COVID-19 Business & Economy Brief Week 16 June 22nd – 29th 2020

Good for (your) business? Your guide to the PFG

The Politics of Recovery: Can the centre hold?

Signs of a (tentative) consumer recovery …. But ….

….Consumer fears remain (and you need to know about them)

The new government agenda for (your) business

Plus…

Will Consumer fears slow the recovery?

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OUR ADVOCACY HAS BENEFITTED ALL BUSINESS

NOW IT CAN BENEFIT YOURS

As Plato once said….

If you leave involvement in policy and politics to others, don't be surprised if competitors get the better of you. Octavian has not "left it to others": In its commitment to a July stimulus, multinational-SME collaboration and helping SMEs with Government procurement - and putting business at the heart of recovery – new Government priorities reflect Octavian's published analysis of April 7th last, the first significant strategy produced.

Having helped business, we now want to help your business.

The welcome focus business in the Programme for Government (PFG) also comes with policy and regulatory proposals could – as the PFG candidly admits - threaten some businesses with extinction. On a more positive note the July stimulus (which we advocated on April 7th) will create resources.

We can help prepare your business on several fronts:

Helping your business / sector / region get its fair share of recovery resources

Influencing the shape of new regulation and reform

Improving the focus and implementation of recovery policies and measures

Integrating policy research, publication & communication and stakeholder engagement capacities, we turn analysis into action and action into results. Don't hesitate to contact me personally on marc.coleman@octavian.ie .

Finally, we need to care about our consumers and not just protecting them from the Covid-19 virus. In this edition we look at evidence of a retail recovery but also how consumer sentiment could slow that recovery down.

We hope you enjoy this briefing and wish you the best for the challenges ahead.

Marc Coleman BA M Econ Sci ASP MBA **Founder, Octavian Economics**

POLICIES & IMPLICATIONS FOR BUSINESS

OF

THE PROGRAMME for GOVERNMENT (PFG)

As John F Kennedy once said…

..The best time to mend the thatch is when the sun is shining. Drawing on his Irish peasant ancestor's ancient wisdom, he addressed the House of Representatives with this quote in 1962. With the exception of the urgent house building agenda, it still holds true.

But formed after four months of negotiations, the new Programme for Government (PFG) has decided – quite literally – to commit to a lot of thatch fixing at a time when, economically speaking, the rain is coming down in buckets. It's a brave choice. But after four months of lengthy negotiations we need a government and the governments extensive wish list of environmental and climate action commitments must be taken at face value if the Government is to hold together.

Which means business must be ready to engage. Well researched and communicated and impactful advocacy and effective representation can ensure the positive aspects of the PFG are implemented quickly and properly and the negative aspects are mitigated. The entire PFG also still has to be operationalised. By putting jobs and recovery priorities first (see "The Politics of Recovery" below) there will be more resources to implement the Climate agenda.

Programme for Government (PFG)

The PFG represents parties best response to the crisis under severe pressure. Its operationalisation, prioritisation and implementation will determine how successful those efforts are. be crucial. Already as the SME Recovery group told the Oireachtas Covid committee this week, the interim measures to help business, while appreciated, are not suitable for the long-haul of recovery. Leaving that issue to them (readers can check their comprehensive proposals on www.SMERecovery.ie) this briefing looks at the impact of the PFG on business under its three opening sections, namely:

- A Better Quality of Life
- Reigniting and renewing the economy
- The Green New Deal

The purpose here is to identify key **opportunities for business in the allocation of recovery resources**, **regulatory challenges** and **need for representation.** Subsequent briefings will focus on other individual policy areas (EU and global policy, education, health, housing, regional development and reform) in a more targeted way.

The document's commitments on regulation and reform are particularly extensive and detailed sectoral analysis will be needed across multiple areas of policy.

