DÁIL ÉIREANN

AN COMHCHOISTE UM THALMHAÍOCHT, BIA AGUS MUIR

JOINT COMMITTEE ON AGRICULTURE, FOOD AND THE MARINE

Dé Máirt, 24 Meitheamh 2014

Tuesday, 24 June 2014

The Joint Committee met at 2 p.m.

MEMBERS PRESENT:

Deputy Pat Deering,	Senator Michael Comiskey,
Deputy Martin Heydon,	Senator Paschal Mooney,
Deputy Éamon Ó Cuív,	Senator Brian Ó Domhnaill,
Deputy Thomas Pringle,	Senator Mary Ann O'Brien,
	Senator Susan O'Keeffe,
	Senator Pat O'Neill.

DEPUTY ANDREW DOYLE IN THE CHAIR.

The joint committee met in private session until 2.33 p.m.

Drinks Industry and Rural Economy: Discussion

Chairman: Before we begin, I remind members and witnesses to turn off their phones. This session one of today's meeting is on the importance of the drinks industry to the agricultural sector. I welcome Mr. Peter O'Brien, chairman of the Drinks Industry Group of Ireland, Ms Marie Byrne, entrepreneur, and Mr. Willie Masterson, malted barley farmer. I thank them for coming before the committee today to brief us on the impact of the drinks industry on the rural economy, its agricultural purchasing strategy and the ambitious plans for the future.

I draw witnesses' attention to the fact that, by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise nor make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. O'Brien to make his opening statement.

Mr. Peter O'Brien: I thank the Chairman for the opportunity to address the committee today. I am Peter O'Brien, chairman of the Drinks Industry Group of Ireland, DIGI. My day job is corporate relations director for Diageo in western Europe. I am accompanied by Ms Marie Byrne, entrepreneur, who is in the process of establishing a new whiskey distillery in the heart of Dublin's Liberties, and Mr. Willie Masterson, who was last year's champion malted barley farmer. We are here as representatives of the 92,000 others like us throughout Ireland who depend on the drinks industry for their livelihood and to talk about ways in which this influential committee can seek to support the drinks industry as we look to the future with a lot of excitement and ambition.

I will give the committee a brief overview of the drinks industry in Ireland before we use the opportunity provided to us to focus in on the significant opportunity that exists for Irish whiskey at present and what that means for the agricultural economy in this country.

Broadly, the drinks industry can be split into two parts: manufacturing and distribution, which includes the retail and wholesale sectors as well as the on-trade and off-trade. The distribution side is extremely employment intensive and acts as a centrepiece of communities throughout the country. However, the manufacturing side will be of greater interest to the members as this is the side of the industry which provides demand for 50,000 apples, 200,000 tonnes of barley and 300 million litres of milk every year. These purchases support the livelihood of 12,000 farm families throughout Ireland and are a vital part of the agricultural economy of this country.

In recent years, Ireland has seen a decline in the overall number of manufacturing jobs in the economy as the country moves towards a more service-based economy. In contrast, the drinks manufacturers have been looking to invest in Ireland over recent years. My company, Diageo, is looking forward to opening its €168 million refurbishment of St. James' Gate and the new brewhouse in September, and our colleagues in Jameson have recently completed a €200 million upgrade to their Midleton production site. However, projects of this scale are being called into question by the Government's repeated targeting of alcohol taxes come budget time. When assessing the viability of investing in Ireland, global boardrooms use tax as a critical determinant of the business situation and, unfortunately, Ireland's alcohol tax policy is now deemed hostile by many.

It is not hard to see why these global boardrooms might be wary of Ireland's recent decisions on alcohol tax. In less than 12 months, between December 2012 and October 2013, the Government increased excise on beer by 44%, on spirits by 37%, and on wine by 62%. A report by EUROSTAT last week showed that hard-pressed Irish consumers are now paying the highest alcohol prices in Europe, although it should be noted that this is not through any action by the drinks industry. The average Irish drinker drinks the same as the average German drinker. In Ireland, such a drinker pays €733 a year in alcohol related tax while a comparable drinker in Germany pays €302.

The drinks industry in this country has a rich heritage and there is a strong commitment to supporting local producers. A recent DIGI report identified that the drinks industry purchases a far greater share of its inputs locally than other industries. In 2013, the drinks industry spent €1.1 billion on Irish produce, most of which was on barley and milk from quality Irish farms like the one run by Mr. Masterson.

I will now hand over to Ms Byrne, who will give the committee a flavour of the exciting opportunities facing the drinks industry in Ireland over the coming years, particularly in relation to Irish whiskey.

Ms Marie Byrne: Irish whiskey was once the most successful spirits category in the world with more than 12 million 9 litre cases being sold every year in the mid-19th century. For a variety of reasons Irish whiskey was left lagging behind its international competitors and by the 1980s there were only two distilleries in the country of the 88 that had been operating during the glory years. Irish whiskey, however, is on the way back. There are now 20 distilleries all over the island at various stages of construction or production and last year 6.2 million 9 litre cases of Irish whiskey were exported. That is a little over half of the total sold a century ago so there is still plenty of room for growth, which businesses like mine want to expand into in the coming years. We are doing this by focusing on building brilliant brands with global consumer appeal, offering an alternative to Scotch and Bourbon whiskies. Irish whiskey is the fastest-growing spirit in the world and has carved out its own niche in the global spirits market, relying on the traditional craft of Irish distilling with an authentic and welcoming heritage, from a country universally acknowledged for its premium agricultural produce and underpinned by high quality whiskey product with a distinctive taste and broad appeal.

The growth of Irish whiskey is of obvious relevance to this committee given that malting barley is the central ingredient. Mr. Masterson will outline what the growth of Irish whiskey means for farmers and the importance of malting barley as a crop but I want to focus on another angle.

Whiskey is a fantastic product but it is a complex one to bring to market. I am involved with the Dublin Whiskey Company, a new distillery that is setting up in the Liberties in Dublin.

We bought the site in 2012, but it will be 2015 before we start construction on our historic mill building, due to a lengthy planning process, and therefore it will be late 2019 before we are ready to sell whiskey. The building purchase and renovation, capital equipment, running costs for several years and marketing are all paid out long before any sales occur. In our case that is approximately €10 million. That is a very tough financial journey and a huge barrier to entry. That is why alternative revenue streams like whiskey tourism are so vital to the industry. There are already several important whiskey tourism venues in Ireland which attract 600,000 visitors every year. I am delighted to say that the new distilleries plus other new attractions, such as the Irish Whiskey Museum add to the potential for this category which could easily surpass the 1.2 million whiskey tourists who visit Scotland annually.

The whiskey industry requires a holistic approach in order to nurture small distilleries, such as my own Dublin Whiskey Company, through the difficult period before we can market our product which will be mainly for export. To size the prize, the Scotch export market is worth approximately £4.3 billion annually. Once we are able to sell our product we need to be able to rely on a robust home market before we can scale to export. At the moment Government policy does not allow this to be a realistic option. We are now in the bizarre position that Ireland is one of the most expensive places in the word to buy Irish whiskey with the Government taking 68% of the retail price of an average bottle of whiskey in this country. In fact the €17.37 tax take on a bottle of Jameson in Ireland is more than the total retail price of that same bottle in New York at €16.61. This not only prevents us from establishing a foothold in our domestic market but also prevents our brand from building a relationship with tourists when they are here as those tourists think we are trying to rip them off. The high price of alcohol was the second most cited negative feature of Ireland in Fáilte Ireland's recent research, after the weather. I am not suggesting that this committee can do anything about the weather but surely it can help us to be more competitive with rival destinations such as Scotland. We should be very excited and extremely proud of the current offerings and what is coming down the road, where the breadth of Irish whiskey available to consumers is undoubtedly exciting. Our single malts, blends and the cream of the crop, the uniquely Irish pot still, all deserve global recognition.

I will now hand over to Willie Masterson who will talk about the importance of the drinks industry to his farm, and to farming in general.

Mr. Willie Masterson: I am a tillage farmer from near Bunclody, County Wexford. I have been farming for 25 years and the farm has been in the hands of my family since 1919. It was a mixed farm, cattle, tillage and sheep, until 20 years ago. Then we concentrated on sugar beet and malting barley and as the committee knows, the sugar beet disappeared nine years ago. We then changed over to farming 90% malting barley and 10% hay. If the drinks companies did not demand the malting barley we would have been in a very tricky spot. Our farm also borders the River Slaney and the Slaney valley has been recognised across Europe as a quality area for growing malting barley. For as long as I can remember barley has been a vital crop on our farm, primarily because we can always rely on demand from big drinks companies such as Guinness and Irish Distillers.

I was delighted to hear of the huge surge in global demand for Irish whiskey. I have always thought it strange that Scotland – a country not much bigger than our own – should have such a reputation for a product that we produce here with the best possible ingredients. The Irish Whiskey Association has said it wants to double the amount of Irish whiskey exports by 2020, and double those exports again by 2030. I commend Ms Byrne and the others like her around the country who are taking a risk and setting up businesses which will be able to export quality

Irish whiskey around the world.

