Ibec submission to the National Reform Plan

March 2019
**Key Messages**

1. **Labour shortages will cause growth to slow in 2019** - For the past few years, skills shortages within certain sectors were the main challenges facing the Irish labour market. However, with the economy now close to full employment, these skills shortages have turned into labour shortages. Many firms are now operating below capacity as they can’t find workers to fill vacancies. To address this employment permits will need to be extended and steps must be taken to ensure that the National Training Fund is meeting skills needs. The unsustainable funding model for higher education also needs to be addressed.

2. **More needs to be done for housing supply to meet demand** - Ireland’s housing problems have now clearly moved beyond being the social issue of our time and have also become a major risk to our future economic prosperity. There are several reasons for a lack of pick-up in the pace of new builds going into 2020 – most significant among these are regulatory uncertainty, Brexit, and concerns about effective demand as the Help-to-Buy scheme ends. These together may mean that some developers will be more cautious about new development in 2019. One of the major issues facing the Irish construction sector over the coming years will be its ability to deliver on demand in residential construction, in addition to the 10-year capital plan outlined under the Government’s Ireland 2040 plan. Ibec estimates that 60,000 to 80,000 workers will be needed, at a minimum, to meet demand over the coming years.

3. **Help SME’s grow** - Ireland has lower start-up rates compared to the majority of our European neighbours. While Ireland does not produce enough start-ups, equally worrying is that not enough small companies make it big. All available evidence shows that Irish indigenous firms are well below ‘best in class’ when it comes to management, innovation and exporting, three of the main drivers of business growth and productivity. Ireland needs to improve its broader investment tax environment for indigenous business by extending CGT entrepreneurs relief and introducing capital allowances for advanced technologies. It also needs to improve research and development (R&D) supports for SME’s. This could be done by introducing pro-forma R&D tax credits for SMEs that would enable smaller firms to overcome funding constraints on their innovative activity.
1. Introduction

Ibec welcomes the opportunity to input to the National Reform Plan for 2019. The Irish economy continues to experience exceptional growth. Business investment is at record levels and the global footprint of Irish companies has never been larger. Ten years on from the crisis our globalised business model delivered an improvement in living standards that many did not think was possible. We expect that the economy will continue to grow strongly in 2019. However, this growth will be weaker than in recent years as we are now at a mature phase of the business cycle with the economy close to capacity with competitiveness pressures building.

2. The macro-context

The economy grew by 6.7% in 2018. This was driven by a combination of strong growth in consumer spending, business investment and exports. Consumer spending grew by 4.4% (in value terms) last year, however in the latter part of 2019 consumer sentiment weakened on the back of growing economic uncertainty. This was not reflected in retail sales as turnover continues to grow by more than 2%. Investment in construction along with business investment also experienced strong growth, with businesses now investing €1.5 billion a month in plant machinery and equipment.

Ireland’s goods export performance in 2018 was exceptional by any international standard. Final figures, based on customs declarations, show that Irish goods exports to non-EU countries grew by €10.1 billion in 2018. To put this in context, Germany saw its goods exports outside the EU grow by €10.4 billion. This exceptional story has been driven mostly by strong increases in sales values and volumes of pharmaceutical and medical goods by multinational companies based in Ireland.

Figure 1: Retail Sales and Consumer Sentiment

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![Figure 1: Retail Sales and Consumer Sentiment](image-url)
The outlook for 2019 is far less certain. Feedback from our members suggests that many sectors are facing a more difficult period in the months ahead due to a weak Sterling and continued Brexit uncertainty. We expect that the economy will continue to grow by 4.1% in 2019, however, this forecast assumes that a deal on Brexit is reached.

Competitiveness pressures are also building and if left unchecked this will hurt Irish growth. As the UK is a significant destination for Irish exports, the weakening of sterling after the Brexit referendum affected Ireland more than any other country. Wage growth accelerated in 2018 (see section 2) and other business costs are also rising. Eurostat’s Service Producer Price Index tracks the prices of business to business inputs across several areas such as – transport, IT, HR, security, facilities, postage, legal, PR, consultancy, advertising, and warehousing. Since full data was first collected in 2012, costs in these business services grew by 11% in Ireland, which is three times the EU average. Over half of that growth has happened in the past two years, partly on the back of rising global oil prices and greater labour and facilities costs facing domestic services firms. Between Q2 2017 and Q2 2018 the cost of services to business in Ireland increased by 4.3%, but by no more than 2% in any other competitor member state.
2. Labour Market and Skills

In 2018, employment grew by 2.9% creating 63,400 new jobs in Ireland. The fastest growing sectors were administration (11.6%) and construction (11.4%). The construction sector accounted for 23% of the new jobs created last year. One downside to the strong performance in 2018 was that the new jobs were heavily concentrated in Dublin. Last year 55% of the new jobs created were in Dublin and 67% were in the Greater Dublin Area.

