Irish Co-operative Organisation Society Ltd

Pre-Budget Submission 2023

August 2022

Introduction

The Irish Co-operative Organisation Society Ltd (ICOS) is the umbrella body for the Irish co-operative movement – representing member owned and controlled co-operative businesses including multi-purpose dairy processing and milk purchasing co-ops, livestock marts, breed and animal health societies and a range of rural based enterprises and services including accountancy, farm relief and rural group water schemes.

Support for Co-operative Enterprises

The reform and modernisation of co-operative legislation is long overdue. The Department of Enterprise, Trade and Employment has been undertaking a review of the legislation for some time. As part of that review ICOS participated in the public consultation process initiated earlier this year. The completion of the review process is urgently needed to provide co-operatives with a new and appropriate legislative framework, as the current Industrial & Provident Societies (IPS) legislation from 1893 is widely acknowledged to be no longer fit for purpose in a number of areas.

In addition to legislative reform, ICOS is calling on the Government to review the tax treatment of co-op shares under specific circumstances. We believe these changes will support the functioning of co-operatives with minimal implications for the public finances. Our submission outlines two changes related to the transfer of agricultural property and co-op shares. In the absence of new legislation, we are also calling for a voucher support scheme to support smaller co-operatives to establish and develop.

Transfer of Agricultural Property and Co-op Shares	ICOS calls on the Government to classify co-operative shares as qualifying assets for the purpose of calculating the CAT agricultural relief (“agricultural property”) and CGT Retirement Relief (“qualifying assets”) on the transfer of the agricultural property. Where the holding of a certain number of co-operative shares is a condition of a Milk Supply Agreement (MSA), or terms of supply, or a requirement of the co-operative’s Rulebook, that number of shares should be classified as qualifying assets for the purpose of agricultural and retirement relief.
Capital expenditure recognition for Co-op Share Standard	ICOS proposes that co-operative share be made eligible for appropriate capital allowances similar to that for “Milk Quota” in the past. The co-operative share has become in many instances a requisite asset to sell milk, comparable to the previous obligation to hold a Milk Quota certificate. The capital expenditure incurred on the purchase of the qualifying shares should be eligible for capital allowances. Milk Quota qualified for capital allowances, the cost was written off over a 7-year period, at a rate of 15% per annum over 6 years and 10 per cent in year 7. ICOS would propose similar treatment for the qualifying shares.

Voucher Support for Small Co-ops	There is a disproportionate requirement on smaller co-ops, whereby they are required to carry out an annual audit. These are essentially micro enterprises, and in the absence of an audit exemption for small co-operatives, we believe there is an urgent need to assist them with the expense of their annual audit, a requirement not imposed on other company types of similar scale. This could be achieved by allowing small co-operatives to avail of a "Compliance Support Voucher" that would cover the cost of the audit, which costs typically between €2,000 and €3,000. Such a measure could be implemented relatively swiftly and would be of huge support to small co-operatives and the development of the co-operative model.

DELIVERING FOR A SUSTAINABLE AGRI-FOOD SECTOR AND RURAL ECONOMY

The agri-food sector remains greatly exposed to the threat of Brexit, given the ongoing political uncertainty in the UK at present. The sector is also greatly exposed to the inflation crisis brought on by supply chain pressures as a result of the pandemic and the illegal invasion of the Ukraine.

Support for intensive energy users from the geopolitical crisis	The dairy processing sector is an intensive user of natural gas, given the thermal requirements to manufacture dairy products and ingredients. Following the experience of a 6-to-10-fold increase in natural gas prices in 2022, the Government must set out a clear strategy to protect these businesses from the unsustainable rise in natural gas prices due to the prolongation of the war in Ukraine. Specific supports are permitted under temporary State Aid measures. Additional measures to displace fossil fuel use are outlined later in the submission under the Bioeconomy.
Support for farmers from rising fertiliser prices	The protracted war in Ukraine means that the uncertainty around the price and availability of fertiliser remains very real. It is not an exaggeration to suggest that we could face a catastrophic reduction in productivity and profitability at farm level should the predictions of gas shortages become reality this winter. It is vitally important that the Government as a whole including the Departments of Finance & Public Expenditure has a full appreciation of the challenges facing the agriculture sector due to