Overall a very strong focus on Climate compliance is evident throughout the PFG, from public investment priorities (for instance some 20% of the annual capital spend will go on cycling and pedestrian infrastructure) to public procurement and taxation. As the PFG the valid expression of a democratically elected Government, this briefing has no mandate to challenge its objectives: However greater clarity will be needed on how resources are to be allocated to business in sectors most affected (fossil fuels, car dealerships, haulage, car rental, construction, etc) as well as more generally in relation to more generic proposals:

How, for instance, will proposals to establish a worker's "right to disconnect" affect an employer's liability to employees? How will strategies for town and city centre renewal – and cycling and pedestrian projects - impact on traffic flows relevant to small business and retail during the critical recovery period? Will the shift from road investment to public transport delay or block the delivery a Cork Limerick motorway? Will tax relief policy incentivise the replacement of fossil fuel based vehicles?

Quantified (resourced) commitments

The PFG is not yet costed and references to specific resource allocations are few.

There are some references to specific amounts, however, and before taking in turn each of the sections aforementioned (Better Quality of Life, Reigniting and renewing the economy and the Green New Deal) we briefly examine them:

Figure 1 below outlines key commitments that are quantified, the most immediately important one being legislation to underpin the €2 billion credit guarantee scheme. The size and design of this and other business supports is a key concern of business representative bodies. The €9.5 billion proposed climate fund, Recovery Fund (as yet unspecified) and proposed allocations to Irish Water, local authories and cyclying and pedestrian projects create business opportunities but also issues in terms of timing and recovery priorities.

Figure 1 PFG Resource commitments and issues for business

PFG COMMITMENTS	IMPLICATIONS & ISSUES
• A July stimulus package followed by a Long Term Economic Plan in an October 2021 budge plus the €2 billion Credit Guarantee Scheme	• The responsiveness design and coverage of business supports – while welcome as interim measures – is an issue for business and the subject of Oireachtas representation in recent days. The July Stimulus package will be the first opportunity to address this. Further business consultation and adjustment may be needed in October.
• Will the Temporary Wage Subsidy Scheme be clawed back as intended?	Proposals to clawback the TWSS may be judged in the context of other budgetary decisions on spending and investment.
• Substantial Greening of procurement policy to ensure Climate compliance. Update and centralise procurement practice. A commitment to train SMEs to better compete for Government procurement contracts.	• SMEs may lack the voice to represent their concerns on implementation as well as the resources and expertise needed to climate proof procurement submissions. Training may only partly compensate for the higher time and staffing requirements.
• €360 million per year for cycling and pedestrian projects (=20% of capital budget)	• How will this policy be timed in terms of impacting on recovery phase traffic mobility? Will local authorities have the panning and logistic expertise to implement?
• €9.5 billion in carbon tax revenues hypothecated by legislation to Climate Action Fund to resource, specifically, ○ €3bn in fuel poverty alleviation ○ €5bn retrofitting programme ○ €1.5bn for REPS-2 Green farming Incentives	• A significant business opportunity in affected sectors (insulation, home energy, agri-food). Hypothecation of carbon taxes may set a precedent for other taxes to be ring-fenced in the same manner (LPT, Stamp Duty)
• Commitment to resourcing the €8.5 allocated to Irish Water's capital investment plan for drinking water under Project 2040	• A significant business opportunity in affected sectors. Use of Rural & Regional Development Fund for part of this is not yet quantified
• Allow local authority discretionary funding for social housing projects to increase from €2 million to €6 million	• A significant business opportunity in affected sectors

Quality of Life **- Can it be separated from living standards?**

The document begins with a "quality of life" section highlights of which are presented in Figure 2 below. The objectives in this section could be linked more explicitly to the importance of restoring employment as a matter of urgency to those affected by the crisis and their delivery could be scheduled accordingly.

