National Competitiveness & Productivity Council
An Chomhairle Náisiúnta Iomaíochais agus Táirgiúlachta

Ireland's Competitiveness Challenge 2024

July 2024

Introduction to the National Competitiveness and Productivity Council

The National Competitiveness Council (NCC) was established in 1997. It reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment on key competitiveness and productivity issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

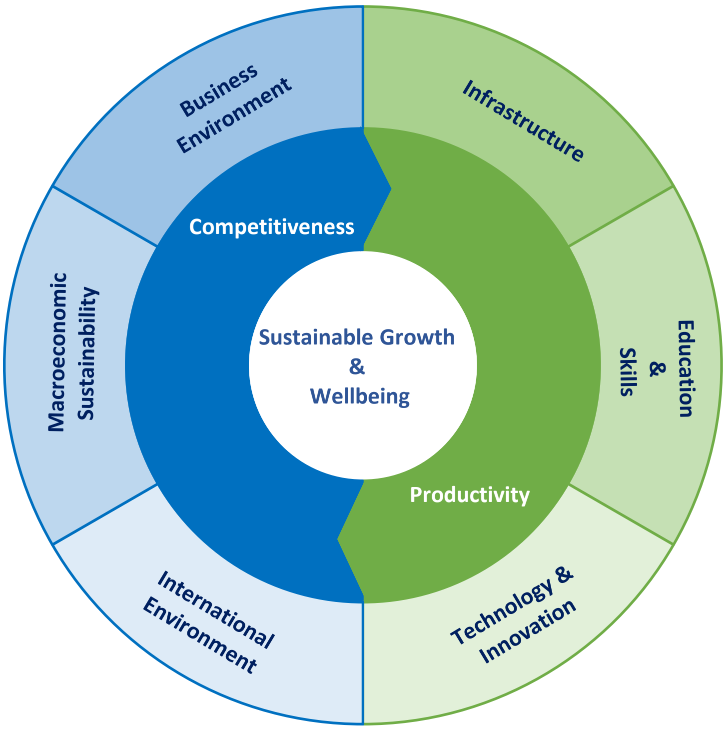
In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by euro area countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland. This expanded mandate underpins the decision to rename the Council, in November 2020, as the National Competitiveness and Productivity Council (hereafter referred to as "the NCPC" or "the Council").

Each year the Council publishes an annual report for Government on the key competitiveness and productivity challenges facing the Irish economy and suggests specific policy actions to address these challenges. In its assessment of the competitiveness challenges facing Ireland, the Council is guided by the Competitiveness and Productivity Framework (see below), which depicts productivity and competitiveness as two mutually reinforcing concepts.

As part of its work, the Council also periodically publishes:

- A **Competitiveness Scorecard**
- A series of **Competitiveness Bulletins** and other papers on specific competitiveness and productivity issues.

The Council's Competitiveness and Productivity Framework



National Competitiveness and Productivity Council Members

Dr. Frances Ruane	Chair, National Competitiveness and Productivity Council
Dr. Laura Bambrick	Head of Social Policy & Employment Affairs, ICTU
Edel Clancy	Group Director of Corporate Affairs, Musgrave Group
Leo Clancy	Chief Executive, Enterprise Ireland
Ciaran Conlon	Director of Public Policy, Microsoft, Ireland
Luiz de Mello	Director of Policy Studies, Economics Department, OECD
Maeve Dineen	Chair of Ireland's Financial Services and Pensions Ombudsman
Brian McHugh	Chairperson, Competition and Consumer Protection Commission
Gary Tobin	Assistant Secretary, Department of Enterprise, Trade and Employment
Michael Lohan	Chief Executive, IDA Ireland
Liam Madden	Independent Consultant, Semiconductor Industry
Neil McDonnell	Chief Executive, ISME
Bernadette McGahon	Director of Innovation Services, Industry Research & Development Group
Fergal O'Brien	Director of Lobbying and Influence, IBEC
Michael Taft	Research Officer, SIPTU

