aid to provide subvention/compensation for companies overly exposed to sterling fluctuations if the exchange rate goes above a certain level, this will be different for different sectors. Possibilities for funding include: a levy made by banks on their hedging business for all SMEs; funding from the EU; or a credit against corporate tax payable which relates to the amount of employee taxes payable by an SME (similar to an R & D credit for those engaged in R & D activities)
- In the event of the UK becoming a third country in terms of international trade as a result of Brexit, the IEA recommend implementing a Postponed Accounting of Import VAT for SMEs overly exposed to the UK market and sterling fluctuation for 2 years

Infrastructure

- Significant and strategic investment in the National Planning Framework to grow investment, jobs and population regionally
- Development of the Atlantic Corridor to increase connectivity along the west coast of Ireland
- Increasing services from Irish airports which will increase and reflect the cargo and services possibilities for Irish trade
- More and faster direct services to continental Europe while addressing the regional imbalance in Irish ports by upgrading ports and the road networks and connectivity around them. Major opportunities exist in Cork, Rosslare and Waterford bypassing the UK and sailing direct to Continental Europe
- Priority should be given to the Metro North link between Dublin City Centre and Dublin Airport and ensure that planning and road developments around Dublin Airport are put in place to deal with projected passenger growth
- Address shortage in air capacity to all markets from Irish airports and the acute shortage of warehousing facilities in Ireland
- Immediate solutions need to be sought to the broadband and mobile phone coverage deficits to businesses and homes across the country if Ireland is to remain competitive

in a technological age, improvements in broadband and a mobile phone infrastructure need to be immediate

War for Talent

- Restructuring the National Training Fund to increase training opportunities for those in employment from 23% of the fund to 50% and rebalancing the fund to upskill those currently in the workforce using initiatives such as Skillnets
- A communications strategy that promotes apprenticeships in Ireland including a national promotional campaign through second level schools from the junior cycle upwards

Diversification of Export Markets

- That Enterprise Ireland, Bord Bia and our Embassies receive a 10% funding to increase resources in high-growth markets and rapidly developing markets specifically. This will ensure that resources in our biggest developed export markets are not affected. The role of our embassies should be reaffirmed and resourced to ensure they are mandated specially to deal with Irish exporters
- The IEA should be given a specific role for a campaign in partnership with Government and funded by them to drive our exports
- The Export Trade Council should have a more formal role to oversee the co-ordination of our state resources that support international trade

Entrepreneurship

- Increasing the cap of the Earned Income Tax credit from €950 up to €1650 to be brought in line with PAYE tax credit
- An increase in in the ceiling of capital gains tax rate for entrepreneurs selling their business from €1m to €10m to compete with the UK

Cost Competitiveness

Brexit

While Ireland has become less dependent on the UK through increased diversification of its export markets in the last 40 years, it is still a very significant trading partner. Since the UK Referendum in June last year, 21% of IEA members surveyed have said that their exports to the UK have decreased (6% have decreased more than 20%). 17% have increased and 62% have remained at the same level. A further 12% plan to decrease their level of trade over the next 6 months. 47% of IEA members surveyed export more than 25% of goods or services directly to the UK.

Policies need to be put in place that will minimise costs to business and facilitate trade, mitigating the impact on the Irish economy. Of IEA members surveyed who had done an impact assessment on the effect of Brexit on their business, 79% foresaw negative implications of exchange rate fluctuations (45% saw a 'very negative' effect, 34% 'negative' and 16% 'minor'). The weakening of the pound against the euro has had and will continue to have serious implications for the Irish export industry as there is currently considerable risk that the euro will get even stronger against the pound. Compared to the euro-sterling exchange rate when the UK referendum took place in June 2016, the harsh reality is that Irish exports to the UK are now, in August, 21% more expensive. A considerable number of IEA members who export the UK have already hit the point of pain at 0.85, during the month of August the pound has gone from a low of 0.89 to a high of 0.93. 55% of IEA members surveyed had 0% of the next 12 months £GBP receipts hedged, 23% have hedged up to 25%, 14% from 26% to 50% and 8% from 51% to 75%. Right now Irish exporters are feeling that when it comes to hedging their sterling exposure, they are in a 'no win' situation. It is becoming increasingly clear to us from our discussions with our members that it is now not only the transactional nature of exporters' sterling exposure that is being impacted (which affects all companies, though larger sophisticated ones are better equipped to deal with), but also the translational exposure (the valuation in euro of assets and profits and the potential return of the latter to Ireland) of Irish exporters with assets and operations in the UK.