Figure 2 **PFG Quality of Life commitments and issues for business**

PFG COMMITMENTS	IMPLICATIONS & ISSUES
QUALITY OF LIFE	**QUALITY OF LIFE**
• Development of "quality of life" indicators to drive policy developed mainly by Public sector and academics	• How will these reflect the need to rapidly grow employment? Will they burden small business with restrictive criteria for aid and how will taxpayers/citizens be consulted ?
• Establishing a "right to disconnect"	• How will this impact (& could it complicate) HR planning at such a critical time?
• Promote town centres using Scotland's "Collaborative Town Centre Health Check". Provide local authority seed capital to develop serviced sites.	• This is an opportunity to benchmark the cost of commercial rates with Scotland. Will provision of serviced sites be fair to those SMEs who have long term leases?
• Decarbonise road transport and incentivise Electric Vehicles (EVs)	• Has the cost of EV infrastructure roll out on a consistent basis been estimated?
• Publish a 10 year strategy for the haulage sector	• Does the EV industry have capacity to deliver targets?
• Incentivise "green fleet" taxis	• See two points above

Renewing the Economy **- Will business voice be heard in implementation?**

Figure 3 below looks at the issues arising from commitments in the "*Reigniting and Renewing the Economy*" section, excluding proposals on banking which will be dealt with in a future briefing. An immediate issue will be the new government's policy on clawback of the Temporary Wage Subsidy Scheme (TWSS). The incentive to continue, commence operation as an SME owner in the light of relative tax burdens and security is a key question also in an economy where job creation and risk taking will need to be incentivised.

Figure 3 **PFG commitments on Renewing the Economy and issues for business**

PFG COMMITMENTS	IMPLICATIONS & ISSUES
RENEWING THE ECONOMY	**RENEWING THE ECONOMY**
• Legislation for a €2 billion credit guarantee scheme. Warehousing of tax liabilities. Review of the Business Restart grant. Consider further grant support for SMEs. Scale up the Strategic Bank Corporation of Ireland (SBCI), Microfinance Ireland and EIB. Review the Pandemic Stability tool. Mobilise agencies to increase capacity and resilience. Expand local Enterprise Offices and streamline their and Enterprise Ireland supports.	• The Credit guarantee scheme is commented on above. The issue of the warehousing of tax liabilities may be an issue in terms of the mandatory nature of the lockdown and public service provision during the lockdown Review of the scale and design of grants and supports is arguably urgent and needs to be accompanied by an immediate review of implementing structures and processes.
• Create Big Business-SME partnerships. Create a Stage agency-SME group. Re-affirm commitment to FDI.	• The strength of SME and taxpayer voice in existing partnership structures is likely to be tested. The persistence and growth of the disincentive to remain or become an SME owner or self-employed is a key issue given the reliance of recovery on job creators.
• A July jobs initiative centred on a Recovery Fund. An October Long-Term National Economic Plan to create 200,000 jobs by 2025. Address small business taxes, USC surcharge. Use tax and spending measures to eliminate borrowing. Setting out a path for ending the Temporary Wage Subsidy Scheme (TWSS)	• Will the Recovery Fund and Plan both be targeted most at sectors most affected by the crisis? Will the balance of spending over tax measures compensate for recent budgets' retention of most of the income tax increases imposed during the last crisis? Public spending and pay priorities may be judged against private sector stimulus.
• Action on insurance costs. Create forum on regulated sectors. Review Companies Act. Reform receivership, examinership, liquidity	• Will policy on insurance, regulation and receivership reflect SME priorities? • A TWSS clawback could be contentious given plans to raise public spending.
• Setting up Sectoral Task forces. Rectify regional imbalances	• How will sectors and regions most affected be represented on Task Forces?
• A high level review of the Irish Economy by the Department of An Taoiseach. Empower the public service.	• Will SMEs taxpayers, consumers and the unemployed have proportionate representation?
• Promoting upskilling and reskilling. Strengthening Apprenticeship. Fast-track mid-career education models. Consult with "stakeholders on use of NTF	• Will third level and NTF spending prioritise jobs-relevant training over less urgent areas? What priority will unemployed / SMEs have as stakeholders re NTF usage?