Council Advisors

William Beausang	Department of Further and Higher Education, Research, Innovation and Science
Anne Marie Brooks	Department of Children, Equality, Disability, Integration and Youth
Garret Doocey	Department of Transport
Niall Egan	Department of Social Protection
Colm Hayes	Department of Agriculture, Food and the Marine
Paul Hogan	Department of Housing, Local Government and Heritage
Paul Bolger	Department of Environment, Climate and Communications
John McCarthy	Department of Finance
Colin Menton	Department of Public Expenditure and Reform
Andrew Munro	Department of Justice
Cian Ó Lionáin	Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media
John Shaw	Department of the Taoiseach

Research, Analysis and Secretariat

Dr. Dermot Coates	Department of Enterprise, Trade and Employment
Rory Mulholland	23 Kildare Street, Dublin 2, D02 TD30
Dr. Keith Fitzgerald	Tel: +353-1-631-2121
Pádraig O'Sullivan	
Karen Hogan	Email: info@competitiveness.ie
Erika Valiukaite	
Jordan O'Donoghue	

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Taoiseach's Foreword

The Irish economy, and indeed our society, have shown remarkable resilience in recent years – despite COVID, Brexit, and a period of rapid inflation, amongst other challenges. Thanks to our highly skilled and committed workforce and our dedicated and adaptable business community, backed by Government, we have navigated these challenges, and today can reflect on a record 2.7 million people at work, with job growth and investment taking place throughout our country.

The Government however is not complacent about Ireland's competitiveness position. As I've said before, we can't take continued success for granted. We must be live to the challenges we face - and take the necessary steps to respond. This is all the more important as many of the dominant economic trends of past decades, from which we as a country have clearly benefitted, such as global economic integration, the growth in trade and connectivity, are now slowing, if not outright reversing.

I welcome this report, and the analysis of the National Competitiveness and Productivity Council, as an important contribution to how we understand our competitiveness and the challenges we face, and as a help in identifying the further steps which need to be taken.

The Government wants to ensure businesses in Ireland have the right environment in which they can succeed. In particular we know that small and medium sized businesses are vital to our economic success. They are also the sector facing the greatest productivity challenge. As outlined in this year's report, the cost of doing business remains a longstanding issue for our competitiveness. The Government has taken measures to support businesses in the face of rising costs, most recently through our SME package, and will pay careful heed to the Council's advice.

I also welcome the continued focus of the Council on the skills and talents of our workforce. Building, and retaining, a skilled pool of talent will be essential both for future growth and for delivering our ambitions in areas such as housing, climate action and digitalisation. To do this, the Government is continuing to work to reimagine the way we think about education, and to better support workers adapt, up-skill, and re-skill throughout their working lives.

As identified by the Council, the other area we need to focus on is overcoming capacity constraints. To maintain our competitiveness, we need to prioritise productive investment in infrastructure – housing, energy, water and transport – as well as research and skills. This investment is now being delivered, with record levels of public investment taking place, alongside reforms to accelerate planning, reduce legal challenges and costs, and improve delivery.

I would like to thank the Council for its work in compiling this year's report. We will now host a Competitiveness Summit in September to meet with businesses and industry on how we can ensure Ireland remains competitive in a changing economy. A formal Government response to the recommendations will be published in October.

Simon Harris T.D.,
Taoiseach

Chair's Preface

Competitiveness has come to the fore of the political agenda at both national and international levels over the past year. International competitiveness cuts across numerous domains including: the differing pace of innovation across enterprises, sectors and regions; positioning within global value chains; access to global supply chains for critical raw materials; and engagement in critical technologies. Compared to USA and China, the EU's innovation and growth performance has been relatively weak, and the challenge for enterprises in accessing finance is contributing to this. Similarly, energy costs and supply dependency are negatively impacting the EU's competitiveness, pointing to the need for improved delivery of green public infrastructure.