The Country Report cites a 2017 Irish Congress of Trade Unions report to support the view that so-called ‘precarious’ employment is increasing. Ibec believes that the conflation of atypical working hours with poor quality employment is incorrect. Misleading information on the quality of jobs being created in the economy is distorting the debate on labour market regulation, and risks prompting a misguided policy response - the Employment Miscellaneous Provisions’ Act being a recent example.

In the past five years, full-time employment increased by 21.1% while the number of part-time workers fell by 4.3%. In addition, the number of ‘underemployed’ part-time workers fell by 28%. Ireland currently has among the lowest proportion of workers on a temporary contract in the EU-15 and among the lowest share of workers in precarious work (a contract that is less than three months). Ireland now has the second highest median earnings (adjusted for the cost of living) in the EU.

With longer working lives comes the need for different types of working, for different people, at different stages, in different circumstances. It is time to re-balance the narrative that flexible-hours or part-time working is always poorly paid, undesirable or precarious work. Many workers actively choose to work in sectors where flexible hours are available to achieve the work-life equilibrium they require or desire. Also, the ability to access flexible work has created significant opportunities for many workers to take-up or retain an active working life while balancing other responsibilities or ambitions at the same time.
2.1 Labour and Skills shortages

For the past few years, skills shortages within certain sectors were the main challenges facing the Irish labour market. However, with the economy now close to full employment, these skills shortages have turned into labour shortages. Ibex forecasts that this will cause employment growth to slow in 2019 as we reach full employment and firms struggle to fill vacancies. There was some evidence of this in the fourth quarter of 2018 as annual employment growth slowed from 3.1% in the first three quarters to 2.3% in the fourth quarter.

The European Commission’s Business Sentiment survey suggests that it became particularly difficult for firms to find workers in 2018. The share of firms in industry listing insufficient demand as a reason for operating below capacity fell from 26.3% in Q1 2018 to 8% in Q1 2019. Over the same period the share of firms indicating that labour shortages were limiting production increased from 8.4% to 20.5%. In construction, the share of firms that acknowledged labour shortages increased from 42% at the beginning of 2017 to 64.2% at the beginning of 2019.

This tight labour market is now being reflected in wages. In 2018 hourly wages grew by 3%, up from 1.7% in 2017. In the fourth quarter of 2018 average hourly earnings grew by 3.5%. ICT experienced the strongest wage growth (7.2%) while arts and entertainment experienced the lowest (1.2%). This is a real signal of the difficulties in hiring being reported by companies across the country. We expect this trend to continue into 2019 if there is a Brexit deal. Over the medium-term this pace of real wage increases will mean margin compression for business, and ultimately sharper increases in inflation, unless we have much greater success in improving productivity in our domestic sectors.
2.2 Participation Rates

With the labour market at full employment, there are two ways to alleviate labour shortages. The first is through inward migration, the second is by increasing participation rates. In terms of increasing participation rates, we need to consider both the number of people available for work and the number of hours existing workers can work. When it comes to the number of people available for work, Ireland’s labour force participation and unemployment rates are closing in on developed world norms. Ireland’s participation rate (age 16-64) is now it is roughly the same as the EU average having increased from 70.4% in 2011 to 73.5% in 2018. However, it is still lower than 2007 when it peaked at 76.4%, which suggests that there might be some spare capacity left in the labour market. Looking at this by age group, however, highlights differing trends. For those aged over thirty, participation rates are higher than 2007 levels. For those aged under thirty, participation rates are lower than 2007, particularly for those aged 25 and under. The primary reason for this is that younger people are staying in education for longer. In 2017, 82% of those who were under 30 and not part of the labour force, highlighted that it was because they were in education or training.

![Figure 5: Participation Rates by age](image)

While Ireland’s participation rate has converged to EU levels, it is still lower than the UK (77.6%). If Irish participation rates converged to UK levels, this would bring an extra 143,000 people into the labour market. However, achieving this would be difficult and would require policy changes (e.g. affordable childcare). In the absence of this, our working age population is expected to grow by between 15,000 and 20,000 persons a year. In terms of hours worked, if all part-time workers, who are willing to work full-time, converted to fulltime employment, it would satisfy only around six
months full-time employment growth. The remainder of labour demand will have to be met from growing net inward migration.