This increase in the global demand for Irish whiskey will mean a fourfold increase in demand for the ingredients that go into producing that whiskey, like the malting barley that comes from our farm. At a time when the prices for many farm products is falling, for example, the price of beef, this would provide much needed security for farms like ours. Leaving a steady demand for malting barley gives farmers a bit of certainty when they are planning for the future. Big capital investments such as those in St James' Gate and Middleton give us a bit of confidence that the drinks producers will be buying malting barley in Ireland for years to come. Having that certainty is a big boost for people like us who were badly affected when the sugar beet factory closed up.

Over 35,000 tonnes of malting barley were sold to the drinks industry by farmers in County Wexford last year, and 500 tonnes of that came from our farm. I look forward to working with the likes of Mr. O'Brien and Ms Byrne to make sure that through growing the global demand for Irish whiskey we can make that number even more impressive next year, and every year after that.

Before I hand back to Mr. O'Brien I will make a couple of points about the drinks industry here. The drinks industry is employing people in every parish in this country. I know that there is a lot of talk of economic recovery at the moment but in County Wexford there are still a lot of people out of work and those who have jobs need to keep them. There are nearly 3,000 jobs in Wexford dependent on the drinks industry and they need to be supported by Government. I and my fellow malt and barley growers are very proud to be a part of the drinks industry, which is an Irish industry that has a rich heritage in our county and country.

The drinks industry has produced iconic brands and its products are enjoyed by people from all over the world. It also focuses on purchasing its materials domestically from farmers like us. Heineken and Guinness can boast that 100% of the barley used in their beer production in Ireland is grown in Ireland.

Mr. Peter O'Brien: The drinks industry is a vital part of the agricultural economy of this country. Since this Government took office it has consistently made the industry a target at budget time which has made an already difficult situation worse. A total of 80% of the increase in the price of a pint since 2011 has gone directly to the Exchequer. Since 2012 the tax on 1,000 cases of wine has increased by €18,000, a cost that has to be borne up front by importers, distributors and restaurants until the product reaches the final consumer. Given the current problem of access to credit in Ireland, this €18,000 has to be soaked up in cashflow, leaving less money for small businesses, such as independent off-licences to invest in growth or their staff.

The industry is now on the cusp of a period of growth. Pubs, off-licences, restaurants and hotels that have come through the recession have had to innovate to survive and are therefore well placed to take advantage of the expected upturn in economic growth. Drinks related tourism is booming, and the pub remains the biggest attraction to tourists thinking of visiting Ireland, according to Fáilte Ireland. The committee has heard about the resurgence in Irish whiskey and the very real opportunities that offers to Irish farmers.

The right policy choices by Government can ensure that this growth potential is realised over the coming years. We are asking this committee to use its considerable influence to call for a reversal of last year's punitive 20% excise increase to support jobs, tourism and hard-pressed Irish consumers. Excise is a tax we simply cannot afford. Excise is a tax that we simply cannot afford.

I am sure many committee members have read the report published yesterday by the Health Research Board on alcohol consumption. We welcome the report. It is a long time since we have had such clear data on alcohol in Ireland and I congratulate the Health Research Board on producing it. We need to reflect on some of the headlines printed this morning. A key finding of the report is that 74% of people either do not drink or drink once a week or less in Ireland. In the face of some rather ridiculous headlines in our newspapers today, I wish to repeat that 74% of people in this country either do not drink or drink once a week or less and 26% drink more than once a week. One must ask how we ended up with headlines which state 1.3 million people in Ireland are binge drinkers. The World Health Organization gives us the answer, as its AUDIT-C screening tool is the definition used. It might be jargon to you and I but what it means is if one drinks three pints or more once a month, one is classified as a harmful drinker.

Members of the drinks industry are painfully aware of the fact there is an issue with alcohol abuse in Ireland. We have invested millions in *drinkaware.ie*, the only health promotion campaign on the issue in this country, and individual companies continue to invest in programmes throughout the country. We are eager to work with the Government to implement targeted evidence-based policies which will work. Classifying the entire Irish population as binge drinkers is not a helpful way to tackle a serious issue and nor is a blanket increase in alcohol taxes. Such increases simply punish moderate drinkers, cost jobs and make our tourist offerings less competitive while doing nothing to alleviate the pain of those abusing alcohol.

Deputy Éamon Ó Cuív: Unfortunately, I must leave shortly as I must attend another meeting. I welcome the witnesses and thank them for their presentations. This is a complicated issue and I would like some factual information. Do the witnesses have information on the total value of alcoholic drinks sold in Ireland every year? What is the value of imported and domestically-produced alcoholic drinks? What is the value to the economy of alcoholic drink exports? If we had this information, we could quantify somewhat the impact of taxes. Tax is put on imported as well as domestically-produced alcoholic drinks, but domestic excise tax does not go on exported drinks and has no effect on the ability of people to sell worldwide.

I have been involved in tax formulation. We cannot walk away from the fact that abuse of alcohol is a major problem in the country and costs our health system and economy billions. More importantly, it causes huge misery in society. It is fair to state it has been a serious contributory factor to high levels of suicide. To think this is a one-way street is simplistic; it is a highly complicated subject and we as politicians must consider every side of the story. Of course the drinks industry it important for the economy, but if we are honest it is also an important drain on the economy. When we make decisions, we must do so in the cold light of day and take everything into account. In defence of my colleagues of all parties, we have been trying for many years to grapple with the problems caused by alcohol. As constituency politicians, all of us have seen the violence and misery heaped on people by the abuse of alcohol. I cannot forget this and put it out of my mind when I come to a meeting of the Oireachtas Joint Committee on Agriculture, Food and the Marine. A politician must consider all of the consequences of his or her actions.

I have huge time for publicans. If I had a choice between having people drink at home where there is no control and young people buying all types of alcohol and consuming it in strange places, or having people drink in the controlled atmosphere of a pub, I would much prefer the latter where, from my experience, publicans try to act responsibly. I favour shifting the burden of tax on alcohol and see much more tax, such as a packaging tax, on alcohol in off-licences. We should encourage people to drink in a social way with more controls.

Another issue that must be faced when collecting money is what should be taxed. Germany was mentioned, but it probably has much higher taxes on private properties than we do. A government must consider whether to place tax on items which are socially positive to tax, such as cigarettes. Many people agree this discourages smoking. When I consider taxes on alcohol, I would like a tax which would stop young people walking out of shops with van-fulls of alcohol under their arms, causing them and those around them harm.

I am in favour of curbing sponsorship by drinks companies and banning some of the advertising which is very focused on young people. Such advertising creates a view that one cannot have a good time unless one is half langers. I have argued this point previously with the drinks industry. I understand the importance of the drinks industry and I am not a teetotaller. However, the presentation we heard was quite simplistic. When I make decisions or recommendations, or have an input as an Opposition parliamentarian, I must be absolutely clear that I will take a very cautious and balanced view on the issue because of all the issues I face every day of the week, this is not a one-way street. If we remove tax from drink we could rebalance it significantly, but what does the drinks industry suggest we tax in replacement? If tax is removed from drink, something else will have to be taxed because the Exchequer does not have enough money to begin abolishing taxes. We as politicians should be very open about the fact this is the equation. I am interested to hear from the witnesses what they think we should tax as an alternative to removing the total tax take from alcohol, particularly taking the huge social cost into account.

Deputy Thomas Pringle: I thank the witnesses for their presentations which were interesting to say the least. I was intrigued when I heard the witnesses wanted to address the committee on the importance of the industry to Irish agriculture. I was interested to hear the pitch and it has not disappointed me. It is ironic the drinks industry is presenting to the committee to make the case drink is over-taxed in Ireland on the day the report by the Health Research Board was published. That is a fallacy when it is estimated that drink-related illnesses cost the Exchequer €3.7 billion a year. According to the Minister's figures, the country is only taking in €3.2 billion in taxation on alcohol. There is a case to increase the taxation to perhaps make it pay for what it costs us as a society to deal with the health issues that arise as a result of alcohol abuse. I understand that farmers make a livelihood from selling malt and barley to the drinks industry. The drinks industry exports to countries where much more responsible drinking takes place than is the case here but, as Deputy Ó Cuív stated, that cannot be divorced from the reality that we face every day in terms of the way alcohol is abused in our society.

According to figures out today, only 26% of people drink more than once a week but that is a huge volume of alcohol for that small proportion of people. If we got down to what would be a healthy level of alcohol consumption, the figure of 11.9 litres per person per annum would reduce significantly, but would the drinks industry representatives be coming in here complaining about how difficult it is to survive because the volume of alcohol being consumed has declined to a healthy rate? Those are the problems we face.