	the war in Ukraine and respond accordingly. ICOS calls on the Government to consider further support measures to alleviate the burden at farm level from the rise in fertiliser prices, balanced against the need to deliver on environmental commitments. Specifically, we are seeking the continuation of the Multi Species Sward and Red Clover Schemes at farm level in 2023, in which the co-op sector facilitated these schemes successfully at branch level on behalf of Government. We are also seeking the delivery of a new soil fertility programme including a lime support programme, previously earmarked in the Programme for Government and measures to support P&K application. Any new measures to support farmers against the rise in fertiliser prices must not discriminate against dairy farmers. The situation must be kept under continuous review and any recommendations by the Fodder and Food Security Committee implemented swiftly.
Accelerated Capital Allowances for Slurry Storage & LESS Equipment	Given the challenges related to water quality and the new measures contained in the Nitrates Action Plan, we believe that the introduction of accelerated capital allowances over a two-year period should be introduced for LESS Equipment and new investments in slurry storage and soiled water capacity.
Slurry Storage Capital Investment Package	Under the new On Farm Capital Investment Scheme, ICOS is calling on the Government to provide 60% grant aid to all farmers investing in slurry storage/soiled water. Investments in slurry storage and soiled water investments should be allocated outside the investment ceiling, as standalone investments.
Milk Recording Capital Investment Support	ICOS together with the Milk Recording Organisations have made a detailed submission to the Department of Agriculture, Food and the Marine following the establishment of a working group with industry and DAFM participation. The submission calls for capital investment support to enable the upscaling of milk recording services. Without State support, the industry will not be in a position to meet the increased demand for milk recording services. The upscaling of milk recording is critical to

	environmental sustainability, animal health objectives and responsible use of antibiotics.
ICOS "5-5-5" Income Stabilisation Tool:	The Programme for Government "Our Shared Future" commits the Government to consider further taxation measures to manage evolving issues such as market volatility and this objective is repeated in the Food Wise 2030 Report. Over recent years, ICOS has strongly called on the Government to introduce a new strategic risk management tool for primary producers especially sole traders. The measure proposed by ICOS, would be made available to enable a farmer to use periods when market returns are higher to create a modest "rainy-day" fund, to support them during periods when market returns are weaker. The measure will permit a farmer to voluntarily defer up to 5% of their gross receipts in any one year. The deferred funds can be drawn down at any time within 5 years and subject to income tax at the time of draw down, but in any case, must be drawn down within 5 years, and the proposed measure is designed to complement the existing 5-year income averaging scheme. The difficulties faced by dairy farmers in 2022 with significant volumes of their milk in fixed milk price schemes has demonstrated the urgent need to provide a range of volatility tools to protect farmers from the extremes of input and price volatility. We urgently call on the Department of Agriculture to renew its support for the measure and appeal to the Department of Finance to consider the proposal in the context of delivering economic sustainability for farm families affected by global volatility and geopolitical events outside the control of the primary producer.

Delivering the Bioeconomy – the Role of Co-operatives

Co-operatives engaged in the agri-food sector and their farmer members have received some welcome clarity in recent weeks with regard to sectoral targets on climate change mitigation. However, it is difficult for actors along the food supply chain from primary producer to processor to translate these sectoral targets into meaningful actions in the absence of a detailed roadmap or individual target on an enterprise level.

What is clear is that the agri-food sector will be expected to reduce emissions whilst producing high quality food, feed and fibre. The Bioeconomy presents a simultaneous opportunity to maintain farm incomes, reduce emissions, displace imported fossil fuel-derived inputs and encourage biodiversity and improvements in water quality. The CAP budget will support the sector for an 'as-is' scenario, however, farmers, food producers and processors are being asked to deliver above and beyond food production to deliver climate measures, this will require much more than what is allowed for in CAP-supported measures in order to continue producing food whilst delivering on improvements on carbon emissions, carbon sequestration, whilst helping improve water quality and biodiversity. There is much potential to not only produce food but also feed, fibre, high value biological chemicals, fuel and energy, but this will only happen with vital early-stage supports. The potential exists not only to contribute to the agriculture sectors climate targets but also to the energy sectors targets through renewable electricity and gas generation.