Legislation for the €2 billion Credit Guarantee Scheme is likely to prompt contribution from business representative bodies, most of which have called for much more substantive and "cash rather than liquidity" based approaches to business revival (see "An Economic Response to Covid-19" – link www.octavian.ie - and also www.SMERecovery.ie and www.ibec.ie).

Here the relative weakness of the business and taxpayer voice compared to more publicly funded and/or academic voices favouring higher taxes, more regulation – with less focus on achieving spending efficiency and reform – is likely to affect policy the more the general election recedes into the distance. Maintaining a strong business and taxpayer voice will be essential – but very difficult – to ensure that the PFS's objective of a "Just transition" is attained. The dynamic of policy making remains strongly state driven.

Proposals to create new recovery groups with a cross Departmental and State agency involvement are welcome from the point of view of integrating policy. Particularly welcome is the proposal for Large corporations, SMEs and financial institutions to collaborate. This was proposed in *An Economic Response to Covid-19*.

The question is whether another recommendation of that report – for much stronger representation of business and taxpayer influence on policy – will also be reflected. Without that, these structures may not fully appreciate the needs of SMEs at this vital time.

This is also key for sectoral groups, for consultation on the use of the National Training Fund for reskilling and various regional initiatives: Speed and sensitivity to the needs of those most affected will make or break these initiatives. The question is whether this speed and sensitivity to the needs of those most affected will be sufficiently embedded into their governance and operational priorities.

The Green New Deal - Exciting opportunities but huge questions

Figure 4 below highlights in very broad outline the proposals under the "Green New Deal" (a further, more detailed, analysis of which will be contained in a future brief).

The promise to achieve a Climate Change Bill within the first 100 days of the new government will require much consultation on the deep and wide ranging implications of the bill. As well as broad questions of economic competitiveness posed by carbon taxation (although the proposal to raise carbon taxes is graduated over a decade) are existential questions facing offshore exploration, liquid gas, peat, fossil fuel vehicles and other industries that, the if the PFG is implemented in full, will not exist or be dying by 2030.

This vital part of the PFG deserves much more scrutiny than can be given here. One important preliminary conclusion can be drawn, however, even at this early stage: Where as economic decisions – such as to implement public sector pay increases – will draw analysis and reaction on a sectoral basis, the proposals under "Green New Deal" will have implications that are not just sectoral, but also acutely regional, with possibly profound political consequences (see article below on "The Politics of Recovery")

Figure 4 **PFG commitments on the "Green New Deal" and issues for business**

PFG COMMITMENTS

GREEN NEW DEAL

- Carbon tax: Increase the carbon tax to €200 per tonne by 2030 at a rate of €7.50 per annum until 2029 and €6.50 in 2030. Hypothecate revenues for retrofitting homes, REPS-2 and fuel poverty alleviation (see above)
- A Climate Action Bill within the first 100 days of the Dáil. Mandator 5 year carbon budgets. Sectoral audits for sustainability
- Establish a "Just Transition" Commission to oversee economic transition of those affected by climate action and create new jobs and adjust skilling programmes.
- A new Renewable Energy Supply Scheme with auctions by end 2020. A whole of government approach to achieving a target of 70 per cent of renewable energy by 2030. Connection to Celtic interconnector
- Targets and incentives for community supply of sustainable energy. Promotion of solar and wind microgeneration
- New Stress tests for Financial Institutions in relation to sustainable investment. A Task Force on Climate Financial disclosure.
- End new licenses for gas exploration. Withdraw EU funding from Shannon Liquid Gas Terminal project. Create alternative projects in the Shannon region. No importation of fracked gas.
- Require Bord na Mona to account for climate, biodiversity and water quality. Establish a Midlands task force to ensure a just transition for those affected
- Promote more sustainable consumption re-use and disposal of retail packaging (the Waste & Circular Economy initiative)
- Strengthen Agricultural water safety controls

IMPLICATIONS & ISSUES

GREEN NEW DEAL

While the PFG contains many exciting new initiatives and business opportunities in relation to Green investments – retrofitting 500,000 homes to B2 standards by 2025 being a case in point – it also contains existential threats to many businesses and industries. The termination of Shannon LGT funding , exiting from Peat in the midlands, and proposed elimination of fossil fuel engines by 2030 being cases in point.