The investment being made by Diageo and Irish Distillers was cited, and the difficulty taxation is causing for those companies. They are investing to export and excise duty levels will not affect them. Therefore, it is disingenuous to cite those investments being put at risk by domestic taxation. Approximately 70% of Guinness produced here - it will probably be more when the new factory is completed - is exported. Ninety per cent of Baileys is exported, and I am sure 80% or 90% of Jameson and other Irish whiskeys are exported also, therefore, the taxation argument does not factor in with regard to the investment decisions those companies are making. They are like all multinational companies in that they make their decisions based on corporation tax and so on. They are not looking at the domestic argument.

The same arguments were made by the pharmaceutical companies when we considered bringing in reference pricing for drugs in the health sector. They said they would leave Ireland if they had to pay a proper price for their drugs. The domestic market is not the deciding factor for their presence here. The taxation provisions they get and the access to other markets is the reason they are here, not because they are looking to make a great deal of money from the domestic market.

I agree that we should examine rebalancing taxation to make it more expensive to purchase in off-licences and to encourage people to go back to the pub because drinking in a pub is more socially acceptable. The vast majority of drinking that takes place now is at home in people's sitting rooms where there is very little control of it. We may not have had perfect control of drinking in pubs, but there is no control in terms of people drinking in their own homes.

There is no doubt that farmers and many others depend on the alcohol business for their livelihood but we must examine the overall impact of the drinks industry, and how we strike a balance in that regard is the key. We might have to look at rebalancing the tax on off-sales as against pub sales. That might do something to help protect jobs in the pub business but it cannot be divorced from the harm alcohol abuse is doing in society, and drinks companies have a role to play in dealing with that harm.

Chairman: We will hear from Senator O'Keeffe, Deputy Heydon, Senator Mooney and Senator O'Brien and then come back to the witnesses.

Senator Susan O'Keeffe: If it were the case that we had comfortable pubs with cheery fireplaces where people could have a nice glass of whiskey and then leave, we would be cheerleaders supporting everything the witnesses do but as my colleagues outlined clearly, unfortunately, that is not the world in which we live. Deputy Ó Cuív referred to the complexity of the scenario, and I concur with that. It is not that we do not support entrepreneurs and people like Mr. O'Brien going out and trying to create a business. We do, but in this case he knows he will always be in this dilemma in that the cost to the Exchequer of the downside of alcohol consumption is a large one, and there is no mention of that here. Mr. O'Brien has tip-toed through the middle and said the industry cannot put up with this. On the other hand, how will we fund looking after those people? The tax has to be garnered somewhere.

Mr. O'Brien spoke about the huge surge in demand for Irish whiskey and said it was the fastest growing spirit in the world, or words to that effect. It is a growing industry. The witnesses are part of an industry that is not declining. It is growing, as per their own evidence, and by the sounds of it the industry will continue to grow. That is an irony when we are examining the cost to the Exchequer of caring for those people who have problems with alcohol. If any of the witnesses have sat in an accident and emergency department or spoken to either a general practitioner or a consultant in any hospital, they will tell them that the cost is enormous. They can pluck as many figures out of the air as they wish and say the figure is only 1%, two people or whatever but it is a sufficient number of people, and we know we have a problem.

While I accept the witnesses support the DrinkAware campaign, I would argue that is not sufficient, that the DrinkAware campaign is a small part of what needs to be done, that alcohol producers have a major responsibility, and that the DrinkAware campaign must be stronger and have more invested in it not necessarily money, but in terms of its creativity and capacity to reach people. I am not sure it is doing all it can do, but that might be an argument for another day.

If the levels at which the excise is now set is not acceptable, what is acceptable to the witnesses? The final line in Mr. O'Brien's script states that excise is a tax that we simply cannot afford. I disagree entirely. I believe his industry can afford it. His evidence suggests that his industry is part of a growing market across the world. There is a great tradition here. With a new industry and a product that has never been sold previously, he has a great deal of opportunity. What does he believe the industry can afford?

Deputy Martin Heydon: I thank the representatives for attending today. I am disappointed with the approach taken. I expected a slightly different presentation when the witnesses are appearing before an agricultural committee. It is important to highlight taxation issues here. They may be better suited to the finance committee but we are all legislators and I am happy to touch on those issues. I had expected a more agricultural focus. Mr. Masterson's presentation was interesting but I had expected to hear more about the challenges and demands facing the agriculture sector to allow us reach the potential Ms Byrne has in her company and in growing the export potential, both in whiskey and other products.

Leaving aside the agricultural element, I am concerned that Mr. O'Brien played down the challenges we must face in tackling the drinking culture. In terms of the World Health Organization's categorisation of a harmful drinker, we can decide on the best description of a harmful drinker but the upshot of what he is suggesting is that this country does not have a drinking culture. No one in this House can afford to take that approach, and we must be fair and balanced in the way we approach such issues.

A number of issues impact upon this area. The Competition and Consumer Protection Bill is before the House. The ban on below cost sales of alcohol was lifted a number of years ago and we have seen its impact in terms of the number of sales of alcohol in off-licences, which was addressed earlier. The level of drinking that takes place at home is not a healthy development. To an extent the pub is a regulated environment. Therefore, the move away from pubs due to the availability of large volumes of cheap alcohol in supermarkets is not a healthy thing for the country.

I have adopted a balanced approach to the matter and do not support the banning of sponsorship of sporting events by drinks companies. Last weekend we had a golf event that we could be very proud of which does not have a main sponsor. However, I do not believe the argument put forward that it would be easy to find sponsors from other areas. I disagree with the idea that one could take the likes of Punchestown and the Curragh racecourse and not allow them the option of availing of sponsorship by a drinks company because Cheltenham and Aintree could still be beamed, via telecommunications, into every house in Ireland with advertisements by drinks companies displayed everywhere. Therefore, I do not think a ban here would have the desired effect. We need a balanced approach and I am hopeful for one.

I am very excited about the potential of growth in the Irish whiskey industry, in particular, and its international demand. That demand needs to be international because of the kind of figures that have been talked and the growth in the number of distilleries around the country. However, if the demand is based on consumption here then such a development will cause its own problems.

The delegation is right that Irish whiskey is sexy again and we need to look at how best to support it. From that perspective, and getting back to the agricultural element, I ask Ms Byrne the following questions. What challenges will we face with an increased output of quality Irish whiskey? How can we maximise the return? What challenges does she envisage for the input side? What demands will be placed on the agricultural sector? What raw materials will distilleries need into the future? How many more Willie Mastersons will we need to provide that element and meet the challenges?

I am a Deputy for Kildare South and Boortmalt is based in Athy. There are plenty of malt and barley growers around. They do not all need to be located near the River Slaney and there are plenty of them around Athy as well. The sector is a vital part of the drinks sector. Many farmers who live near me grow malt and barley. My one criticism is that the link between Diageo and the farmer seems to have gone. The farmers deal with Boortmalt and Boortmalt deals with Diageo and never the twain shall meet. Something has been lost from that situation and farmers are frustrated as a result.

Obviously it costs more to grow malt and barley. Locally, a lot of farmers had their barley ruled out because of high protein levels last year and I presume a significant amount of barley had to be imported. The farmers who had invested in the extra costs to grow malt and barley ended up only having barley suitable for feed purposes. I am not sure how aware Diageo was of the impact that situation had on farmers and Mr. Masterson is probably aware of a similar situation in Wexford. There is a challenge in that sector. It is important that Diageo reconnects with the farmer through some form of communication.

I wish to mention another element and inputs regarding the growth of whiskey. Mr. Masterson touched on the huge loss caused by the demise of the sugar industry a number of years ago. I am aware that a new proposal for the sugar industry to return is being worked on behind the scene. One element is the production of bioethanol which would also give us an option to produce alcohol. That could be another important by-product from the sugar industry. I would like to hear the views of the delegation on the matter.

I shall finish by returning to the initial point made by the delegation that the industry cannot afford the existing taxes. As politicians we deal with different segments of society every day of the week who tell us they cannot afford the current range of taxes. However, the country needs its present tax take in order to survive, get us back on an even keel and stop running a deficit. Therefore, difficult choices must be made. In talks to reduce a tax one must see the positive to be gained on the other side. The presentation by the delegation focused very much on consumers in Ireland and the tax they pay. I thought the focus should have been on the export potential of the drinks industry and the knock-on impact it could have on the agricultural sector.

Senator Paschal Mooney: Go raibh maith agat. I also wish to welcome the presentations. If I were cynical I might think that this debate was about Diageo rather than anything else. Let us think about this matter from an agricultural perspective. I congratulate Ms Byrne on her initiative. I know from having limited experience of a distillery that has been set up in my home town of Drumshambo, County Leitrim, that there is a long lead-in time. The development is a great vote of confidence in the Irish drinks industry, the export market and her ability to expand same. I wish her well in that regard.