Compared to other EU member states, Ireland has continued to perform relatively strongly in terms of its competitiveness throughout 2023 and into 2024. But complacency is unwarranted. There remain significant longstanding challenges to securing Ireland's competitiveness into the medium to long-term, many of which have been highlighted by the Council in our previous reports over recent years. Government needs to do more to address these challenges and in this year's *Competitiveness Challenge*, and we call out further actions that must be progressed, if we are to achieve sustainable growth. This reflects the nature of competitiveness, which requires persistent action over a number of years with the impacts only becoming evident over time.

This year's *Challenge* report is framed through the Council's recently adopted *Competitiveness and Productivity Framework* which sets out six core areas which dictate Ireland's competitiveness and productivity performance, towards the goal of sustainable economic growth, including quality employment and improved living standards for all of society. They are: Macroeconomic Sustainability, International Environment, Business Environment, Infrastructure, Education and Skills, and Technology and Innovation. This year, the Council has brought forward the publication of the Challenge report, with a view to increasing the focus on medium- and long-term issues in policy discussions in advance of Budget 2025. At a time of persistent global economic and political uncertainty, we must seriously address those issues that are within our own sphere of influence and control.

Historically, Ireland's economic model has leant on our capacity to attract internationally mobile foreign-owned businesses, and the potential spillovers arising to boost our domestic SMEs. These businesses have contributed significant numbers of high-paying jobs and account for a sizeable share of the Exchequer revenue. Paradigm shifts at EU level in relation to the role of State Aid are a threat to the EU level playing field from which Ireland has benefitted enormously. This new challenge, combined with continuing infrastructural deficits (most notably in housing, energy, water, and waste-water), risks our reputation as an attractive location for new FDI.

Furthermore, these infrastructural deficits are adversely impacting our existing enterprise base by adding to the cost base for all businesses, including SMEs, which have to compete on both local and global markets. The infrastructure challenges are compounded by a rapidly growing population, and it is imperative that the forthcoming National Planning Framework take full account of the exigencies of a larger State. Addressing these infrastructural challenges will require Government to engage in strategic prioritisation and sequencing of capital projects, and increased efficiency and timeliness of delivery, particularly in the context of an economy that is operating at capacity.

Dr. Frances Ruane,
Chair, National Competitiveness and Productivity Council

Overview

Immediate Challenges

Last year’s *Competitiveness Challenge* report was framed against an uncertain global economic outlook. While this uncertainty has persisted, global growth remains steady. The Irish labour market continues to perform strongly with a record number of people at work, and inflation is decreasing and is expected to decline further throughout 2024. The falling rate of inflation in Ireland over the past year has mirrored the broader pattern observed across the euro area. This is reflected in the decision by the ECB to reduce key interest rates by 0.25%, which will have a positive impact on lending rates to enterprise once passed on by domestic banks.

Ireland has continued to score highly on international competitiveness rankings in recent years – the Institute for Management Development (IMD)’s World Competitiveness Yearbook 2024 ranks Ireland as the most competitive country in the euro area – driven by strong economic growth, our highly skilled workforce, and our success in attracting inward investment in high value-added economic sectors. Despite this, long-standing issues continue to weigh on our economic performance. Ireland’s high cost and price position, and our low levels of unemployment, also point to an economy operating at capacity. In addition, there remain significant legacy challenges to securing Ireland’s competitiveness into the medium to long-term, many of which have been called out by the Council in our previous reports. Government needs to do more to address these challenges and in this year’s *Competitiveness Challenge* report, further actions are identified that must be progressed if Ireland is to achieve sustainable growth. This reflects the nature of competitiveness, which requires persistent action over a number of years, with the impacts of this action becoming evident in the medium to long-term.