2.3 Education and Skills

The current funding model for higher education is unsustainable. Public funding for higher education fell significantly in recent years. At the same time student numbers increased and are expected to rise even further as the number of people of college-going age is set to grow. This was recognised by the Government’s Expert Group for Future Funding in Higher Education in 2016. The Country Report highlights that additional funding of more than €150 million euro has been provided for higher education in budgets 2017-19. This allocation falls well short of the amounts required to reverse the impact of deep cuts to the higher education budget during the economic crisis.

Ireland spends 17 per cent less per third level student than the EU average. Ibec has suggested that a proportion of surging corporate tax revenues should be allocated to critical national infrastructure such as higher education and research. This investment, combined with a more sustainable funding model, is required urgently.

The Country Report also highlights skills shortages across a broad range of sectors, most notably in ICT, engineering and financial services. As part of its response to this challenge, the Government introduced the second of three increases to the national training levy in Budget 2019. This has highlighted two major concerns for business. In its current configuration, the levy is little more than an ‘earmarked tax’ which bears little relation to business upskilling priorities. The Government has given a commitment that the levy increases will be subject to the implementation of the necessary reforms to ensure that employers have a greater role in determining the priorities and strategic development of the National Training Fund (NTF). 

A major reorientation of the Fund will be required to develop demand-driven schemes that would enable business to source relevant state-supported training services for existing and potential employees. The ostensible reason for increasing the levy was to address the higher education funding deficit. In fact, the increase is an attempt at a short-term fix due to the absence of a credible and more sustainable solution.

**Recommendations on skills and the labour market**

- Employment permits will need to be extended to address the labour shortages that are emerging and constraining the growth of the economy.
- The National Training Fund needs a major reorientation to develop demand-driven schemes that enable business to source state supported training services for existing and potential employees.
- A portion of the surging corporation tax receipts should be allocated to fund higher education.
- Child benefit payments should be means tested so that they remain the same for low-income households but taper off gradually for higher income households.
- The Early Childhood Care and Education scheme should be expanded to include children aged 1 to 3 years and increased in duration to 4 hours. It should be supplemented by a formal out-of-school hours care system to address the needs of working parents and the atypical work day.
- A proportion of surging corporate tax revenues should be allocated to critical national infrastructure such as higher education and research.
3. Quality of Life and Housing

Ibec strongly agrees with the assertion that improved availability of housing and associated infrastructure (e.g. water, transport) are key to unlocking vital investment. Ibec’s ongoing Better Lives Better Business campaign, launched in 2018, includes a range of policy recommendations designed to support this objective. Ibec also agrees with the contention that additional concrete policy measures are required to incentivise private investments in areas such as clean energy and transport. To this end, Ibec will shortly be publishing a Low Carbon Roadmap to 2050 based on extensive modelling and stakeholder engagement.

3.1 Environment

A substantial shortfall against Ireland’s legally-binding 16% renewable energy target for 2020 is now unavoidable. Over the last decade decarbonisation has focused almost exclusively on our power sector. And yet electricity only accounts for a fifth of our emissions. Our transport and heat sectors are still heavily reliant on imported fossil fuels. There is significant scope to reduce emissions in these sectors through targeted supports, innovative incentives, better regulation and smarter spatial planning.

In 2018 Government launched a Support Scheme for Renewable Heat (SSRH) which provides capital support for electric heat pump systems. The next phase of the scheme will provide an operational support for industry wishing to install biomass boilers. This is now long overdue. The scheme could be extremely effective in supporting the deployment of renewable heat in Ireland— but additional funding will be required in the coming years. The scheme will also need to be expanded to include ETS sites and support biomethane grid injection. Given the prospect of steadily increasing carbon tax revenues, the Government should consider ring-fencing additional amounts for this purpose - along with supports for private investment in energy efficiency.

Public or private investment in additional interconnection to France and/or the UK could support Ireland’s efforts to integrate higher levels of renewable electricity on the grid. However, as noted in Ibec’s recent submission to the CRU, careful analysis is needed to ensure that the benefits to consumers outweigh any increase in costs resulting from such projects. It is important to preserve Ireland’s international cost competitiveness, particularly for electricity-intensive industries.