With regard the agricultural point of view, I wish to take up a point made by Deputy Heydon about the industry requiring 50,000 apples. Where are the apples grown? Are they all grown in Ireland? Are they imported? Are they all Irish apples? Are they southern Irish apples? I would prefer that they came from the island of Ireland rather than outside the area. I am curious to learn that information. From an economic point of view and on the subject of taxation, apples grown in the Republic of Ireland will yield money for the Exchequer but apples grown outside the jurisdiction will not. That is the only reason that I made the distinction. I am curious to know where the 50,000 apples come from and whether they are imported into the State. Similarly, for the 200,000 tonnes of barley and 300 million litres of milk. As Deputy Heydon asked, does that demand create a challenge? My question might best be answered by Mr. Masterson. Furthermore, has the increase in demand, plus the fact that 20 new distilleries are being set up and the expansion of Diageo and Irish distillers, put pressure on his group or contemporaries? Has the increased demand provided an opportunity for more farmers to engage in the growing of malt barley?

I come from the wetter and damper part of the country. Is malt barley better suited to a more pleasant climate? Is the growing of the product confined to the south east and south midlands?

In terms of a report published yesterday, my next question is on Mr. O'Brien's reference to three pints a month. Please correct the following if I am wrong. Yesterday, I listened to analysis of the report on radio which stated that the three pints referred to was three taken at the one time because the report referred to binge drinking. It was also said that three pints equates to 80% of a bottle of wine consumed at the one time, not over a month. That was the context of the three pints but perhaps I am wrong.

Reference was made to a plea for reduced taxation. At a time when the Irish tourism industry is expanding, increasing its numbers and therefore increasing employment, I find it hard to understand the argument put forward that taxation is a key component of an adverse impact on the tourism industry. Perhaps the delegation might square the circle in that regard.

My next questions concern drinking at home. Does it matter to the drinks industry where that drink is bought? Does it have a view on this? In the context of its proposition here to support the Irish pub, perhaps the representatives of the drinks industry should spend some time and money on promoting the pub culture in this country as part of the tourist attraction. That would be a better move rather than simply saying it is a good idea for people to drink in pubs. Apart from the weather, most people come to Ireland to visit its pubs. At the same time alcohol abuse seems to centre more on the non-pub consumption of alcohol because people drink at home having bought their alcohol in supermarkets and off-licences. Does the industry have a view on the matter? Or is it only concerned with its bottom line that results from increased consumption? Does it have a role to play in helping the tourism industry and promoting the Irish pub culture? The presentations centred on the tourism dimension and that is why I have asked these questions.

I do not wish to give the impression that I do not understand and appreciate that the drinks industry provides employment and makes a very valuable contribution to the Irish economy through its taxation measures. Also, I appreciate that people like Ms Byrne, and more like her, are expanding the export market which in turn will increase employment here. I do not in any way underestimate the contribution made by the drinks industry. However, I have often been of the view that sometimes the industry might act in a more practical manner, and perhaps more responsible manner, in terms of its presentations.

Senator Mary Ann O'Brien: I thank the delegation from the Drinks Industry Group of Ireland, Mr. Peter O'Brien, Ms Marie Byrne and Mr. Willie Masterson, for making this very good presentation. I echo Senator Mooney's closing words as I too admire the industry that creates economic benefits, employment and growth in the country. I love wine and a glass of whiskey but as a member of the Oireachtas, we are all in the same boat and see the consequence of alcohol abuse in Ireland. I wish that Senator John Crown was present because he is an expert in this area. We have a cultural problem with alcohol that is a major health and economic problem. The freshmen who will enter university at the end of the summer are late teenagers, basically just out of childhood, are pursued by branded drinks companies on social media to avail of cheap drink and cheap nights out and to become immersed in whatever brand is pursuing them.

I know from my children of 18 and 20 years that the latest fad is the pre-drinking culture. I am appalled at how cheap beer is in the supermarket. The youngsters can buy beer and then go to the flat or apartment to drink it before continuing on to the cheap night out and only need to have one drink because they have already consumed it. This is a significant risk for young people. Young people face being exported because they are living in a joblessness state, and are also at risk because of the issue with alcohol. I would have agreed with Deputy Heydon about sponsorship of sport. The reality is that the 12 year old boy who is brought to a big rugby final or other sporting event, is wearing the green jersey with the name of the beer on it and sees his sporting heroes, who probably do not drink, but part of their contract is to have a glass or a bottle of the beer in their hand after they have won the match, is getting a subliminal message. It is like McDonald's in that it is subliminal advertising that will link that child to alcohol. I am not so sure that drinks companies should be sponsoring sport. Some 20 years ago in Australia they banned all alcohol sponsorship of sport. They also increased the taxation on alcohol and invested the yield from that tax in sponsoring the sport.

I have great admiration for Ms Byrne's distillery. I have a constituent, Bernard Walsh, who is building a distillery in Carlow. He is another super entrepreneur. Thank God for the rate of corporation tax in Ireland because I know from Mr. Walsh that one must wait a long time for the product and I admire Ms Byrne for being able to wait and to have to spend so much money before she gets the rewards. Exports will generate the rewards.

I was taken with the point that one can buy a bottle of Jameson in New York for $16 while it is more expensive to buy it in Ireland. That is absolutely ridiculous. Perhaps we could consider introducing a tax rebate at the airport for tourists, so that we ensure that tourists can buy Ms Byrne's whiskey at the best price possible.

Suicide in this country is at an all time high. Half of the suicides are a result of alcohol. St. Vincent's Hospital, which is the main centre for liver disease, has had a 335% increase in admissions since 1995. One in four accident and emergency admissions is related to alcohol. One in four brain trauma admissions is related to alcohol. We have a problem. I admire the drinks industry but could we join together with the drinks industry to help our culture recover and get back on a steady track so that we are not affecting our young people's health. As Deputy Pringle said, we would also raise money to reinvest in the health service and educate people to drink properly in the future.

Chairman: I presume Mr. O'Brien would like to respond to some of those points.

Mr. Peter O'Brien: I thank everybody for their passionate interest in our industry, which is great. I feel that I am sitting between the two acceptable faces. I am passionate about the drinks industry and what we do. If Arthur Guinness had sat here 235 years ago, he might have been the Marie Byrne of his day. He would have probably made a number of the same points.

This is a very complex area. I think it is unfair of people to suggest that we do not take the issue seriously and that we have not taken the issue seriously. We talk at great length of the impact of drink. We need to recognise that 92,000 people work in this industry. They are exactly the same as the other people sitting around this table. We are the same people as the members. We are not some bunch who sit in a corner with the intention to wreak havoc on Ireland. We are the brothers, sister, fathers - the same as everybody else. We have families and face the same issues. We try to do the best with our own kids. We are not sitting here and saying we will make the situation really bad. It is important to recognise that.

I welcome all of the positive support for the pub. The drinks industry group represents all the publicans in Ireland. It is absolutely fantastic. I would encourage everybody in this room to continue to promote the pub as a place.

We talked about the tourism offering. We have played a significant role in tourism. All of the drinks companies have visitor centres offering massive tourism opportunities. The Guinness Storehouse, as most know, is the largest visitor attraction in Ireland. Now there is the Jameson distillery, Midleton whiskey tour and Liberties whiskey and many others. I am sure Irish whiskey will be a major success.

If I have an opportunity to make a request of the agencies, this committee, or the tourism authorities, I would ask them to note the tourism bodies in Ireland have air-brushed the pub out of all of their advertising. They have decided somehow or other that alcohol is bad and not to do it. From the Fáilte Ireland statistics, the No. 1 reason that people come to Ireland is to listen to music in a pub and the No. 3 reason is to drink a pint of Guinness in the pub. The No. 1 reason they do not like coming to Ireland is the price of alcohol. It is a very complex area and we need to look at it. The pub is a fantastic offering. All of the tourists who visit our pubs are responsible drinkers. They do not come to our pubs to sit and get drunk, they come to enjoy our products.

On the wider issue of alcohol. This is a growing industry because we are finding that people such as Ms Byrne and others are creating great export opportunities. Consumption of alcohol is down by more than 20% in the past ten years. Irish people drink the same as the average of most European countries. In my day job I get to travel around all of Europe. We have the same debate in every country. I think at times we want to build on our worldwide reputation for being drinkers to try to beat ourselves up a little bit more. The same issues apply in all the other countries. It is a very complicated area. We have one of the highest rates of tax on drink in Europe and we are saying we have a major problem. Spain has the lowest tax in Europe and they do not feel they have a similar problem. There is a massive issue related to how we as a society educate people about alcohol and bring people with us. It is very complicated. We want to play our role and we do it passionately and we will continue to do it.

The point about education is very well made and we are in constant discussions with the Department of Education and Skills on finding ways to teach people about alcohol at the appropriate age in schools. We do not do that and I think we should do it.

The accident and emergency service was mentioned. I spent a shift in the accident and emergency department in St. James' Hospital. I know what it is like. I have done my 12 hours shift and worked with incredible people. I compliment Professor Patrick Plunkett and his team on the amazing job they do. It is a very complicated area, but it is not young people turning up in the accident and emergency department. It is not one in four drunk people turning up for treatment. When one goes to an accident and emergency department, there is no category that says "alcohol related". As Professor Plunkett would tell the committee, the most important thing is to assess cases for whatever it might be. Alcohol might be a factor, but it might not be a factor. There are a core number of people who are chronically addicted to many substances, including alcohol. They are heavy drinkers and they appear in the Health Research Board report and we need some targeted interventions to help people like that.