National and EU policy has developed rapidly in recent years from the EU Bioeconomy strategy of 2012 and 2018, with a recent review in 2022, this has a linked action plan as part of the EU Green Deal Circular Action plan. The Irish Government produced the National Policy Statement on the Bioeconomy in 2018 and this led on to the formation of an interdepartmental implementation group and later in 2020, a stakeholders' forum to further assist in the implementation of strategy through the development of an action plan. Bioeconomy policy is now also embedded in food and agriculture strategy through 'Food Vision 2030' particularly in enabling the "development of new bio-based value chains" and enabling the "scaling up of solutions". Finally, there is also policy alignment and shared ambition between Bioeconomy policy and the Climate Action Plan, with one of the express objectives of the latter being: "Funding mechanisms for Bioeconomy innovation at demonstration level will be explored, aiming to achieve coherence with NDP, Project Ireland 2040 funds, RRF & Just Transition."

ICOS would welcome consideration be given to the following in Budget 2023 from the perspective of the Bioeconomy:

Transformative Bioeconomy Demonstration Sites	ICOS calls on the Government to support the for a potentially transformative replicable demonstration sites, showcasing co-operatively-owned regional biorefineries co-located with anaerobic digesters. The already proven concept of biorefining grass will fit many objectives - Fulfilling the food first objective by refining valuable protein extract from grass whilst leaving behind an animal feed which is no less than the original grass in feed value. - Import substitution of soya derived feed shipped over long distances which is often sourced from deforested land with a high value grass-derived protein. - Follows the cascading Bioeconomy Principle by producing multiple products from one feedstock from higher to lower values. For example, the grass-derived protein extracted also has

	possible further potential in human nutrition. - The process of Biorefining can be symbiotic with the production of renewable gas as the liquid fraction left behind can be used as a feedstock for anaerobic digestion. This feedstock can be co-digested with grass and/or food/food processing waste, and cattle slurry.

Overall, this represents a truly circular approach will generate alternative sources of income for farmers, provide lower carbon feed and feed additives along with a valuable organic fertiliser. The process of establishing a biorefinery is capital-intensive, most especially for those to be first established – much of the technology will need to be initially sourced from other EU member states where biorefineries are already established. Practical research has already been conducted in the Irish context, most notably the Biorefinery Glas project which demonstrated a mobile pilot-scale plant in county Cork (https://biorefineryglas.eu/) and the 'Farm4more' integrated Biorefinery concept (https://www.farm4more.ie/).

Bioeconomy Trading Platform	Support for a co-operatively owned Bioeconomy trading platform to overcome the current siloed nature of the supply and market for feedstocks, co-products and by-products. The result of this will be less waste and greater participation in the circular Bioeconomy through more co-operation and integration, valorising more and more biological resources and reducing reliance on fossil-derived resources.
Viable Feed-in Tariffs & Longer Contracts	Appropriate and viable feed-in tariffs and longer contracts for the supply of renewable gas and electricity which will encourage more farmers and co-operatives to produce both renewable gas and solar energy. Farm buildings and co-operative food processing and agribusiness facilities have significant industrial roof-space which could be utilised to both displace on-site power usage and to generate a considerable excess of power which could be exported to the grid. Farmers and co-operatives will need surety of both quantity and of a viable feed-in price as well as a contract of several years duration. Farmers who have or are about to install solar PV technology should be given access to feed in

	tariffs even where TAMS or other capital grants have been or will be availed of.
Support for Renewable Energy Communities	The ability for co-operatives to act as 'Renewable Energy Communities' in themselves in a more standardised and streamlined manner would assist in the more expedient and efficient scaling up of community energy projects – particularly in Solar and AD plants. Co-operatives already have a legal and administrative structure and a cohort of proximate members who could readily fulfil a renewable energy community.

Funding to be allocated for the above measures in order to assist farmers and co-operatives to achieve climate and biodiversity measures outside of the funding ring-fenced under Common Agricultural Policy (CAP). Co-operatives and co-operative models are especially well-placed to use funding effectively and efficiently by reducing the repetition and administrative burden associated with offering individual funding supports. Furthermore, the existing bottom-up approach will ensure greater buy-in and participation in the measures to be implemented.

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