The IEA understands that state aid to business could potentially distort normal competition but due to the unusually adverse effects that Brexit and the resulting fluctuation in sterling is having on Irish exporters, this is putting our exporters at a distinct and distorted competitive position, we are calling on Government to seek approval from the EU for a state aid scheme that will be a compensatory subvention to Irish exporters that are overly exposed to the UK market. Of IEA members surveyed who had done an impact assessment on the effect of Brexit on their business, 51% envisaged that increased competition from the UK market would have a negative effect on their business (23% 'very negative', 28% 'negative' and 45% 'minor'). Only 4% saw a positive impact on business. In order for Irish SMEs to grow in the face of such adversity (which is beyond our national control) they will need to be compensated for lack of competitiveness arising from Brexit and the impact of the strength of the euro.

Recommendation:

- State aid to provide subvention/compensation for companies overly exposed to sterling fluctuations if the exchange rate goes above a certain level, this will be different for different sectors. Possibilities for funding include: a levy made by banks on their hedging business for all SMEs; funding from the EU; or a credit against corporate tax payable which relates to the amount of employee taxes payable by an SME (similar to an R & D credit for those engaged in R & D activities)

Infrastructure

Focus needs to be given to road planning and commuter regions outside of Dublin as development of regional infrastructure, particularly in the West has been poor. This will not only encourage and grow indigenous Irish business but grow investment and pragmatically encourage FDI throughout the country. Investments need to be made strategically in the country to maintain long-term growth and sustainability. According to Dublin Chamber of Commerce, 42% Of Ireland's GDP is accounted for by Dublin. In comparison, London accounts for 20% of the UK's. The plan to 'Brexit-proof' the country will need investment in major regional planning and infrastructural development in transport links including road, rail, air and sea ports and also broadband. A National spatial strategy plan should be implemented factoring in a holistic approach to regional development to maximise opportunities that may come down the line following Brexit. 51% of IEA members surveyed stated that poor regional road infrastructure and 61% stated that poor regional broadband infrastructure would dissuade companies from investing in or relocating to Ireland.

Roads

In order to remain competitive in a global environment, a surge in investment to redress the existing infrastructural deficit is imperative. Poor road infrastructure is a very serious concern for Irish exporters. Major capital investment is desperately needed in transport networks that will enable regional and inter-city connectivity. With regards to the National Planning Framework, focus will need to be given to road planning and commuter regions outside of Dublin. Regional development is imperative not only to maintain business but to attract investment and development in the region. Development of the Atlantic Corridor would create sufficient scale along the western part of Ireland that would match other regions which would attract FDI, job creation and support communities.

Airports

Brexit poses a serious threat to Ireland's regional airports who depend heavily on the UK. One example is Ireland West Regional Airport in Knock, the UK currently accounts for 80% of the airport's passenger traffic with 9 direct scheduled destinations. Airlines and airports are going to have to start planning for 2019 and beyond with no indication of what the future relationship between the UK and Europe's single aviation market will be. The uncertainty cast by Brexit could seriously impede route development across Europe.

Of those IEA members surveyed who use airports to export, 81% use Dublin airport predominantly as their primary route to ship goods out of Ireland. 15% said that this was not the closest airport geographically. Members surveyed said that they would use a different Irish airport as their primary route to ship goods from Ireland if:

- There were more frequent flights from another airport - 36%
- Road networks between primary distribution centre and another airport were improved – 23%
- Another airport was upgraded – 14%

The implementation of hub connectivity from the West of Ireland directly into Heathrow or another European hub airport (example Schiphol or Frankfurt) would significantly enhance business connectivity and attractiveness to locate in the west of Ireland. This can be achieved with the implementation by the Irish Government of a public service obligation scheme (PSO) on a similar basis to the recently activated Derry to London Stansted route by BMI Regional. In an environment where Brexit may have a particular impact on regional employment, this is one way of investing in creating local employment.