Ibec fully embraces the concept of the Circular Economy, actively encouraging its member companies to adopt resource-efficient practices throughout their supply chains. It also supports the concept of Extended Producer Responsibility. To date, the country has either met or exceeded its recycling targets for waste electrical products and packaging materials. However, it could prove very difficult to meet the increasingly stringent targets for recycling of plastics over the coming decade. Even assuming that the use of plastic films can be reduced through substitution, they will probably constitute the majority of plastic packaging waste. Due to their low value, and high rates of contamination, it would not be feasible to recycle soft plastics locally without very substantial PSO subsidies. Segregating them for use as substitute cement kiln fuel would therefore be worth considering, even though heat recovery is lower down the waste hierarchy than reuse or recycling.
3.2 Housing

As highlighted in section 2, attraction and retention of talent is now the single biggest challenge facing Irish business. It is concerning business leaders in most regions and sectors of the economy and is particularly acute in our main cities. Inadequate supply of affordable and quality housing is one of the main factors impacting on talent availability. Ireland’s housing problems have now clearly moved beyond being the social issue of our time and have also become a major risk to our future economic prosperity.

The traditional industrial model of the 20th century typically saw capital locate close to raw materials and transport routes. Workers and businesses serving them were then attracted to these towns and cities. That model is no longer dominant in the 21st century. The move toward a digitised intangible economy means companies are now more reliant on intellectual rather than physical capital. In addition, both Irish and non-Irish workers are much more mobile than in the past. The cost of accommodation is a key factor in the decision of workers to locate in Ireland. The highest value firms are often choosing to locate where talented workers (and in some cases superstar workers) want to live rather than the other way around. As such quality of life, household mobility and value for money in housing is a growing determinant of our ability to compete internationally.

In 2018, 18,072 new dwellings were built. We expect completions to increase by around 3,000 units in each of the next two years. Total completions will increase to 22,000 units in 2019 and reach 25,000 units in 2020. This will remain well short of the demand of 35,000 units per year most analysts think exists in the market. There are several reasons for a lack of pick-up in the pace of new builds going into 2020 – most significant among these are regulatory uncertainty and concerns around Brexit and effective demand as the Help-to-Buy scheme ends. These together may mean that some developers will delay new developments in 2019. Overall, we expect that it could take until 2022 or 2023 for housing supply to catch up with new demand.

One of the major issues facing the Irish construction sector over the coming years will be its ability to deliver on demand in residential construction, in addition to the 10-year capital plan outlined under the Government’s Ireland 2040 plan. In 2016, Ibec estimated that we will need 80,000 to 100,000 workers to deliver on existing commitments. Construction employment thus far has increased by around 26,000 over the two years since, with activity only starting to improve. A further 60,000 to 80,000 workers will be needed, at a minimum, to meet demand over the coming years. At the same time, there are only 33,000 workers formerly in craft or related sectors (the best proxy for construction ready workers) on the live register. This includes those already working but receiving in-work benefits. This number is down from 120,000 in 2009. In the meantime, growth in the number of non-Irish workers in construction over the past twelve months stood at only 3,800. This number will need to increase significantly over the coming years if we are to deliver on much needed housing and infrastructure projects.
Business recognises the progress which has been achieved through the *Rebuilding Ireland* plan but further policy actions are now needed if we are to have a properly functioning housing market which delivers the quality, affordable homes which families and workers desperately need.

**Figure 6: Immigration of non-Irish persons by nationality**

Business recognises the progress which has been achieved through the *Rebuilding Ireland* plan but further policy actions are now needed if we are to have a properly functioning housing market which delivers the quality, affordable homes which families and workers desperately need.

**Recommendations on Quality of Life**

- Government should ringfence carbon tax revenue to ensure that the renewable heat scheme has adequate funding.
- Government must do more to reduce the cost of development land. This should involve increasing the amount of zoned and serviceable land; improved targeting of infrastructure funds to enhance site accessibility; and more efficient use of publicly owned landbanks.
- Conduct a review of the cost-benefit of regulation in the construction sector to ensure an effective but cost-efficient method of construction regulation.
- Urgent action is needed to address the pending skills crisis facing the construction sector. More resources are needed to promote and develop apprenticeship opportunities and the work permit system will need to facilitate increased migration of skilled construction workers from outside the EU.
- Better marketing of construction-related apprenticeships and development of new programmes where gaps exist is needed.
- A greater pooling and sharing of specialist skills between public bodies, including local authorities, involved in planning and construction must occur.
4. Help SME’s grow

Ireland has lower start-up rates compared to the majority of our European neighbours. These rates are the second lowest in the EU15 and one-quarter that of the UK. While Ireland does not produce enough start-ups, equally worrying is not enough small companies make it big. All available evidence shows that Irish indigenous firms are well below ‘best in class’ when it comes to management, innovation and exporting, three of the main drivers of business growth and productivity. We must do more to help people starting out on the journey of building a business by improving access to finance, improving management practices and helping firms innovate. This will increase the productivity and growth of Irish indigenous firms.