In an intensely competitive international environment, there is a need to prioritise actions to address competitiveness issues related to energy costs, renewable energy provision, infrastructure, housing and water/wastewater. In the context of such concerns and given the concentration of corporation tax (and income tax) returns arising from a small number of large multi-nationals, a prudent approach to fiscal policy is advised – with a focus on productivity-enhancing capital investment ahead of a pro-cyclical expansion in current expenditure, and a focus on actions which mitigate rather than exacerbate capacity constraints (**Recommendation 1.1**). These capacity constraints, combined with growing vacancy rates in commercial office space, should motivate a prioritisation of residential development projects in the allocation of construction labour (**Recommendation 1.2**). In the context of economic volatility, data are crucial to inform decision making. For example, there is a dearth of public data on insolvencies and liquidations - increased reporting is needed on trends in incorporations, restructurings, strike-offs and liquidations. This would improve transparency in this area, as well as the quality of information available to businesses and those making investments (**Recommendation 1.3**).

Medium- to Long-term Challenges

While international developments can impact on a country’s international competitiveness position, it is our domestic performance which will determine Ireland’s competitiveness and economic growth over the long-term. Making progress on this front requires a continuous focus over time. Consequently, recommendations for improved competitiveness and productivity performance are often being quite similar each year – particularly in areas where progress has simply been insufficient. This repeated nature, however, only increases the urgency with which progress is needed. The Council make the following recommendations to Government in order to better secure sustainable economic growth and wellbeing for Ireland in the long-term:

- **Utilise the potential of the European Single Market** to enhance the growth and scaling opportunities for Irish firms. The international trading environment has faced challenges in recent years with concerns in relation to regionalisation taking hold. Supply chains and critical raw materials are getting increased attention, and more defensive trade policies have been introduced. Open trade has significantly benefited Ireland in the past number of decades and we should continue to seek open trade with our partners and utilise our competitive strengths rather than seek to secure inward investment through subsidisation. **Further integration of the Single Market (Recommendation 2.1)** represents a key competitive advantage, for which Ireland should continue to advocate. There remain significant opportunities to enhance integration in the area of services, by reducing the level of regulatory and administrative burden experienced by firms both domestically and in cross-border trade. This will enhance the EU's competitiveness as a whole. The loosening of EU State Aid rules is a threat to the Single Market's level playing field and Ireland should maintain its position in opposition to this. In particular, **progressing a Capital Markets Union (Recommendation 2.2)** offers a clear path for Irish and EU firms to scale more effectively, which is essential to their prospering in a global environment.

  Greater uptake of pension and long-term saving options across the EU will help increase the depth of EU capital markets. This has been a competitive disadvantage for the EU in comparison to the US and addressing it will enhance growth opportunities. While the international environment, and actions by other countries, have a clear influence on Ireland's competitiveness position – ultimately, the most important actions it can take to improve its position are domestic in nature **(Recommendation 2.3).**

- **Address issues relating to the cost of doing business**, which remains a longstanding challenge to Ireland's competitiveness. A variety of factors are influential here. To a certain degree, Ireland's cost position is reflective of high incomes which in turn is facilitated by the strong level of value-added in the economy. However, there are cost factors which are not reflective of a competitive equilibrium. In particular, the mismatch between aggregate demand and aggregate supply is adding to costs, this can be seen in ongoing labour market tightness and reflected in the slow delivery of key infrastructure set against a clear demand in areas such as housing and energy. These costs impact on Ireland's attractiveness for both large firms and SMEs. It is therefore important that an enhanced SME test is implemented to ensure that an enterprise perspective is present across all major Government decisions. This offers an opportunity to comprehensively set out (and consider) forthcoming impacts on business annually. The degree to which new regulations impact on firms should also be evaluated thoroughly and in a quality-assured manner, prior to their introduction **(Recommendation 3.1)**.

  There have been numerous cost challenges for firms in recent years, including increased input and energy costs, along with rising labour costs. While the recent Government's intervention to support SMEs was welcomed by this group of firms, the evidence for one-off broad supports is not clear. Instead, Government should ensure that the necessary and fundamental conditions for SMEs to compete are fair and adequate, and that direct Government intervention is only considered as a last resort **(Recommendation 3.2)**. This will ensure enhanced value for money in the implementation of Government enterprise policy.

