

JOINT OIREACHTAS COMMITTEE ON ENTERPRISE, TRADE & EMPLOYMENT

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Opening Statement

I thank the Chairperson and Committee members for inviting the Irish Exporters Association to speak on the issues faced by Small and Medium sized Enterprises. I am the Chief Executive of the IEA, and I am joined by my colleague Mr Karl Picard, our Communications and Public Affairs Officer.

The Irish Exporters Association, IEA, was founded in 1951, and since its establishment, we have supported the growth and development of all exporting businesses in Ireland, leading the export agenda as the voice of Irish exporters, promoting their interests, identifying critical issues and in many cases delivering solutions to them. Ireland is a small open economy that has seen exporting businesses drive us out of troubled waters and exporting has become a way of life for Ireland. The IEA has adopted a simple view – if a business wants to grow substantially, it needs to get off the island.

Speaking to our SME members, they gave the following areas as being of most concern to them: housing shortages, staff retention issues, supply chain issues, inflation, and energy costs, as well as concerns over their ability to comply with upcoming sustainability regulations.

Housing has become a significant issue for our members, in terms of being able to attract and retain talent. We have consistent engagement with businesses across the country and for some time, housing has been a pressing issue, but it is now becoming a greater concern.

It is a subject being discussed at every level of the company. Inflation and the cost of living are major issues, but we believe it is the acquisition and retention of talent that has become the issue of most concern. A lot of companies are talking about

housing, or rather the lack of it, and the cost of it; and the impact that this is having on their ability to attract and retain staff, particularly in the more rural areas.

On top of our monthly National Council Meetings, we operate a series of regular Regional Network meetings with members. We are in recurrent 1:1 contact with senior people in these companies, and we visit their businesses regularly and one of the most frequent concerns that arises at the moment is the availability and cost of both talent and housing. They are concerned about how they can attract and retain staff if these people cannot find affordable, let alone any accommodation close by. Our members are increasingly concerned about how they will deal with the wage demands that are associated with this acute shortage in the supply of housing.

To put it in simple terms – our members have consistently raised housing, or the lack of it, as a significant problem. If people can't get homes or afford them, then how are these employers going to be able attract new workers and hold on to the ones they have. The housing situation has deteriorated to such a point, some companies have taken to building their own accommodation in order to lodge staff, as they have been unable to obtain suitable accommodation locally, or even marginally local to where they are positioned.

Certain sectors are finding it immensely difficult to find general operative staff as is, both locally and particularly due to constraints in securing visas for workers coming from outside of the EU. We spoke to an established family run business operating in the consumer foods industry which has had to cut their production levels by 25 per cent – putting them at a significant competitive disadvantage. The consumer foods industry is not listed within the Critical Skills Occupation List and moreover, process operatives within this sector (and most others) remain on the 'Ineligible List of Occupations for Employment Permits'.

The IEA is of the opinion that it beggars' belief that consumer foods companies do not constitute an essential service. Let me assure the Committee that this is an issue that is hampering the productiveness of companies in other sectors too.

The lack of housing and visa issues are crippling many businesses' potential to hire new staff and to maximise production and therefore remain competitive. We are being told that the reduction of landlords is only driving up the prices of what rental properties there are available in most areas of the country. When both issues come together it creates a vicious cycle that only seeks to hinder SMEs across the country.

Entrepreneurs are a key driver of Ireland's indigenous growth and have helped sustain economic growth in recent times. In an economy as reliant on Foreign Direct Investment as Ireland's, supporting a strong indigenous economy and the Irish entrepreneurs fostering it, is essential to having a more balanced industrial mix and can be an added mitigating measure to insulate Ireland from global economic uncertainties in the current geopolitical climate.

We as a State, have developed a core national competence in our enterprise policy whereby we have long been very successful at supporting the scaling of small to medium sized indigenous exporting businesses, but poor at bringing microbusinesses up into the loop. Equally, we are poor at developing these medium sized businesses into global corporations.

We have created a very successful scaling loop, whereby entrepreneurs grow (and are supported to grow) their business to small-medium size, and then sell out and reinvest into early-stage companies that will inevitably follow the same trajectory - into familiar territory. It is not only financial resources which these entrepreneurs invest but also their knowledge with many of them actively mentoring and in some cases involved in directing these companies.

Whilst what I have just mentioned is laudable and may sound positive, there is an inherent issue with this process - the supporting of SMEs in most cases also coincides with encouragement to sell that business on. Hence, we see very few Irish SMEs willing to float on the Irish Stock Exchange. While in some instances it might be desirable, to sell, the IEA believe more can be done to support the development of larger indigenous Irish businesses and a revised strategic approach is needed to

support both sides of our very successful small-to-medium development loop. One way of assisting the development of larger organisations is to do more to assist with the intergenerational transfer of companies.