It is neither fair nor accurate, however, to paint all drinkers with the same brush and claim that anybody who drinks at all is a binge drinker. Definitions are no more than that and one may agree or disagree with them. According to the World Health Organization definition, a binge drinker is anybody who drinks three pints in a single sitting in any one month. In other words, a person who goes out and spends five hours in a pub and has three drinks, and does the same again the next month, is a binge drinker. I am not saying the WHO is wrong in its definition, but I am saying we must be real about what it actually means and the message we are giving to people. We should, in my view, be focusing on the much smaller percentage of hard core, seriously addicted drinkers and those who might be in the process of getting to that stage. We are passionate about solving the problem of excessive drinking. It is not good for us and it is not good for our industry.

Senator O'Keeffe asked what we would consider an acceptable rate of tax. That is a matter for Government and is not for me to decide. All I know is that we are paying the fourth highest rate in Europe and competitors in many other countries are paying much less than us.

Ms Marie Byrne: I will focus on my own experience, which is very much on the whiskey side of the house. Deputy Heydon raised an interesting point regarding the opportunities and obstacles facing the burgeoning whiskey industry. Education is vital. Scotland has a fantastic educational institution, Heriot-Watt University, where people can study for a degree in distilling. What I have in mind is the provision of a one-year masters or something like that for agriculture graduates. Companies like mine would be delighted to take in young graduates and spend time giving them hands-on experience. What we would get in return is access to the new and innovative ideas those graduates are learning about on a dedicated distilling course. One lesson we have learned from the Scottish experience is that the Scotch Whisky Association is so rigid in its prescription of what Scotch whiskey should be that it is actually tending to stifle innovation. Scotch is the category leader and we are chasing after it. Embracing innovation is important in that regard.

The Deputy asked about the size of the whiskey export opportunity. In 2013, exports from the Republic amounted to €307 million, or €350 million if one includes Northern Ireland. In Scotland, exports of Scotch whisky are worth £4.3 billion. There is a huge gap to be bridged but the potential is there to do it. As I said, education is a major issue. There are massive opportunities around bioethanol, warehousing, increasing malt and barley production and so on. There are probably not enough suppliers into the distilling business at this time. If I had lots of money, the next business opportunity I would consider would be looking at other ways of getting a reduced price in bringing in malt and barley. In addition, the smaller distilleries probably do not have the capability to bring in large tonnage of barley, especially in the city centre. I can only take it in one-tonne bags. New and innovative approaches in the malting industry present significant opportunities for growth.

There also are real opportunities for growth in terms of employment. For example, we are looking at a cost of €10 million plus to get ourselves up and running and taking in at least 35 to 40 people in the next couple of years. There is a knock-on effect for tourism. We are located 600 m from St. Patrick's Cathedral, for instance, which gets 200,000 tourists annually. We will be looking to attract some of those visitors as well as tourists who would come to Ireland specifically to visit a new distillery. The interesting thing about brewery and whiskey tourists is that they are generally high net worth individuals who spend three or four additional nights in hotel rooms annually and have a higher net spend compared with other tourists. There is a massive amount of research from brewers in the United States and Scotland that we can leverage. When one considers that Scotland receives 1.2 million whiskey tourists per year, the size of the prize is clear.

Senator Mooney asked where I would like to see our whiskey being sold. I would not like to have spent more than five years developing what I hope to be an absolutely magnificent whiskey only to see it being sold in an off-licence at below cost by staff who do not have the expertise and attention to detail to educate customers about it. We do not want to see publicans serving it who have not been trained and cannot advise a customer against throwing a large measure of cola on top. With any premium product there is a requirement for those who sell or serve it to have a degree of expertise. We certainly are not targeting under-age drinkers. Given that our price point will be €40 plus per bottle, I do not see any 16 year old choosing it over a €7 flagon of vodka. We are trying to promote a premium product. My background is in agriculture and I have always been tremendously proud of the quality of our agricultural produce. We have always punched above our weight in that regard.

Mr. Willie Masterson: On the question of whether producers will be able to supply enough malting barley to the new distilleries coming on stream, I can say there will be no problem whatsoever. Malting barley grows well on light soils, including the Clonroche series soils which spread all the way from Wexford as far as Athy. Diageo introduced new rules this year which require that barley for distilling must be grown in soil that is under 9.5% protein and between 9.5% and 11% for malting. The difficulty is that one might do the very same things this year that one did last year, but there is no guarantee the soil will be within that protein range. It is essentially in the hands of the gods. Having said that, some 110,000 tonnes are being produced at the moment for Boortmalt, with the latter estimating, given all the extras that are coming on stream, that it will not need any more than an additional 15,000 to 20,000 tonnes to cover the distilleries. The 200,000 tonnes that were referred to earlier include Midleton and places like that.

Senator Susan O'Keeffe: Mr. O'Brien responded to my question about what he would consider an acceptable excise tax with the comment that such matters are for Government to decide. When he says that the industry simply cannot afford to pay it, is he saying that he wants zero tax?

Mr. Peter O'Brien: It is not acceptable to increase excise duty by 44% in two years, thereby making it the fourth highest in Europe. The industry has always paid an acceptable rate of tax. A reversal of last year's 20% increase would be a first step in returning us to an acceptable level.

Chairman: I do not mean to rush speakers, but parts of this discussion could more usefully have taken place at the health or finance committees. We are specifically interested in the agronomics side of things.

From the committee's point of view the report on the retail grocery sector is the most relevant to the sector, this in addition to the economic aspect, that is, growing the products and ensuring the export markets are developed, whether it is through Bord Bia and various outlets abroad. The witnesses have got the feedback from committee members, in the context of our report, concerning the way in which alcohol is being used as a loss leader. It would be better to ban alcohol advertising in the newspapers. Only 20% to 25% of sales are through independent off-licence operators the rest is through the major large multiples. That is the real problem. We have a very concentrated drinking problem in Ireland. The reasons for this are not simple but they can be identified and addressed. That is what we should go after. Part of the problem is the pricing structure, including the taxation structure. If that issue was targeted realistically, one could then consider alternative ways of targeting taxation. It was the drinks industry - perhaps not the witnesses who are present - who asked that the cost of a bottle of wine be increased by €1 as opposed to putting a tariff on a pint in the lead-up to the budget when there was a realisation that we were in the middle of difficult budgetary choices. At the time that was the preferred choice. People may disagree with that but that was the response at the time. I have to call a halt as there are two other presentations. We had intended to finish at about 4.30 p.m.

I thank the witnesses for appearing before the committee at relatively short notice.

Sitting suspended at 3.42 p.m. and resumed at 3.45 p.m.

Agri-Taxation Review: Discussion

Chairman: I welcome Mr. Patrick Kent, president of the Irish Cattle and Sheep Farmers' Association, ICSA, Mr. Eddie Punch, general secretary, and Mr. Kieran O'Dowd, national president of Macra na Feirme, Mr. Sean Coughlan, chairman of the agricultural affairs committee, and Mr. Derrie Dillion, agricultural and rural affairs manager. I thank them for appearing before the committee to speak on the agri-taxation review. Just to explain, some members of the committee have had to go to the Seanad and hope to be back but I hope that a couple of others members will be here. We considered it important to invite the witness to make a presentation so that it will go on the record.

Before we begin, I remind witnesses that they are protected by absolute privilege in respect of their evidence to the committee. If witnesses are directed by the committee to cease giving evidence on a particular mater and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

I propose to take both presentations together, Mr. Patrick Kent following Mr. Kieran O'Dowd. Is that agreed? Agreed.

Mr. Patrick Kent: I thank the committee for the opportunity to contribute to the agri-taxation review, announced in last year's budget. The ICSA believes that a progressive agriculture sector requires a tax regime which incentivises hard work and entrepreneurial spirit; assists those who have invested in developing and expanding their farms; supports efficient farm transfer between the generations without punitive capital taxes; features VAT, excise duty and carbon tax that makes Irish agriculture more competitive; and encourages long-term land leasing, farm partnerships, land consolidation and installation of young farmers.

We need long-term views not short-term gains when it comes to agri-taxation. By that we mean that the right tax incentives which lead to better land mobility, encourage young farmers to take over and support better farming structures will ultimately lead to greater tax take in the long run. However, even the best taxation policy cannot solve all of the problems faced by the low income dry stock sectors and I would be failing in my responsibilities to cattle and sheep farmers if I did not point out that we need to tackle the income crisis in these sectors as a priority. For some farmers however, their choice will be to look at alternatives to continuing to lose money on current enterprises and for them, we must look at the tax implications of such decisions.