As the Green New Deal section of the PFG candidly claims, climate change response "*will impact entire industries and regions*".

Even more candidly it states *"particular trades or professions may become obsolete"*

The proposals under the Green New Deal require more detailed analysis than can be provided here. A future brief will go into this vital area of government policy – and its political implications - more thoroughly.

For now suffice to say that whereas the economic proposals of the PFG raise serious sectoral distributional issues (between various sectors of the economy and between private and public sectors), the Green New Deal raises – as well as sectoral issues (some sectors face existential implications as mentioned above) – will face complementary regional questions that could augment the pressure on Government as it implements the programme (see also article below).

THE POLITICS OF RECOVERY:

An entire briefing is needed to cover the complex politics of this recovery government. That a century of rivalry beween Fianna Fáil and Fine Gael has ended - such an ending was recommended as a political response to the last crisis in *"Back from the Brink"* (Transworld, 2009) – creates already significant problems: The policy similarity of both parties means that, in terms of joint "market share" there would even in the absence of a severe recession be a tendency for both parties to suffer a fall in support. Given the decisions to come, pressure on backbench TDs wilil come from opposition TDs accusing them of being "just like" the other party. This will be particulaly acute for Fianna Fáil which faces rivalry from Sinn Féin in a way that Fine Gael does not.

But even within parties, fractures are likely. At particular ends of Fianna Fáil – Eamon O'Cuiv in the west and Jim O'Callaghan in the East – there are, respective, Republican and Liberal wings of Fianna Fáil that will be disapointed. Combining as they do ideological and geographic differences, these could provoke tension: Given the absence of any serious rival for Fine Gael's vote – and the absence of any Cabinet Minister from large swathes of the West and also the existence of Independent TDs in rural Ireland who threaten Fianna Fáil more than Fine Gael. Fianna Fáil therefore looks like a greater source of fracture.

However even within Fine Gael there is a noteworthy difference between the rank and file who voted to go into government by a margin of 80/20 and, on the other hand, party councillors who voted to support the government deal by a much narrower 57/43 margin. This will exert internal rather than external pressure on Fine Gael TDs.

In addition having both embraced a liberal stance on abortion and same sex marriage Fianna Fáil already face the slient (these voices are less reflected in media debate) of a voting block that – when the "home to vote" cohort of voters is excluded – may well exceed 40 per cent of those who voted at the last general election and whose disaffection is unlikely to be ameliorated by the presence of the Green party in Government. Facing a largely left wing opposition, the government will be under more pressure to move left on social policy to counter what some will perceive or portray as a rightward drift in some areas of economic policy. This will make it more difficult still for Fianna Fail and Fine Gael to connect with lost voters. The decision early on in the government – for instance – to implement public sector pay may be contrasted with future spending and tax decisions.

The concentration of Ministerial positions in Dublin – and in Cork (where one constituency accounts for the Taoiseach, Minister for Foreign Affairs and Trade and Minister for Public Expenditure and Reform – is a relatively unique feature of this cabinet. Independent TDs will make much of this issue making regional policy – and perhaps reform of cabinet selection and maybe even the electoral system – an issue in the future. Finally the sectoral balance of the Dáil needs analysis. Representatives of the private sector and women remain minorities in the make up of the Dáil and the Cabinet. With the private sector set to suffer far more, this may be as powerful a destabilising force as any regional imbalance in cabinet.