Ireland’s broader investment tax environment for indigenous business is an outlier in its lack of attractiveness by international norms. We have the third highest capital gains tax rate in the OECD, a stamp duty regime on shares which is the highest in the world (twice that of the second highest) and an R&D tax credit which is far too complicated and onerous for smaller firms to engage with.

The OECD highlighted that the productivity gap between indigenous SMEs and larger multinational organisation is widening. Too many 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. The R&D tax credit has been a successful model in encouraging Irish companies to invest in R&D and create value in the economy. In line with international research an Ibec study showed that for every €1 given in tax credit to participating firms they spend in the region of an additional €2.40 on R&D over and above what they would otherwise have spent. Studies in the UK suggest this additional spend could rise as far as €3.60 in the long-run and that it is higher for smaller firms.

Small firms and particularly start-ups also face problems attracting the necessary human capital and skills they need to grow. This is a problem due to the fact that staff in start-up companies typically will have low incomes, relative to the market, as the business builds. Management and skills are key components business growth in any economy. Research has shown internationally that improved management skills can improve sales growth, market share growth and particularly higher productivity. A 2010 study of Irish firms for the IMI by researchers from the London School of Economics had some disconcerting results in this context. They found that manufacturing firms in Ireland have poor management practices lagging considerably behind their counterparts in the US and UK. They also found that Ireland had a long tail of poorly performing firms which was not seen in other countries covered by some very high scoring multinationals. Irish domestic firms in general were 20% behind multinationals in terms of management practices.
5. State Aid: Introduce a temporary State-Aid regime with the help of European partners

The risk of a no-deal Brexit scenario has fallen, however, there is still significant uncertainty surrounding the Brexit outcome. It is vital that Ireland seeks clearance from European colleagues to introduce a temporary State-Aid regime in line with that seen in 2009. The principle underpinning EU state aid rules is that efficient operation of the Single Market is undermined by government interventions, except for clearly defined circumstances such as market failures. However, Article 107 of the Treaty states that the Commission may declare aid compatible with the Single Market that promotes “the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a member state”. There is no doubt that Brexit is a serious disturbance in the European economy.

This serious disturbance will be most acutely felt in Ireland, both from a political and economic perspective and therefore flexibility and support will be needed from our European partners. In 2009, the European Commission adopted the Communication ‘A European Economic Recovery Plan’. This emphasised providing maximum flexibility in tackling the crisis while maintaining a level playing field and not placing undue restrictions on competition. In this context, the Court of First Instance of the European Communities has ruled that the disturbance must affect the whole of the economy of the Member State(s) concerned and not merely that of one of its regions or parts of its territory. This, moreover, is in line with the need to interpret strictly any derogating provision such as Article 87(3)(b) of the Treaty. This was the basis for the introduction, by the Commission, of the Temporary Framework in 2009 which, amongst other things, allowed for an increase in ‘de minimus’ levels and state-backed credit insurance. We see a no-deal Brexit as being clearly a “whole of economy” disturbance.

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<tr>
<th>Recommendations on SME’s</th>
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<td>• Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs’ relief by introducing a 12.5% rate with no lifetime cap on gains.</td>
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<td>• Renew confidence in the EII scheme by improving processing times, matching the UK’s €2 million annual limit on investment (currently €150,000 in Ireland) and ending the uncertainty caused by the current system of split relief (based on employment levels or R&amp;D expenditure) with full relief given in the investment year.</td>
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<td>• Introduce a simplified pro-forma R&amp;D tax credit scheme for SMEs which allows smaller firms to overcome funding constraints on their innovative activity.</td>
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<td>• Ireland has the second lowest density of industrial robots in the EU151, despite them being strongly linked with increased productivity. In order to encourage investment in high-value manufacturing accelerated capital allowances for a number of areas of advanced manufacturing (including Computerised/computer aided machinery and robotic machines) should be introduced.</td>
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<td>• Match the Swedish enterprise management incentive scheme for smaller firms. The Swedish Government received European Commission clearance to abolish tax on stock options at companies that are younger than 10 years, have fewer than 50 employees, and revenue and a balance sheet of below €8 million.</td>
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Multiple reports have illustrated the impact of this “whole of economy disturbance” on the Irish economy. The losses range from a permanent loss in GDP versus the baseline of 3.7% to 9.4% over ten years, but regardless of the differing impacts, all are quite significant. The Irish Central Bank has suggested that a no-deal Brexit could reduce growth by more than four percentage points over the 12 months from March alone. This impact will be visited much more severely on those sectors of the Irish economy with the greatest domestic linkages. Over the long-term Copenhagen Economics study has suggest that a long-term impact of Brexit on GDP ranging from -2.8% in an EEA scenario to -7% in a no-deal WTO scenario. The additional impact of a no-deal Brexit is extremely clear when looking at this data.