- **Take action towards building and retaining a skilled and talented labour force.** The supply and quality of education and skills in an economy is vital for economic growth and for competitiveness. In the context of changing market demands, a highly skilled and dynamic labour force is more productive, innovative and adaptable.

Ireland has performed well in developing a more skilled workforce over the last decade. However, with Ireland being essentially at full employment over the last two years, there are capacity constraints which are limiting Ireland’s ability to expand output – particularly in the delivery of infrastructure – and this is a key competitiveness concern. The changes in the world of work, driven by the digital and green transformations as well as by population ageing, have been associated with greater job instability, reduced job quality and with potential additional costs for companies, workers and society. Skills mismatches are recognised as an issue for the Irish labour market. This points to the need for action on lifelong learning, potentially utilising the National Training Fund.

A review and evaluation of existing Active Labour Market Policies, that leverages the available skills data, would help in optimising skills development and mitigating mismatches between the capabilities of our workforce and the requirements of enterprise (**Recommendation 4.1**). The availability of skilled and qualified workers are a key ingredient to support Ireland's economic growth and development. The Council believes that addressing shortages in key areas – including green, digital and construction – is urgently required in order build and retain a talented and skilled labour force in Ireland (**Recommendation 4.2**). Similarly, improved opportunities for learning are critical for addressing skills needs in the economy, particularly so in the context of the green and digital transition, and the National Training Fund has a key role to play as part of this (**Recommendation 4.3**). With an economy at full employment, and capacity constraints emerging on multiple fronts, inward migration will continue to be important in filling critical vacancies. Salary thresholds for employment permits were unchanged for almost a decade, and it is important in the future that these keep pace with inflation and economic growth, particularly given the increased competition globally for particular skills in certain areas. However, this must also be balanced against the cost pressures for businesses, particularly SMEs (**Recommendation 4.4**).

- **Embrace the opportunities afforded by technological change and innovation.** Innovation is a fundamental driver of economic progress and an important determinant of international competitiveness. Through innovation, firms can boost their productivity, enabling them to introduce new processes, products, and services, and to deliver value and secure advantages over their competitors. Investment in research and development (R&D) is key for Irish enterprises to innovate, allowing them to compete and thrive in competitive domestic and international markets.

  Large firms in Ireland continue to outpace SMEs on R&D activity, their degree of digitalisation, and their use of advanced technologies. There is also evidence of a gap in the level of cyber-security protection between large firms and SMEs. Robust cyber-security systems are fundamental to the widespread use of digital technologies, and cyber-security will likely represent a growing component of the enterprise cost base over time.

  Ireland performs well compared to the EU-27 in terms of the digital intensity of firms and the use of AI technologies. However, a significantly greater share of SMEs (70%) report a low digital intensity compared to larger firms (25%) and this has implications for the adoption of AI, as basic digitalisation is seen as a prerequisite to the use of more advanced technologies. AI offers significant potential benefits for firms across all size classes. Evidence from industry suggests that there are divergent rates of adoption, by firm size and sector, with barriers preventing the further take-up and integration of AI systems. A consideration of the appropriate policy tools for incentivising the adoption of AI technology by SMEs could assist in driving higher adoption rates (**Recommendation 5.1**), while an assessment of current and future barriers facing SMEs in using this technology could inform Government policy on addressing divergent adoption rates (**Recommendation 5.2**). The high-level actions set-out in the Government’s National Quantum Strategy broadly align with the Council’s recommendation in *Ireland’s Competitiveness Challenge* 2023. The publication of a detailed implementation plan is fundamental for the effective oversight of the Quantum Strategy and in ensuring the timely delivery of outstanding actions (**Recommendation 5.3**). Ireland must also be an active and vocal participant in the development of an open and ambitious EU digital trade agenda, and this will require close cooperation with likeminded partners (**Recommendation 5.4**).