ECONOMIC DEVELOPMENTS:

+ 29.5%

m-o-m

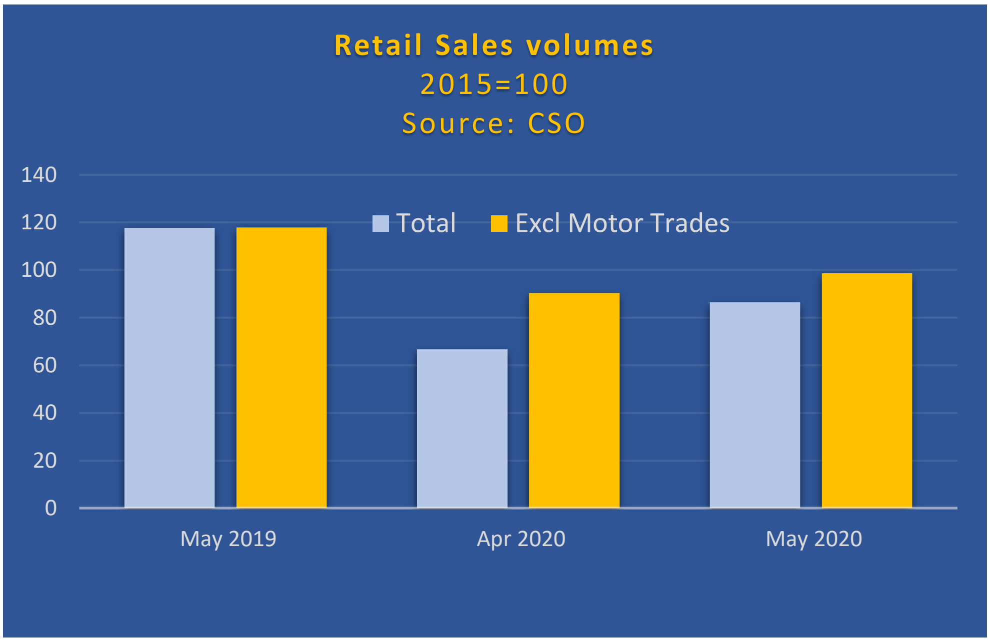
Retail sales: A (small) V-shaped recovery.

Compared to the same period a year ago, retail sales in May were still well down. In fact, the volume of retail sales has returned to pre recovery levels. But compared to April, the seasonally adjusted index of Retail sales volumes bounced back strongly in May rising 29.5 per cent.

Year-on-year, retail sales volumes remain 26.6 per cent lower than May 2019 levels but when Motor Trades are excluded, sales were 16.2 per cent lower. Correspondingly the bounce back for retail sales excluding the Motor Trade category was more modest in May, at 9.3 per cent.

The positive aspect of these figures is that while May remained a month of full lockdown, June should see further improvement. Excluding Motor Trades retail sales now remain at 2014, just as the last recovery was beginning. As well as the July stimulus, addressing consumer fears on a number of fronts will be critical – particularly for the pub and restaurant sector (see below).

For some sectors, however, the Programme for Government's policy stance will make recovery slow, difficult and in some cases impossible: Fossil fuel based cars are under government plans to be eliminated by 2030 and government initiatives on heating, energy and retrofitting could make whole classes of product obsolete.



WILL CONSUMER FEARS SLOW THE RECOVERY?

On 25th June, the Central Statistics Office (www.cso.ie) published survey findings on attitudes easing Covid-19 restrictions. Key findings include:

Going to a Pub

2m distancing	21.3% uncomfortable
1m distancing	39.5% uncomfortable

Going to a restaurant

2m distancing	12.9% uncomfortable
1m distancing	28.7% uncomfortable

Outdoor events

With large crowds	82.0% uncomfortable

Children's activities

Bringing children to a creche	57% uncomfortable
Involving children in Team sports	54.6% uncomfortable