Before I outline some of the key points made in our submission on the agri-taxation review, I wish to clearly state that the ICSA is resolutely opposed to any talk of land taxes. Farmers, like everyone else in society, should be expected to pay tax in line with their earnings and their ability to pay. We know and understand that the overall taxation context is heavily influenced by external pressure to balance budgets and by the need to ensure we can borrow from international markets.

However, it is also important to appreciate that increased taxes are acting as a deterrent to hard work and investment. It is an article of faith that there can be no increase in the 12.5% corporation tax rate because any increase would cost jobs and threaten foreign investment. Yet there seems to be no problem with taxing sole traders or self-employed people who are not incorporated at 52% on marginal income above €32,800. This is particularly severe in the context of enterprises trying to pay down principal on borrowings out of after-tax income. Accelerated capital allowances have been phased out, for example, the three years for farm waste management scheme expenditure, and there are no allowances for land purchase. Farm income volatility is also a huge issue that is impacted by tax levels. As volatility increases, farmers who have profit in a good year should ideally set aside some of this for the almost inevitable downturn in future years. However, saving money to invest in the business should be regarded as prudent but instead it is actively discouraged by DIRT rates of 41% and, more importantly, by high tax levels on profits.

The ICSA submits that "rainy day" planning should be encouraged as an alternative to income averaging. This would be facilitated by allowing an unincorporated farmer to invest a proportion of profits in a good year tax free into a special account, which could be accessed in future years for one of three options: for living expenses in a bad year which would be subject to normal income taxation; for investment in land purchase or farm development; and to cover exceptional costs such as extra feed in an extreme weather event. The key objective here should be that young farmers taking over the family farm should not be burdened with a potentially crippling tax bill at a time when they need all the finance they can get to make a go of the business.

From 6 December 2012, the Group A parent-child tax-free threshold was reduced to €225,000, progressively down from €434,000 in 2009, while the capital gains tax, CGT, rate has been increased incrementally, from 20% to 33%. Both of these measures increased the risk of significant tax liabilities for farmers who take over the family farm, either by way of gift or inheritance. These changes mean that a young farmer taking over the farming business where land and other assets exceed €2.5 million is at risk of a substantial tax liability on the excess at a rate of 33%.

On the other side, on capital gains tax retirement relief, budget 2012 provided for the introduction at the end of 2013 of a new upper limit of €3 million where the person transferring is aged over 66. While it is desirable to encourage early transfer of land, it is not always possible or desirable to do so. A potential CGT hit for those farmers over 66 years could have the perverse effect of encouraging holding on to the land until death.

In general, ICSA is concerned that the trend in recent budgets has been to expose more farms to greater risk of capital taxes on transfer, which we regard as harmful to the overall objective of a young farming population. ICSA has welcomed the general reduction in stamp duty to 2%. There is a special rate of 1% for transfers between blood relatives and 0% for young trained farmers. However, these rates are temporary and we would like to see them established on a more permanent basis.

Stock relief is vital for farms, which are expanding. We would like to see stock relief rules in place on a more permanent basis. We welcomed the introduction of farm restructuring relief. However, there are two problems here. First, the relief is only available until 31 December 2015 – this needs to be extended indefinitely. There is no reason for a short-term incentive; farms can only be restructured when the opportunity arises and when it coincides with the financial wherewithal. Second, the relief does not provide for sale and purchase of entire farms. However, it is clear that in many cases this will be the most efficient route to consolidating a farm holding. ICSA, therefore, submits that such transactions should also be facilitated.

The exemption of certain income from long-term leasing of agricultural land applies a number of restrictions on qualifying lessees. ICSA submits that this is unduly restrictive and is hindering stated Government policy on land mobility and the facilitation of partnerships and collaborative arrangements. Specifically, it is not possible to avail of the relief on income up to €12,000 in the case of five-to-seven year leases, €15,000 on leases of seven to ten years and €20,000 on leases greater than ten years where the lessee is a company or where the lessee is "a person with whom the lessor is in partnership". The uptake of the tax relief has been low suggesting that it is not achieving its purpose. A key reason is that many farmers are very reluctant to commit to the total loss of control over their land for an extended period.

ICSA submits that it is highly desirable to encourage older farmers to consider entering into partnerships with young qualified farmers. This is a more desirable option for some farmers who do not wish to retire totally and where a partnership could potentially bring much greater benefits in terms of developing a farm, and facilitating the involvement of young farmers on a collaborative or partnership arrangement.

In cases of genuine registered partnerships, there is a need to ensure both partners can achieve a reasonable economic outcome. It is also necessary to ensure that the relief for long-term leasing does not conspire to undermine the option of partnership. However, at present, the rules mean that land cannot be leased to a partner and therefore the older farmer is faced with rejecting the partnership option in favour of long-term leasing to a third party, with whom there is no collaboration. In turn, the older farmer may see that as undesirable as there is no involvement in sharing experience, keeping some control over the management of the farm or participating in the development of a business that will be more efficient under a partnership model and potentially more likely to facilitate new trained entrants compared with simply leasing out to the highest bidder.

ICSA submits that there is an urgent need to support more land mobility and that the preferred route should be through partnership. Accordingly, the long-term leasing tax incentive should also allow that qualifying lessees would no longer exclude a person who is in a registered farm partnership with the lessor and a company which has been set up for the purposes of a farming partnership arrangement and where there is a registered farm partnership in place involving a second partner who is not a family relation of the lessor.

ICSA also submits that the long-term leasing incentives need to be pushed more. We suggest that the highest level of leasing income exemption of €20,000 which currently applies to leases in excess of ten years should be allowed for leases of five to seven years for a once-off period of three years with a view to encouraging older farmers to move away from conacre. We believe that the current ten-year requirement for this is too daunting.

The increase in carbon tax in recent budgets has not helped the viability of farms and agricultural contractors. Excise duties are also damaging. The double tax refund available against the carbon tax is extremely cumbersome and not well understood. It is manifestly preferable to simply reduce carbon tax and excise duties on agricultural fuel.

ICSA believes that the employee tax credit discriminates against the self-employed, including full-time farmers. There is no longer any justification for this discrimination which potentially costs an individual full-time farmer €1,650 in extra tax, assuming a tax liability. ICSA believes that the employee tax credit should be replaced with an earned tax credit, in line with the Commission on Taxation, although it should be phased in quickly rather than over time.

Mr. Kieran O'Dowd: We, in Macra na Feirme, are delighted to have the opportunity to address the committee. It is unfortunate that there are such a small number in attendance today. We have met the members who are here on a number of occasions and know that they are supportive of young farmers.

From our own point of view, we have made a submission as well and I will read it into the record. At the start, we set the context: the need for food and agribusiness, the need for active farmers and the need for access to land.

Ireland, as a farming community, is delivering food security. It has the capacity to feed in excess of 30 million people, which is significantly greater than the population of this country. As a result, our key emphasis is on delivering top-quality safe food for the export market as well as for our own market. Also, in this country, we employing 150,000 directly, and many more indirectly, in the sector. We export 85% of our food to over 160 countries. It is a significant market and agriculture is a significant part of the Irish economy.

The need for active farmers is where Macra na Feirme wants to step up to the plate. At present, 7% of farmers are under the age of 35 and 45% are over 55. In 2000, 13% of farmers were under 35. The percentage under 35 has almost halved in 14 years. If that trend is to continue, the future would be bleak for young farmers. In order to grow the sector further, we believe measures need to be taken to ensure that young farmers are encouraged into the sector, and this agri-tax review will provide the forum for that.

On the need for access to land, from our point of view there are a number of structural issues which need to be dealt with, particularly around land use in the area of leasing and disincentivisation of conacre. As the Chairman will be aware, we completed a national land mobility study. The study found that 45% of farmers over the age of 55 do not have anyone to take over the farm after them. They may have children but they have no identified farming successor. As a result, we established a land mobility service headed up by the Mr. Austin Finn, who is a chartered accountant and farmer with a BSc (Ag). Mr. Finn has found in his work carried out since November that short-term land rental is a key issue and the conacre system is a major structural barrier. Many farmers are afraid to rent on a long-term basis and no matter what work farm organisations such as ours do, we still need support from the Government and further incentivisation of the longer-term leases and disincentivisation of conacre.

Outside of the family farm, there is little opportunity for a young person to get established in farming. In our opinion, the tax code should favour the active use of land. There is not as great a need for the tax code to favour inactive or non-farming land ownership. We need to farm the land to its full potential, whether through dairy, beef, suckler or forestry. The majority of Irish farms are family farms which need to pass from one generation to the next over time. This should not wait until the younger farmer has reached his or her late 50s because it is more difficult to make changes to the farm at that stage. The capital taxation code has by and large been favourable to facilitating this without an excessive taxation burden. That policy needs to continue. Taxation measures favouring on farm investment, such as stock relief and accelerated capital allowances, have yielded a significant economic return to the Exchequer through increased output and productivity, as well as greater environmental protection. Young farmer measures are important to facilitating the next generation of farmers to establish sustainable and viable farming enterprises. The European Council of Young Farmers, CEJA, has determined that farmers who are younger than 35 tend to show 40% more economic potential and utilise 37% more hectares of agricultural area. This highlights the importance of ensuring the early transfer of farms to young farmers to help achieve Food Harvest 2020 and future growth.