With regard to Dublin Airport and the North Runway that is scheduled to be operational in 2020. Passenger numbers at Dublin Airport increased by 11.5% in 2016, making Dublin Airport the fastest growing major airport in Europe last year. Traffic forecasts indicate the potential for passenger throughput figures of up to 36 million by 2022 and up to 50 million by 2037. The level of growth at Dublin Airport is staggering and infrastructure needs to be put in place now to ensure that Dublin Airport is equipped for further growth in the coming years. Priority should be given to the Metro North link between Dublin City Centre and Dublin Airport and ensure that planning and road development in the environs is put in place to deal with this growth.

Opening up new routes could open up opportunities for Irish exporters. There are also airfreight alternatives, for example the arrival of the IAG Group major shareholder, Qatar Airways in Dublin in 2017 further increases the airfreight options for Asian and African markets. More services to and from Irish airports increases the cargo possibilities for Irish trade. The arrival of Cathay Pacific's 4 times weekly direct service to Hong Kong is hugely welcomed, but if we are to grow our trade with these further flung markets we need to have more and more direct services to them.

Sea ports

Looking at the figures and trends in shipping as has been reported in the IMDO's Maritime Transport Economist published in April, there is strong growth in traffic through all Irish ports but there is an increasing imbalance with volumes through Dublin port being disproportionally large while local ports do not put through the volume that good spatial strategy would dictate. Not only should ports such as Cork develop to take more of its 'fair' share but also ports such as Drogheda and Galway which have been defined as being Regional Ports and given over to the local councils to run should be supported.

Of those IEA members surveyed who use sea ports, 83% use Dublin port predominantly as their primary route to ship goods out of Ireland. 24% said that this was not the closest port geographically. Members surveyed said that they would use a different Irish sea port as their primary route to ship goods from Ireland if:

- There were more frequent sailings/crossings from another port – 56%
- Road networks between primary distribution centre and another port were improved – 21%
- Another port was upgraded – 19%

More and faster direct services to the continent are needed and ports, particularly Rosslare and Waterford, will need capital funding both within the port and for the road access to these ports. Under EU transport policy neither of these ports are defined as 'Core' Ports and thus, they do not qualify for TEN-T funding. There is scope and potential for an intermodal Rosslare-Cherbourg system.

A significant share of Irish exports are shipped through the UK land-bridge as this is the quickest route to continental Europe. In March 2017, 67% of IEA members surveyed stated that they make use of the UK land-bridge to access continental markets, 40% said that use of slower direct routes would adversely impact the quality of their product and 53% said that longer time Supply Chain would seriously impact inventory & other costs. 57% said that if transit time through the UK land-bridge were to extend due to additional controls and / or costs were to increase, they would be able to supply using a direct shipping service to a Benelux or other continental port.

Depending on the terms of the future trade agreement agreed between the EU and the UK, Brexit has the capacity to seriously threaten the reliability of this transit route. The agri-food and fisheries sector depends on fast access to markets and intercontinental air hubs. The need for Irish exporters to diversify export markets will put even more pressure on finding new routes to markets. Deep sea lines feeding Irish traffic through British ports could face delays due to customs clearance and border controls. Alternative routes to intercontinental Europe will need to be researched and funded, including upgrading Irish ports. In 2016 Maersk Line introduced a new feeder loop for Irish cargo that linked to Algeciras rather than the English Channel or Benelux Port. This saves up to 10 days on some routes. Opening up new routes increases the opportunities for Irish exports.

Warehousing

Airfreight and the significant capacity constraints on services operating out of Ireland is being cited as an issue for IEA members. There is a consensus amongst IEA members that are logistics providers that there is a shortage of air capacity to all markets from Irish airports. There is also criticism of terminal and cargo handling facilities for, in particular, pharma and other controlled goods at Irish airports. This is forcing freight forwarders to truck cargo to British and continental airports and to fly the cargo from there. Questions have been raised from members about the availability of storage, particularly refrigeration and control facilities at, in particular, Shannon and Cork airports and now increasingly in the east of the country.

The acute shortage of warehousing facilities around Ireland is a major concern. The development of warehousing facilities across Ireland, including specialist pharmaceutical storage facilities, as well as the development of ports and airports could be a huge opportunity to develop the country as a distribution hub to Europe, a function which the UK currently serves as they have the storage capacity for onward delivery within the European network. There is a serious opportunity for the Irish economy in the development of Logistics Clusters, geographically concentrated sets of logistics-related business activities. Logistics Clusters typically develop around transportation hubs, such as air or sea ports, or areas with easy access to road or rail networks. As with large industrial clusters, logistics clusters exhibit a positive feedback loop, meaning that the bigger they become, the more they grow.