- **Tackle obstacles to the planning and delivery of sustainable infrastructure.** Infrastructure is a fundamental component of our competitiveness, and a vital part of both our support for SMEs and our foreign direct investment offering. Infrastructural deficits act as a drag on competitiveness, and Ireland must make progress in order to keep pace with international competitors.

  Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprises will outstrip supply, with ramifications for SMEs and the investment decisions of internationally mobile foreign-owned firms. This represents a significant reputational risk for Ireland. While progress on the delivery of infrastructure is required on multiple fronts – and must be accompanied by the reforms to planning and regulation which are currently underway – careful consideration must also be given to the strategic sequencing of investments, particularly given the current context of an economy operating at full capacity, with a tight labour market. In Ireland planning has persisted as an on-going area of considerable concern in relation to infrastructure delivery. Despite some improvements, the time taken to receive planning permission remains a constraint.

  Steps must be taken to ensure that supply is not outstripped by the demand for our public utilities in the coming years, and it is vital that the new National Planning Framework take full account of the challenges posed by our rapidly growing population (**Recommendation 6.1**). The Council welcomes the progress of the Planning and Development Bill through the Houses of the Oireachtas. This legislation will go some way to addressing the shortfalls of our planning system, and – once enacted – must be implemented as a priority (**Recommendation 6.2**). Previous studies have found that the cost of conveyancing in Ireland is significantly higher than in other countries with similar legal systems, and the establishment of a specialist conveyancing profession would help drive competition and efficiencies in the provision of conveyancing services (**Recommendation 6.3**). Finally, the achievement of targets set out in the *Climate Action Plan* and ensuring the sustainability of supply into the future, will require the prioritisation of renewable energy projects (**Recommendation 6.4**).

Summary of National Competitiveness and Productivity Council Recommendations 2024

The annual Competitiveness Challenge identifies a specific range of recommendations that address both immediate competitiveness issues, and more medium- and long-term challenges that require urgent action, aimed at enhancing Ireland's competitiveness and productivity performance[1]. The National Competitiveness and Productivity Council has a primary focus on competitiveness and productivity, and through this lens it identifies broad areas where reform is needed to support a sustainable and inclusive economy.

Ireland's Competitiveness Challenge 2024 contains 20 tangible, actionable policy recommendations, targeting areas where progress is urgently required. These recommendations – targeted at Government – are intended to lay the foundations for sustainable growth, in order to secure an improvement in the standard of living for all of society. The decision by the Council to bring forward the publication of the 2024 report means that these recommendations, and supporting analyses, should make a valuable contribution to the evidence base on which Budget 2025 will be formed. This year's report is also structured in line with the Council's new Competitiveness and Productivity Framework which sets out six core areas which determine Ireland's overall competitiveness and productivity performance[2]. At the same time, the Framework recognises the simultaneity between productivity and competitiveness, and the overall goal of a competitive and productive economy, that of sustainable growth and wellbeing.

It is imperative that progress is made on these recommendations by the relevant Government Departments and State agencies over the coming year so that Ireland remains competitive. In recognition of the fact that some recommendations require the co-ordinated action of a number of bodies, the Council lists all of the key responsible actors. In these cases, the first mentioned actor is regarded as having overall responsibility for the recommendation. Last year the Council welcomed the publication of the Government's fourth formal response to the recommendations in Competitiveness Challenge 2023 and looks forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy.

Chapter 1: Immediate Issues Facing the Irish Economy

Recommendation 1.1: The Council recommends that the Government should continue to focus on actions which mitigate rather than exacerbate capacity constraints, and which avoid excess risks and imbalances in terms of its macroeconomic and fiscal position.

Responsibility: Department of Public Expenditure, NDP Delivery and Reform; Department of Finance

Recommendation 1.2: The Council recommends that in the assessment by the local government sector of new planning applications in respect of commercial property developments, careful consideration be given to vacancy rates in the commercial property sector, the labour input required to complete these developments, and the excess demand for residential property.