With approximately 6,250 leases currently claiming the tax relief on long-term leasing of land, the tax relief is not by itself resulting in a significant increase in long-term leasing because conacre is still more attractive to landowners. Auctioneers tend to encourage people to continue with conacre because it suits them to get the annual fees. Legal professionals prefer the *status quo* because they may not be familiar with the various incentives available. This is why we believe the reliefs need to be publicised more widely. Generally farmers are *au fait* with agri-taxation measures and are well served by agricultural advisers, whether from Teagasc or private consultants. However, it is hard to get over the line with auctioneers and legal people. We have heard anecdotal evidence this year of a mother who transferred land to her sons. Both parties to such contracts are now required to get legal advice. When the mother consulted her solicitor, the latter practically talked her out of the arrangement because of concerns about what might happen if her children put her in a nursing or on the road without utilising the land. These issues need to be addressed. We call for a more pragmatic approach by legal professionals that recognises the agricultural nature of the country.

I will now outline our main proposals on agri-taxation under the headings of income tax and capital tax. In regard to income tax, the 100% young farmer stock relief allows young trained farmers to offset an increase in the value of their stock against their tax liability. At the outset, all livestock farmers need to build up a viable production base through livestock. This is a long-term investment in the farm which needs to be achieved without a heavy tax burden. It would be permissible under state aid rules to extend the duration of the relief from four years to five years. Extending the relief would give young trained farmers an additional year to grow stock numbers and expand output at farm level without a heavy tax burden. Greater flexibility as to the activation timeframe of the relief would facilitate young trained farmers to select the five years they want to apply the relief from their longer term farm business plan. Young farmers do not always benefit from the relief in the first few years because they may not have the financial strength to grow stock numbers quickly. The amount eligible for stock relief should be increased from €70,000 to €150,000. This figure equates to a 100 cow dairy herd, which is a reasonable target for a family farm. Given that the average dairy herd is approximately 70 cows, a herd of 100 cows is an achievable target and it is something younger farmers are aiming for.

The current 50% tax relief for partnerships is limited to a maximum of €7,500. This is restrictive and given the efforts made to promote collaborative and partnership farming this relief should be significantly revised upwards. The 2020 Food Harvest report sets out a target of increasing by 33% the value of primary output over the next ten years. To facilitate investment by primary producers in stock we need to extend stock relief measures to 2020.

Access to land is one of the main structural barriers in Irish agriculture. Long-term leasing of land is unfortunately under utilised at present. Currently, the first €12,000 of rental income per annum is exempt from income tax for leases of between five and seven years, €15,000 for seven to nine years and €20,000 for ten year leases. We think these reliefs should be retained because they offer strong incentives. They need to be better publicised, however. We also propose a double rent relief for the first year of rental expenditure on long-term leases for active farmers. This would disincentivise conacre by offsetting the additional legal costs arising from the fact that each party now needs separate legal representation. Double rent relief would favour the person who is farming the land. The other reliefs favour the landowner. Revenue would need to provide landowners with an information leaflet on tax relief on land leasing. A key factor in allowing future young farmers the opportunity to scale upwards will be land availability and the opportunity for farmers to source land at a reasonable cost. Realistically, farmers are not going to be in a position to buy land and allowing them to lease land for terms of between five and 15 years will allow them to borrow from the banks to make affordable capital investments.

We believe there is justification for introducing a new initiative to alleviate farm income volatility for farmers operating as sole traders. The principle would be the creation of a Government bond to allow farmers to deposit surplus profits in good farming years and withdraw reserves in years with poor returns, subject to certain limits. On encashment, the value of the bond or fund would be liable for income tax. Initiatives of this nature have been introduced in a number of countries, including Australia and New Zealand. The bond or fund would double up as a young farmer fund to allow access to credit at a preferential rate. This could be administered through the NTMA, with the result that we would be investing at a preferential rate. Young entrepreneurs would be able to access credit to finance their business start up ideas and contribute to growth and job creation in rural areas. We propose that the scheme would allow farmers to take some excess income arising from a good year in farming and invest it in a government bond fund and withdraw up to certain limits in a year of poor return while paying tax on exit from the fund. The fund or bond could provide young farmers with access to credit and interest subsidised loans to facilitate establishment of new farm business and collaborative arrangements. While the Government might be paying a low interest rate to the farmer investing the money, it will be able to charge interest when the money is loaned to younger farmers.

Capital allowances are granted for tax purposes in lieu of a deduction for depreciation and are available in respect of certain qualifying expenditure incurred in the provision of certain assets for the purposes of a trade or rental business. We propose the introduction of an accelerated allowance for farm expansion to include buildings and machinery, with 50% in year one and the balance over two years, or at 33% per annum. We would also support the introduction of free capital allowances on plant and equipment that can be attributed to environmental or climate benefit, such as slurry spreading equipment with injection systems which benefit the environment, reduce emissions and deliver an enhanced nutrient value for farmers.

Another key proposal is the introduction of capital allowances on new farm building investments for landowners who are not farming but are engaged in collaborative arrangements to invest in the farm. They have the buildings and are renting them out to young, trained farmers. We think the introduction of capital allowances for those new farm developments should be encouraged. It would also help the farmer who has the land to invest in buildings, so that young farmers will be able to benefit from their use during the collaborative arrangement. We think this would also send a positive signal that the Government believes collaborative arrangements should be further encouraged.

As regards capital taxes, the current system of 90% taxation relief is important to land that is being transferred. It means that farmers can keep the block of land together and do not have to delve into assets to pay a taxation bill. That system should be continued.

Currently, relief is given by reducing the market value on which capital acquisition tax is calculated by 90%, provided that 80% of the gross assets post transfer are agricultural assets. We fully agree with that relief, which has served the country well. We therefore completely endorse it.

Landowners should be encouraged to complete a course in collaborative arrangements, particularly if they have no previous agricultural education. This would help them explore options for best utilising their land, be it leasing, share-farming or other collaborative arrangements of which there are many. It is another incentive and a way of getting the message across.

Stamp duty relief provides for exemption from stamp duty on certain transfers of agricultural property to young trained farmers. The fact that it has been kept quite low on farm land means that it helps with the transfer to young farmers. We do not want any obstacles in the way, so we want stamp duty relief to be continued in its current form. This relief should be agreed for a minimum of six years at a time to facilitate succession planning. These issue can sometimes take time to go through.

The future for the next generation of young farmers is promising. Young farmers in Macra na Feirme feel we want to be at the forefront of any developments that are carried out. The agri-taxation review will be key, along with the CAP and everything else, in fostering the development of young farmers into the future.

Chairman: I wish to thank Mr. O'Dowd and Mr. Kent for their detailed and comprehensive submissions. In many respects they were similar and complemented each other. Do any members wish to comment or put questions?

Deputy Thomas Pringle: I thank the witnesses for their presentations. I am not from a farming background so I might not have the same knowledge of agricultural affairs as my colleagues. The Macra na Feirme presentation seems to make a bit more sense concerning conacre leasing arrangements. If leases are not long enough for farmers to develop their farms, the idea is to penalise people renting on short-term leases rather than shortening the term where maximum relief comes in. That seems to make perfect sense and it would be a worthwhile proposal.

Given that the average farm income in 2013 was €25,000, how many farmers would benefit from stock reliefs? I imagine one would need to have a fairly high taxable income to benefit from the maximum amount of relief. Are any figures available for how many farmers would benefit from such reliefs?

Senator Pat O'Neill: I thank both groups for their presentations and apologise for having missed the ICSA one. We meet all the agri-groups prior to each annual budget and we listen to many similar presentations. Can both groups respond to the question of income averaging, which does cause a problem? Can the ICSA expand further on how income averaging can be achieved? Farming is a volatile sector and much depends on the weather, as well as on world markets.

In the beef industry, we can see the current problems for suckler farmers who will have no income. If they had an income averaging situation, however, they may have a tax liability at the end of the year. How can we manage this income averaging? The ICSA said that farmers could perhaps opt out of averaging for one year.

That ties into the Macra na Feirme presentation on income volatility. Mr. O'Dowd said that a bond could be put in place but can he expand on that? A bond can be taken out but for how many years can it be left in place? I presume that income tax will be paid on it when it comes out. I ask both representatives to expand on those matters.

Senator Michael Comiskey: I thank both gentlemen for their presentations. There is very little in either presentation with which we could disagree. We all want to see the farming situation improving. It is a low income industry and quite a number of farmers are not in a taxable situation. Getting young farmers to form business partnerships with older farmers is a key issue. It is worrying to see the age profile of farmers, only 7% of whom are under 35. In 2000, the figure was 13% so that is a worrying trend. We must all do our bit to ensure that more young people become involved in farming. Will the 25% increase under the single farm payment or CAP be a major help towards getting younger farmers involved in the sector?