Broadband and mobile phone coverage

Immediate solutions need to be sought to the broadband and mobile phone coverage deficits to businesses and homes across the country if Ireland is to remain competitive in this technological age, improvements in broadband and mobile phone infrastructure need to be immediate. The new wave of business innovation with technology such as robotics, additive manufacturing/3D printing, big data and analytics, blockchain and new business models based on digital platforms is giving rise to a deep digitization of industry on a scale not yet seen. The countries that aspire to participate in and lead in this digitization of industry will require very solid, robust and scalable ICT infrastructure, data centres and 5G communications connectivity. 35% of IEA members surveyed stated that their fixed broadband or Wi-Fi connection was not of a sufficient speed or quality to meet their business needs. It is worth noting that of those members whose main Irish operation was located in a rural area, 57% said that their fixed broadband or Wi-Fi connection was not of a sufficient speed or quality to meet their business needs.

Import VAT

Much of the focus on Brexit up to this point has been focused on exports in particular. However, Brexit also raises many potential challenges for importers – and in particular for the Supply Chain where imports make up part of the final goods that are exported. It is not a one-way traffic issue. 63.5% of IEA members surveyed import products from the UK. Currently there remains a high possibility of the UK becoming a “third country” in terms of international trade when they officially leave the EU in March 2019. In Ireland, there is an imposition of 23% import VAT for all goods imported from third countries at present. This is on top of tariffs.

This import VAT must be paid immediately at the point of entry into the state, or goods will not be released. Currently, the best possible scenario for importers is that they can apply to Revenue to become a deferred payer. If this is approved, their goods can be released on import without immediately paying the import VAT, but this must then be paid in full before the 15th day of the next month. The VAT system could create considerable cash flow burdens for importers from the UK, affecting Irish exporters’ competitive advantage. They may have to finance the VAT paid on these imports for a considerable period.

Depending on the outcome of the Brexit negotiations, the Government need to be mindful of this possibly significant extra burden on the SME sector and if the UK becomes a third country, the IEA are recommending that VAT postponement be implemented, a process to delay payment of import VAT for a time that allows the importer to sell their product in free circulation. Subject to special conditions, importers of goods from the UK should not be required to pay the VAT at point of entry (or by the 15th day of the next month as a differed payer) but allowed to account for import VAT through their periodic VAT return. The IEA believe that this initiative should be implemented in the short-term for at least 2 years in the event of Brexit in order for Irish manufacturers to have an adjustment period to acclimatise to the new arrangement.

Failure to implement such a process could lead to companies looking at their supply chain and manufacturing footprint and taking this into consideration, could either expand any current operations in the UK, or indeed open new ones there to offset this extra cost in Ireland. That could lead to the closure of certain manufacturing facilities in Ireland, decreased production and a reduction in employment

Recommendations:

- Significant and strategic investment in the National Planning Framework to grow investment, jobs and population regionally
- Development of the Atlantic Corridor to increase connectivity along the west coast of Ireland
- Increasing services from Irish airports which will increase and reflect the cargo and services possibilities for Irish trade
- More and faster direct services to continental Europe while addressing the regional imbalance in Irish ports by upgrading ports and the road networks and connectivity around them. Major opportunities exist in Cork, Rosslare and Waterford bypassing the UK and sailing direct to Continental Europe
- Priority should be given to the Metro North link between Dublin City Centre and Dublin Airport and ensure that planning and road developments around Dublin Airport are put in place to deal with projected passenger growth
- Address shortage in air capacity to all markets from Irish airports and the acute shortage of warehousing facilities in Ireland
- Immediate solutions need to be sought to the broadband and mobile phone coverage deficits to businesses and homes across the country if Ireland is to remain competitive in a technological age, improvements in broadband and a mobile phone infrastructure need to be immediate
- In the event of the UK becoming a third country in terms of international trade as a result of Brexit, the IEA recommend implementing a Postponed Accounting of Import VAT for SMEs overly exposed to the UK market and sterling fluctuation for 2 years

War for Talent

According to the CSO, unemployment in Ireland fell to 6.3% in August, down from 7.9% in August 2016. Having peaked at 15.2% in the height of the recession in 2012, the State's jobless rate is now three points lower than the euro-area average of 9.1%. These unemployment rates are close to full employment which runs the risk of the Irish economy overheating. The current housing and infrastructural crisis may also add to overseas workers not choosing to work in Ireland to address the labour market tightening.

