

ETI Inquiry: Growing the Economy and Creating Jobs with Lower Corporation Tax – comments from the Department of Agriculture and Rural Development

The Department welcomes the opportunity to input to the ETI Committee inquiry on the potential for economic growth and job creation following a reduction in corporation tax in Northern Ireland.

The Committee will be aware of the work of the Agri-Food Strategy Board (AFSB) appointed by the DARD and DETI Ministers to develop a strategic action plan for the agri-food sector.

In May 2013, it published its report, *Going for Growth*¹, in which it identified ambitious growth targets to 2020:

- Grow Sales by 60% to over £7bn
- Increase employment by 15% to 115,000 jobs
- Increase sales outside NI by 75% to £4.5bn
- Increase Value Added by 60% to £1bn

The AFSB identified seven themes which required action in order to deliver these growth targets in a sustainable way:

- Growing Market Share
- Working Together
- Sustainable Growth
- Innovation, Entrepreneurship and Skills
- Better Regulation
- Financing Growth
- Food Fortress

The Executive's Response to *Going for Growth*² details how the Executive will take forward agreed actions to address over 80 recommendations.

Key economic drivers detailed within these two documents include:

- Access to Markets – the AFSB saw a role for the Executive in assisting the opening of further global markets through building personal relationships with decision makers and addressing any barriers to export. This area also includes the development of a co-ordinated brand or identity for NI products, supported by a dedicated Agri-Food Marketing Organisation;

¹ <http://www.agrifoodstrategyboard.org.uk/uploads/Going%20for%20Growth%20-%20Web%20Version.PDF>

² http://www.dardni.gov.uk/ni_executive_response_to_going_for_growth.pdf

- Single Supply Chain – the AFSB considers that a change of mindset is required to build relationships within the sector and reinforce the message of a single supply chain. This requires trust, confidence and good communication across the supply chain. The AFSB sees a role for Government in terms of providing advice and guidance, opportunities for collaboration across the supply chain and enhanced support for those who participate in supply chain initiatives.
- Sustainability – The AFSB believes that NI agri-food must position itself in the global marketplace based on unique selling points. A clean, green image, twinned with world leading sustainable production models will act as a point of differentiation when competing against other countries. Research must be commissioned on various issues such as genetics, economically viable production, and scientific baselines, e.g. on GHG emissions, etc. to inform future development of the industry and to provide it with the tools to grow. The AFSB has specifically called for the extension of the gas network into the west of Northern Ireland to be accelerated, and for a solution to the problem of poultry waste to be identified and progressed.
- Innovation, Entrepreneurship & Skills – The AFSB reports that whilst investment in R&D and innovation is widely recognised as a key mechanism to achieve greater economic growth, NI's R&D investment as a whole lags behind the top performers and our neighbours. The AFSB calls for closer collaboration in providing support for R&D and innovation, and clearer communication as to the support available. The Board supports the establishment of an industry-led Agri-Food Competence Centre, as has been developed for other sectors. The AFSB seeks the introduction of agri-food into the education curriculum, and a significant increase in the number of training places at all levels in agri-food, as well as implementation of the Agri-Food Future Skills Action Group (FSAG) Action Plan.
- Better Regulation – the AFSB seeks the development of an agreed regulatory environment which adds value, is proportionate, informed and has a risk-based approach to regulation. In line with its commitment to sustainability, regulation on a partnership approach should be pursued (e.g. NIEA Prosperity Agreements).
- Access to Finance – the AFSB recommended the devolution of powers to vary Corporation Tax. The AFSB also highlighted specific difficulties faced by the sector in accessing suitable finance to fund business plans and achieve growth. The Board sees a role for the Executive in terms of providing funding for a Farm Business Improvement Scheme, ensuring more effective use of agricultural land, and facilitating increased uptake of European funding.

- Food Fortress – the AFSB notes that the geographical position of NI presents a significant business opportunity that can be harnessed to underpin the local agri-food industry’s reputation in terms of food safety and security and accelerate growth. The Board looks to Government to provide financial support to accelerate R&D in making NI a world leader in safe and healthy food production, and to assist the enhancement of traceability.

In addition to these priorities for action identified by the AFSB, the Department would offer the following comments.

Actions to stimulate growth and amplify the effects of reduced corporation tax should not focus entirely on the achievement of inward investment, although it is recognised that accelerated FDI will be critical in order to achieve the pace and scale of growth necessary to offset the effects of the reduction in the Block Grant and rebalance the economy. Indigenous firms and industries should also be encouraged to grow. The agri-food sector has demonstrated its ability to expand even during the most difficult of economic conditions. The work of the AFSB illustrates the ambition for further growth that exists within the sector.

If existing firms are to grow (or if additional FDI is to be secured), then exports will be critical given the limited size of the domestic market. Government has a key role to play in facilitating trade, in opening new markets and trade routes and in supporting the retention of existing markets.

Supply side conditions will, of course, have to be attractive. Investors will be looking for long term stability and commitment in the factors that are important to them, such as government investment in education and skills, R&D capacity and capability, digital connectivity, energy, transport and other infrastructure, etc. Human capital will be particularly important, which may suggest effectively aiming for an over-supply of workers with the necessary skills for the main growth sectors so that there is a pool of talent both to attract FDI and to service it when it arrives.

A long term commitment to these supply side factors should be reflected and made explicit in future government spending plans – and especially where budgets are under pressure. Government priorities should be clear in order to ‘de-risk’ investment decisions as much as possible, and there should be a coherence across government in driving a growth agenda. Therefore, given this context, a longer term policy perspective is required rather than focusing on the period leading up to the devolution of corporation tax. Government should set a clear framework within which business will operate and have an open, transparent and rapid decision making process.

While government can seek to adopt a business friendly approach (e.g. through better regulation), it cannot ignore wider issues relating to the social and environmental consequences of economic activities. The AFSB has recognised that sustainability must form an integral part of any growth agenda if success is to be achieved.

Balanced growth across the region should also be a key objective. A key feature of the agri-food sector is that it operates in all areas of Northern Ireland. Great care must be taken to guard against the risk that cuts in public services and employment opportunities as a result of the reduction in the Block Grant are felt most acutely in less accessible areas of rural Northern Ireland, while the benefits of economic growth are concentrated in the Greater Belfast Area.

**Department of Agriculture and Rural Development
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