I also want to raise the issue of banks. I came across an instance recently where a young farmer wanted to buy a house and 18 or 20 acres of land. The banks were reluctant to deal with him, but told him that if he were buying a house on its own they would give him a mortgage much more easily. One wonders what is happening in that respect. Some work will have to be done to ensure that such young farmers get an opportunity to buy farm land.

Chairman: I must advise both Senators that a vote has just been called in the Seanad.

Senator Pat O'Neill: We will have about five minutes before the vote. Can we ask the witnesses to reply before we leave?

Chairman: Does Deputy Heydon want to make a brief comment?

Deputy Martin Heydon: I will be brief because much has already been said on both presentations. The similarity between them struck me. I thank both representatives for attending the joint committee today. The issues of land mobility and access to land are common to both the ICSA and Macra na Feirme. As regards disincentivising conacre, we will ultimately have to look at making serious changes to how this is structured. During the CAP negotiations it struck me that we were the only country in Europe that had a problem with meeting the historical date for payment. That was all linked to conacre because other countries have medium or long-term leases, partnerships, and a much healthier approach to land, whereas we do not.

As regards rainy day planning, in Kildalton agricultural college I recall being told that farmers should beware of big cheque confidence. A big cheque may arrive one day but they will have to survive for the next six months without another shilling coming in, so they should not spend the money on a new tractor. The ICSA's rainy day proposal is an interesting one. We need to undertake a body of work in the coming months on foot of the presentations. I will allow the witnesses to answer the questions now.

Chairman: I do not want to rush Deputy Deering. The two Senators have put a couple of questions, so perhaps the witnesses can respond to them as they will have to attend a vote in the Seanad.

Mr. Eddie Punch: Income averaging is why we made the proposal for rainy day funding, which is similar to Macra na Feirme's bond idea. Income averaging is a little bit crude and inflexible in various cases, and it is not available to all farmers. It can be limited if there is off-farm income or if they are also involved in other businesses. In addition, once one gets into it one is stuck in for three years, which becomes a problem.

One only ever goes for income averaging when the problem arises, but that is not really what we would like to achieve here. We are saying that when years are good, people should be encouraged to have the possibility of putting some of their profits aside into a fund or a bond. That can be sheltered from taxation until they draw it down in the future. They will draw it down because at that point either they have an income crisis, in which case they will be paying a lower rate of tax when they draw it down anyway, or they may have an investment project they may wish to put it into. Alternatively, there may be a fodder crisis. By facilitating people in putting this money away each year where they have surplus profits over and above what they might need, one is encouraging planning. It is not done on the basis of income averaging, when one suddenly has one year and one has locked oneself into a three-year period.

I may as well address the issue of conacre, long-term leasing and collaborative arrangements. We have made a proposal, and it is important to understand what we are saying. Of course we all agree that short-term conacre is not the best deal. Long-term leasing is preferable to that but collaborative farming in turn is preferable to long-term leasing. Long-term leasing is fine when a farmer has made a decision that he is finished with farming, that he is happy to retire, but that is not the case for many farmers. I think we are going about the issue the wrong way if we think we can encourage men to lease out the land for ten years and say "day-day" to farming. That lesson has been reinforced by the recent Common Agricultural Policy reform, where people who had got out of farming and leased out their farm for a long time are high and dry in terms of CAP reform. Obviously there is a lesson in that for people, which is not to lease out all the land or go for short-term arrangements. For all the reasons we have given, in addition to the people who are sick of being involved in businesses that are not profitable, people in cattle and sheep who are making no money year in and year out and are telling us they have to do something different but for whom retirement is not on the agenda, collaborative farming might be a possibility. I am not saying this is a flood, it is a trickle but the trickle must be encouraged. In that case, one is faced with a strange dilemma. Under the long-term leasing tax relief arrangements, one cannot lease to a company or to someone with whom one is in partnership. This is where the problem arises.

Somebody looking at a collaborative arrangement needs to be able to understand how he is going to get income out of this arrangement and how his new farming partner is going to get income out of it as well, a sufficient income for two families. One of the issues is that if one can manage to make profit, then one has taxation issues. On the other hand if one goes in for a long-term lease, one can get up to €20,000 tax free. The rule on long-term leasing is an active disincentive to go into a collaborative shared farming partnership type arrangement. It is almost certain that the smart thing to do from an income point of view is simply to lease out the land and take the €20,000 tax free. On the other hand that is not attractive unless one is absolutely convinced that one has finished with farming and is happy to retire. We have a logjam. The ten-year lease with €20,000 tax relief is not attractive and that is an obvious fact because the scheme is not being taken up. The short-term conacre is the worst possible arrangement for all. There is a general agreement that collaborative arrangements are what we need to look at, but we must ensure the taxation system is working favourably for collaborative arrangements and that it is at least matching the taxation treatment of long-term leasing.

Chairman: Does Deputy Deering wish to make a point?

Deputy Pat Deering: I apologise for being late. I think the key point in all of these discussions is to get more young farmers into farming over the next generation. A startling figure from Macra na Feirme is that the proportion of farmers over 80 years of age is larger than those under 35 years of age. That is a startling statistic in 2014. If that figure is not reversed in a reasonably short time the agricultural system will be in serious trouble. There must be a change of attitude and I hope this process will encourage that change. We need a carrot more than a stick approach to try to do that. I welcome the discussion.

Long-term leasing is very important to that process as well. I think the whole process has been very well articulated today. The ICSA has elaborated on long-term leasing and Macra na Feirme has emphasised the importance of the role of young farmers and active farmers becoming involved in the system. An attitude and mentality change needs to come about as a result of this.

Mr. Kieran O'Dowd: Collaborative arrangements, long-term leasing and shared farming all need to be encouraged. While we would differ from our colleagues in the ICSA in so far as while we need to encourage long-term leases by incentivising and getting them publicised further in order that more of those arrangements are taken up, people who want to continue farming and have some link with the land also need to be encouraged and supported. The key statistic is that 48% of farmers over the age of 55 years do not have an identified successor. That means they will not continue farming indefinitely. They need to be given some option in respect of what they will do with the land. If they were to die in the morning and somebody takes over the land, the land must be farmed effectively and productively.

Deputy Pringle commented on the benefit and the stock relief. In the dairy sector in particular, young farmers in the early days will not be able to avail of the stock relief to its full extent. However, if they are expanding rapidly and if they have a good income coming from the good milk price and they want to reinvest into the business, we believe they could be caught with a significant tax bill at the growing stage. These young farmers are sole traders. They will not be seeking to incorporate the farm and will be paying tax at the higher rate. We believe they should be helped by being given the flexibility to grow and develop in the initial period. This should not apply to the dairy industry only.

Mr. Sean Coughlan: When one is developing a new business, every pound is a prisoner. Nobody wants to say he is avoiding tax or anything like that. The key metric Macra na Feirme is trying to get across is that we need to create economic activity. We know from the age profile of farmers that younger farmers will create this economic activity, especially in rural areas where it is most needed. That will lead to further taxation down the line and will broaden the tax base. Creating more economic activity will be a win-win for everyone involved.

Chairman: That is the key to it. Without stock relief, expansion is stifled. Without stock relief one will end up being unable to reinvest in the business. When one is trying to develop a dairy industry, the key is to use stock relief to grow the numbers reasonably quickly. This is the single most important taxation measure in place.

The two presentations today were very useful. I hope the taxation review body takes them on board because the suggestions in both presentations were constructive, productive and worthwhile. The key is to make land available to young people, but they do not necessarily need to own it. It was the tradition to own the land, but now one does not need to struggle to put the capital together to purchase land and then not be in a position to use the working capital to develop the business. Bar inheriting, winning the land or marrying into a farm, one could not get into land management. That is the key.

Short-term conacre is a problem in Ireland. It is unique to Ireland and is a major deterrent. Where somebody is thinking of retiring, is unsure whether he has a successor and wants to go into a collaborative or shared farming partnership for three or five years - I think five years should be the minimum - this provides the person who is trying to get on the farming ladder an opportunity to get started and move to a more permanent arrangement. I think there are very valid arguments for saying that the taxation treatment of income from both should be equal. It does not compel a person to get into long-term leasing to avail of the tax relief but we want that to be the ultimate goal if one does not have a successor. In the meantime we will allow a taxation incentive system for shorter-term arrangements. Both suggestions have merit.

We have invited other organisations to appear before the committee on 17 July.

I thank the witnesses for coming before us at relatively short notice. We consider it is important that before we make a submission to the taxation review body, we would hear from the main stakeholders, that is, the main farm organisations who represent both those who are trying to get into farming and the farmers who are thinking about retiring.

As there is no further business we will adjourn.

The joint committee adjourned at 4.30 p.m. until 2 p.m. on Tuesday, 1 July 2014.