

Micheal Martin TD
An Taoiseach
Government Buildings
Merrion Street
Dublin 2

23 August 2022

State's role in managing business costs

Dear Taoiseach,

As you will be keenly aware these are incredibly difficult times for many Irish businesses, with significantly increased operating costs and depressed consumer demand placing many businesses under pressure.

The increased cost pressures are particularly acute for SME food retailers, who are facing major hikes in energy costs, higher labour costs, major increases in the prices of supplies and commodities and all against a backdrop of significantly decreased consumer spending.

Against this challenging backdrop, which is replicated right across the economy, it is incumbent on the State and the various agencies of the State to be extremely vigilant against excessive profiteering or price gouging in key sectors and entities that provide significant input costs to businesses and consumers. The State also needs to be extremely active in ensuring that the interest of SME businesses and consumers are protected and supported.

There are a number of ways in which this can be achieved;

1. State owned companies should focus on keeping prices low rather than driving up profits – the State still has a substantial stake in a number of companies that provide a core input to the national economy. It is vitally important that State owned enterprises in key sectors, especially in energy (ESB/Bord na Mona, Eirvia, Eirgrid) manage their operations in a way that does not increasingly burden SMEs and consumers at this particular time of challenge. It is also important that companies where the State holds a major shareholding have sufficient regard for their customers as they have for their shareholders – the States interest in the main banks is a prime area where the need to take regard for the broader public interest needs to be to the fore.

2. Regulators need to be active against price gouging and price signalling - it is incumbent on the key regulatory agencies to be extremely active in ensuring that competition is working effectively in key sectors providing input costs to the economy. Intrusive regulation is required to make sure that specific key sectors (especially energy) do not effectively operate a system of shadow pricing in a manner which raises prices and suppresses competition. Our experience has shown that Regulators and regulatory agencies need to be given some direction by Government on these policy imperatives rather than relying on them to reach these conclusions directly. General policy guidance can be provided to the regulatory agencies by Government without impinging on their statutory independence.
3. Moratorium on State costs - It is also hugely dispiriting for SME businesses to face additional State imposed or State sanctioned costs at a time when the business environment is severely challenging. Already businesses have a series of new State sanctioned costs “to look forward to” in the coming period, as a raft of labour costs increase due to the introduction of a host of statutory labour measures on pensions, sick pay and wage levels. In addition, there are other new compliance costs associated with different environmental schemes which are being rolled out, including the Deposit Return Scheme and the so called “Latte Levy”. Imposing new State sanctioned costs on Irish businesses at a time of unprecedented challenge is an act of national folly. Again, some central co-ordination will be necessary to encourage relevant Departments and agencies not to increase costs or charges in the current period of immense uncertainty.
4. Use tax to control anticompetitive behaviours - There are sectors of the economy which seem to be resistant to State efforts to bring down charges and costs, despite whatever initiatives are introduced. For instance, the insurance sector has shown itself to be entirely unwilling to pass on reductions in insurance costs, despite the extensive amount of reforms that the Government has enacted to reduce legal costs and personal injury awards. Similarly, the banking sector remains entirely focused on shareholder concerns and profitability as competition in the sector declines. On a previous occasion the Government successfully used tax to control corporate behaviour by banks (on bankers’ bonuses) which was not deemed to be in the public interest. I would encourage the Government to review the taxation options available to compel reluctant sectors to act in the public interest. For instance, if the insurance sector continues to fudge the reduction of premia, or the energy sector makes supranormal profits due to increased fuel costs, then the State should look to use the tax system to control such abuses, in the wider public interest. It is interesting to note that other Governments have introduced a windfall tax on energy companies profits in the current inflationary environment. Such an approach has merit in an Irish context.

Exceptional challenges call for exceptional responses and RGDATA urges the Government to adopt an active approach to helping to keep business costs down. As indicated above, some of these steps can be taken by enterprises owned by the State directly, whereas others can be secured by regulatory interventions or taxation measures. Central co-ordination and guidance is required as many of these entities tend to operate in a silo and without regard for their broader positive impact.

I hope that the Government will respond positively to this approach and I look forward to your response.

Yours sincerely,

A handwritten signature in black ink that reads "Tara Buckley". The signature is written in a cursive, flowing style with a long, sweeping tail on the letter "y".

Tara Buckley
Director General
RGDATA