A Commission staff working paper written in 2011 noted that “The Temporary Framework of aid to the real economy complemented the framework put in place to allow a swift and coordinated response during the crisis.... it has been a useful safety net allowing for an emergency response during the crisis”. The reaction of the EU states and the Commission to the financial crisis should guide the reaction to what is now a fundamental shift in the future of the Union with the exit of its second largest market. Failure to do so will compound the political, social and economic fallout for the remaining EU member states, most particularly Ireland.

To support businesses during this difficult period domestic government funding should be provided over a three-year period to help companies trade through any period of disruption, adapt and succeed into the future. Funds should be targeted at supporting innovation, market diversification, upskilling and capital expenditure in equipment and machinery. These funds should equal 5% of the value of indigenous exports to the UK in any given year, or €1.3 billion over the course of three years.

This would not require wholesale abandonment of single market principles but targeted aid interventions on reasonably short timelines. In all, €1.3 billion over three years in direct aid would amount to an increase of 0.15 percentage points on Ireland's long-term state aid to GDP ratio of 0.4%. Ireland would remain just above the EU average and be comparable for a three-year period to the long-term state aid profiles of other EU countries such as Germany, Sweden and France.

**STATE AID % OF GDP, 2016**

Note: Expenditure refers to all active aid measures to industries, services, agriculture and fisheries, for which the Commission adopted a formal decision or received an information sheet from the
Member States in relation to measures qualifying for exemption under the General Block Exemption Regulation.

**Recommendations on state aid**

- The existing amendments in Part 3 of the Brexit Omnibus Bill apply to Enterprise Ireland and Enterprise Ireland clients only. There are in 2018 around 5,200 clients of Enterprise Ireland. Revenue Commissioners data suggests there are over 12,000 Irish companies exporting to the UK, with 90,000 companies importing from the UK. The provisions of the Act must be broader if they are to provide much needed support to anything but a minority of Irish companies impacted by Brexit.
- As part of a European temporary State-Aid framework a Compatible Limited Amount of Aid Scheme of up to €5 million over three years for investment or working capital should be introduced. 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, subsidised public loans, debt write-off, and rescheduled debt for companies in distress.
- As part of a European temporary State-Aid framework the terms and conditions under existing loan schemes (Brexit loan scheme, and Future Growth Loan Scheme) should be improved. This should take the form of reduced interest rates and guarantees including:
  1. SMEs: reduction of up to 50% between the market rate for loans in a Member State compared with the average Eurozone average interest rate for new loans to corporations for working capital and investment.
  2. Large: up to 30% reduction between the market rate for loans in a Member State compared with the average Eurozone interest rate for new loans to corporations for working capital and investment.
  3. Up to 90% guarantee coverage and delayed repayments up to 3 months
- Greater use should be allowed of existing optional interest-only periods during the lifetime of loans under the existing loan scheme.
- Criteria for the existing loan scheme should see, at a minimum, a significant loosening of the currently overly-restrictive innovation criteria. These criteria and their overt focus on technological innovation are completely inappropriate for firms in sectors most impacted by Brexit. Ideally, firms with satisfactory business plans should have to only meet one of the Brexit criteria.
- A new scheme covering export credit insurance is needed. 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%).
- The current SME credit guarantee scheme’s coverage of invoice discounting and factoring arrangements in Brexit impacted firms should be accelerated, in-line with state aid rules.
- A short-time work subsidy scheme (for two years initially) for vulnerable workers should be introduced. 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 sectors.
- An employment Subsidy Scheme with subsidies up to €10,000 over 24 months for employees in firms in distress should be introduced.
- A pre-approved accelerated capital allowance scheme for projects which are deemed necessary under a clear Brexit related contingency plan should be introduced. Provisions should be in line with the existing scheme which supports investment in energy efficient equipment.