Ireland's poor road network is having an impact on IEA regional members being able to attract and retain suitably qualified staff. Members have cited poor road infrastructure and lack of improvement to existing employees commute as a factor in poor regional retention. Regional development is imperative not only to maintain business but to attract suitably qualified staff.

In August, 66% of IEA members surveyed stated that there were vacancies in their company in the last 6 months for which there was difficulty experienced in trying to find candidates that met the minimum criteria for the positions. Of these, the most difficult positions to fill included: engineering (20%), sales & marketing (19%), transport logistics (16%), supply chain (15%), operations (14%), quality control (14%), process & manufacturing (11%) and administration (10%).

The difficulties experienced in recruiting or retaining staff included: meeting salary expectations (41%), lack of available talent in Ireland (40%), competition in Ireland from other companies (25%), meeting benefits expectations (17%), cost of living in Ireland (16%), availability of affordable housing (15%), and unattractive income tax levels (11%).

This Government will need to address the chronic shortage of skills in specific sectors in order to continue to attract business and inward investment, it will not be sustainable for the current domestic labour market to meet the increasing demand. 53% of IEA members surveyed stated that staff availability or the skills shortage would dissuade companies from investing in or relocating to Ireland.

Given that statistics show that Ireland is currently fast approaching full employment, the IEA are calling for a restructuring of the National Training Fund to increase training opportunities for those in employment. Currently 23% of the fund is allocated to those in employment, the IEA recommend increasing this to 50% and rebalancing the fund to upskill those currently in the workforce using initiatives such as Skillnets.

CSO figures show that Ireland's youth unemployment rate (persons aged 15 to 24 years of age) was 12.7%, representing an increase from 12.3% recorded in the previous month. The Government needs to put particular focus on mobilising young people into the workforce. Recent research by the Higher Education Authority (HEA) shows a significantly large drop-out rate from Irish third-level institutions. The figures are contained in a report by the HEA based on students progressing from first to second year between the 2013/14 and 2014/15 academic years. The proportion of new entrants who do not progress to the following year of study is 15.5% across all sectors and National Framework of Qualifications levels. Below average progression rates are observed in the fields of Construction and Related, Services, Computer Science and Engineering. Worryingly, the bulk of abandoned courses are in sectors which are needed to meet the skills shortage in the Irish economy. These dropout rates are a clear indication that students have been inappropriately placed in higher education. Apprenticeships offer a real alternative to college and offer the opportunity to develop much needed skills. Apprenticeships are being developed across a wide range of industries and sectors, including construction, electrical, engineering, medical devices and financial services. The IEA welcomes the recently published Action Plan to Expand Apprenticeship and

Traineeship in Ireland by the Department of Education and Skills, the ambitious targets set and the great work of the Apprenticeship Council in developing the apprenticeship scheme. The IEA are recommending a communications strategy that promotes the good work that has been achieved in this area including a national promotional campaign through second level schools from the junior cycle upwards.

Recommendations:

- Restructuring the National Training Fund to increase training opportunities for those in employment from 23% of the fund to 50% and rebalancing the fund to upskill those currently in the workforce using initiatives such as Skillnets
- A communications strategy that promotes apprenticeships in Ireland including a national promotional campaign through second level schools from the junior cycle upwards

Diversification of Export Markets

Irish exports reached record high levels in 2016, according to the CSO, despite a drop in shipments to Britain. Export values rose 4% to nearly €117 billion last year, with most sectors enjoying growth in this period. This was the highest annual total on record. Exports to UK decreased by 4%, while imports from the UK decreased by 8%.

Exports to EU countries fell by 0.3% while exports to the USA increased by 12% and exports to the rest of the world increased by 9%.

CSO data show some sectors are heavily dependent on the British market with some particularly vulnerable. Despite being a strong, open economy, Irish exports remain heavily dependent on three main export markets. In 2016 the EU accounted for 38% of total Irish exports (excluding the UK), the USA accounting for 26% and the UK accounted for 13%, showing our reliance on traditional European and US markets remains too high. The decision by the UK to leave the EU, and the uncertainty that this brings to Irish exporters, highlights more than ever the need to support Irish exporters in the diversification of their export markets so that an overreliance on any particular single market does not have the potential to put our economy under a similar threat in the future. More focus needs to be given to high growth markets like China and India, and rapidly developing economies such as certain African and South American countries, and on the emerging opportunities in places like Iran, so that Ireland can become less dependent on our trade relationships with the EU, USA and UK.