We have very few large 3rd or 4th generation family run companies in Ireland, which is in contrast to other countries. It is a reasonable presumption to make, in this regard, that Irish Government policy is tailored towards encouraging the sale of Irish owned SMEs, often to foreign-owned multinationals or larger scale operations – as should a business owner wish to hand down their company to their children, they run the risk of succumbing to an unforgiving rate of Capital Gains Tax at 33 per cent, or the recipient is liable to pay Capital Acquisitions Tax also at 33 per cent with stamp duty on top of that at one per cent. This compares to a rate of 20 per cent CGT in the UK with the first £1m taxed at 10 per cent. There is no incentive to keep the company within the family, encouraging them to grow it into more global proportions.

In relation to supply chains, companies have told the IEA that from their perspective inflation pressures remain an issue. Despite predictions earlier this year that we are at the top of this latest spiral, latest figures in the USA suggest that interest rates hikes, initially predicted to stop after one more hike will probably be prolonged by another quarter; with our second largest export market expected to enter a technical recession this quarter, we need to keep our wits about us.

Last year it was a mix of items that were delayed in the supply chain and companies were able to balance operations to ensure that their range of lines remained open. This however has forced companies to increase the inventory that they were carrying, buying forward what they needed whenever it became available and storing it. We are acutely aware that smaller companies have considerable working capital tied up in this storing of inventory and would be concerned about the effect that a potential slowdown in one or more critical export market might have on them.

This year companies are telling us that they are increasingly finding difficulties in sourcing particular key components required for the manufacturing process –

particularly around electronics – and they foresee these components being near-impossible to source into the latter half of 2023. This will hamper investment in and additional job creation within these companies.

Whilst we have seen a reduction in shipping costs and an improvement in container availability, we remain alert to potential issues that the rapid reopening of the Chinese economy post Covid may have on global supply chains.

What we as an organisation are very concerned about are the upcoming sustainability regulatory changes that will have a seismic impact on SMEs. It is without doubt that trade sustainability is the single biggest challenge we as trade professionals are facing – considering the particular acuteness of the greater need for sustainability efforts in our industry owing to the global nature of supply chains. Without sustainable trade policies in place, the economic growth gains from trade will inevitably decrease, while the social and environmental costs will grow intolerable.

New EU reporting requirements such as the Corporate Sustainability Reporting Directive (CSRD) will have an immense impact on smaller businesses. SME companies aren't aware of let alone ready for CSRD – and although we are beginning to see some communication from Government, we do really need to see more engagement from it on this matter. Navigating the regulatory landscape is difficult for the large PLCs – imagine the considerable stress put on smaller companies who also need to prepare for CSRD and the EU Taxonomy rules, but have not the experience or resources to know where to start! CSRD comes into effect in 2024 and impacts SMEs from 2026 – make no mistake here Committee members – this will be the next “Brexitee” sized event for companies! There is a view out there that the CSRD initially will only impact larger companies. This is incorrect, for you can be sure that these organisations will pass this burden down to smaller companies in their value chain, particularly those that they are procuring from. For how can larger companies correctly report on the directive if they cannot account for how compliant their suppliers are.

Other EU legislation such as the Taxonomy rules and the Corporate Sustainability Due Diligence Directive (CSDD) will only add to the regulatory burden being placed on small businesses. Whilst all of these are the right thing to do, and we support them, small businesses simply are not ready and will need a lot of support to become so.

With an eye on supporting companies prepare for a more sustainable future, in 2022 we established the Institute of Sustainable Trade, as an initiative of the Irish Exporters Association. The IST is a professional membership and education institute offering education, networking and professional development opportunities to international trade professionals, with the sole focus on preparing for a more sustainable future. With the regulatory changes I've mentioned coming down the tracks in Europe from 2024, we need to get companies ready. We do this by getting individuals ready to meet the challenges of sustainability – and in turn they can prepare companies and the wider industry.

But let me be clear when we talk about sustainability – it is not just climate change. We need to protect human rights in our supply chains, it's a cornerstone of CSDD after all! How do we run our businesses so that our activities mitigate against climate change and adapt to what will be required to reduce emissions. How will we use water more sustainably and interact in a more sustainable fashion with marine resources? How do we transition towards a more circular economy, preventing waste and recycling? We need to do more towards preventing and controlling pollution. We need to protect different ecosystems. And We need to never lose sight of the fact that in order to do all of this Government will need to commit to fully supporting smaller businesses in a manner akin to what was required to prepared for Brexit. Failure to do so now will lead to severe consequences for our SMEs.

With that, we would like to thank the Committee once again for inviting the Irish Exporters Association to appear before you and we look forward to working with you into the future and engaging in fruitful discussions with you all this morning.