Travel

Public Transport	63.3% uncomfortable
Travel by plane	78.0% uncomfortable

Annex on Covid-19 Cases & Deaths as of 28th June* 2020

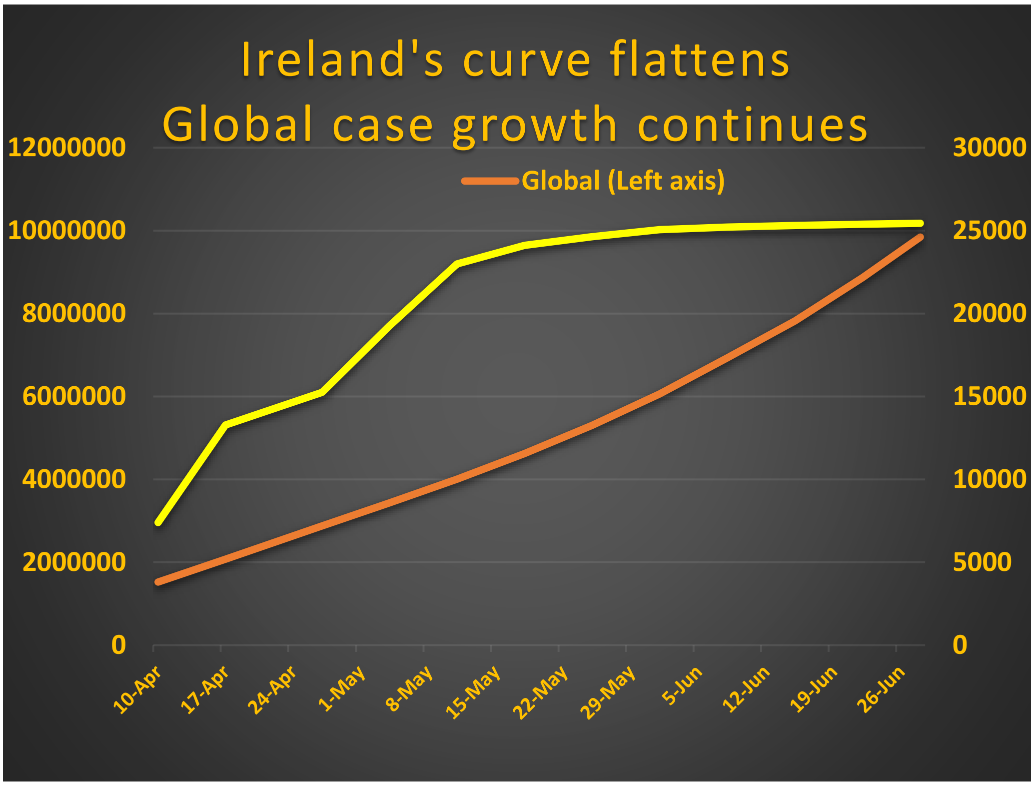
[Key findings are:]]

*Reporting methodology is changed to reflect the flattening of the curve with less emphasis on weekly rates of comparison and more on comparisons of Irish and global trends.

- The number of cases worldwide rose to 9.8 million as of 28th June, double the level recorded in mid-May. While more moderate, the weekly adjusted growth rate (comparing 28th June with 22nd June) of 12 per cent represents only a modest decline on the 13 per cent growth rate a week before. Total deaths worldwide have now reached 495,760 or 5.0 per cent of cases, down modestly from a 5.3 per cent death rate the week before.

- The number of Irish cases on 28th June stood at 25,437, compared with 25,379 six days before and representing an adjusted (week-on-week) growth of approximately 0.28 per cent, marginally down on 0.3 per cent a week before. Ireland's deaths from the disease, at 1,734 as of 28th June compared with 1,715 six days previously implying a modest increase in the week-on-week rate of increase

- Ireland's case curve is virtually flat. However, continued double digit growth in global cases underlines Ireland's policy dilemma. As argued in "An Economic Response to Covid-19" (www.octavian.ie) the lack of global coordination in relation to the crisis poses the risk of a second wave of the virus hitting countries that, like Ireland, have halted the spread of the disease domestically.



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