We need greater frontline support for exporters in Enterprise Ireland, Bord Bia and in our Embassies. The Irish Exporters Association's experience with our diplomatic service has been extremely positive, with strong engagement by the Department of Foreign Affairs and Trade, Embassies and Consulates with the IEA and our members to assist in securing business for them.

We are also aware of the need to balance resources between high growth and developed markets. Yet as all business people know, it is easier to win more business from existing customers than to go out and develop new ones. Therefore it is important not to cannibalise our assets in developed markets, but rather create extra resources that are required in faster growing regions.

Whilst we welcome the increase in State representatives abroad, we are aware of the cost of funding these requirements. We welcome the recent creation and appointment of 10 Commercial Attaches by Department of Foreign Affairs & Trade and see this as the way forward. We look forward to supporting them to develop in-market networks for Irish exporters that can work alongside the Embassies and State agencies.

Whilst we are aware that the in-market resources of our various international trade supporting state entities co-operate well, we advise that a lot more be done to co-ordinate these at HQ level at home. There have been some positive achievements, including the work of the Export Trade Council, but this is not enough.

Recommendations:

- That Enterprise Ireland, Bord Bia and our Embassies receive a 10% funding to increase resources in high-growth markets and rapidly developing markets specifically. This will ensure that resources in our biggest developed export markets are not affected. The role of our embassies should be reaffirmed and resourced to ensure they are mandated specially to deal with Irish exporters
- The IEA should be given a specific role for a campaign in partnership with Government and funded by them to drive our exports
- The Export Trade Council should have a more formal role to oversee the co-ordination of our state resources that support international trade

Entrepreneurship

Innovation in the form of entrepreneurship is a key driver that sustains economic growth. It is crucial to building a strong indigenous economy which can balance and compliment inward investment. The IEA calls on Government to promote business friendly measures that would encourage and stimulate investment and entrepreneurial risk-taking. Key to this is encouraging companies to establish their operations in Ireland. Only 3% of IEA members surveyed feel that the Irish taxation system (e.g. USC, CGT, income tax, etc.) is supportive of the self-employed (66% said that it was not supportive). Creating a more business friendly environment will not only encourage entrepreneurship but attract investment into business and create business opportunities.

Levelling the playing field in terms of tax for Entrepreneurs

It is the view of the Irish Exporters Association that the current penalties suffered for being an entrepreneur and self-employed in Ireland are not only unjust but dangerously undermine one of the very important foundations of wider economic development. The IEA believe that serious reform of the Irish tax system is necessary to make Ireland an attractive destination to establish enterprise.

Levelling the playing field between PAYE workers and the self-employed is an issue that needs to be delivered upon by this Government as it is long overdue. Ireland needs to have a taxation system that does not penalise the risk-takers who drive the economy and create employment, we need to reward entrepreneurs and not propagate a potential barrier to business development.

The IEA recommends increasing the cap of the Earned Income Tax credit from €950 up to €1650 to be brought in line with PAYE tax credit. This change would represent a significant acknowledgement of the role entrepreneurs play in job creation and promote new business development.

Capital Gains Tax

The rate of Capital Gains Tax is a key factor in determining investment into an economy. It is important to facilitate entrepreneurs in their business endeavours and to reward success. There are a number of specific areas relating to existing tax reliefs which, in our view, need to be addressed in the short term in order to create a tax environment that is supportive to the needs of small businesses, entrepreneurs and FDI in Ireland.

The reduction in the rate of Capital Gains Tax for entrepreneurs (Entrepreneurs Relief) from 20% to 10% in last year's Budget was welcomed but from a competitive point of view we'd like to see an increase in the ceiling from €1m to €10m to compete with the UK. The existence of this relief in the UK puts Ireland at a distinct competitive disadvantage given that the Irish CGT landscape for entrepreneurs is far less rewarding for successful entrepreneurs.

Recommendations:

- Increasing the cap of the Earned Income Tax credit from €950 up to €1650 to be brought in line with PAYE tax credit
- An increase in in the ceiling of capital gains tax rate for entrepreneurs selling their business from €1m to €10m to compete with the UK