Responsibility: Department of Housing, Local Government and Heritage

[1] Many key themes are revisited by the Council across multiple years in the *Challenge* reports but not every theme is explored in detail each year.
[2] NCPC – Bulletin 24-2 Ireland's Competitiveness and Productivity Framework

Recommendation 1.3: The Council recommends that the Department of Enterprise, Trade and Employment produce a detailed annual time-series that examines trends in incorporations, restructurings, strike-offs and liquidations (by sector).

Responsibility: Department of Enterprise, Trade and Employment; Companies Registration Office

Chapter 2: Ireland and the EU Single Market

Recommendation 2.1: In the context of the forthcoming Single Market Strategy in 2025, the Council recommends that Ireland continues to advocate strongly for an approach to EU competitiveness that emphasises further integration of the Single Market, the maintenance of the level playing field, the importance of reduced regulatory and administration burden to enhanced EU competitiveness, and an open approach to trade and investment coupled with a commitment to working with like-minded international partners.

Responsibility: Department of Foreign Affairs; Department of Enterprise, Trade and Employment; Department of the Taoiseach

Recommendation 2.2: The Council recommends that:

(i) Ireland continues to advocate for further progress on the achievement of a Capital Markets Union in the EU. In particular Ireland should seek for progress to be made on an EU long-term saving product, and in expanding the availability of equity and venture capital financing options, for start-ups, high-growth firms, and more broadly those firms seeking to scale-up activity.

(ii) Government progress the implementation of the recommendations in the Department of Enterprise, Trade and Employment's report on using finance as a catalyst to develop a scaling ecosystem.

Responsibility: Department of Foreign Affairs, Department of Finance, Department of Enterprise, Trade and Employment

Recommendation 2.3: In light of previous recommendations made by the Council, Ireland should continue to actively pursue domestic policies which will enable it to compete globally into the future (whether that be a high or low subsidy international environment).

Responsibility: Department of Enterprise, Trade and Employment

Chapter 3: The Cost of Doing Business in Ireland

Recommendation 3.1: In order to improve the regulatory environment, the Council recommends that:

(i) The enhanced SME test be implemented swiftly, applied on a 'Think Small First' principle, and that it be embedded in a comprehensive streamlined framework that carries out ex ante evaluations to inform decision making and ex post evaluations to draw learnings, and;

(ii) With reference to the application of the SME test, Government should publish annually a consolidated summary of forthcoming measures likely to impact the SME sector over the following 12-months.

(iii) Government Departments streamline, where practicable, existing regulations with a view to improving the business regulatory environment without compromising consumer and employee rights.

(iv) Government should consider establishing a central oversight body to perform core oversight functions, such as reviewing the quality of RIA (and of other regulatory management tools) in order to monitor and assess the quality of RIA implementation more effectively.

Responsibility: Department of Enterprise, Trade and Employment; Department of the Taoiseach; Department of Public Expenditure, NDP Delivery and Reform

Recommendation 3.2: The Council recommends that the Government focus on ensuring that the necessary and fundamental conditions for firms to compete are fair and adequate, and that one-off broad supports are considered only as a last recourse in Government intervention and be phased out within a defined (and short) time.

Responsibility: Department of Enterprise; Trade and Employment; Department of Social Protection; Department of Finance

Chapter 4: Building and Retaining a Skilled and Talented Labour Force

Recommendation 4.1: To optimise skills development and mitigate mismatches between workforce capabilities and industry requirements, the Council recommends that the relevant Departments and Agencies should:

(i) Work closely with local employers, business organisations and unions to review the training content of all ALMPs, and ensure that the training provided addresses current and future skills needs (e.g. in the areas of the green and digital transitions, and emerging technologies);

(ii) Enable more effective exchange and use of existing skills data and promote systematic skills policy evaluation to support evidence-based skills policy making and ensure a balanced ALMP suite of provision in Ireland; and,

(iii) In support of sub-recommendation (ii), ensure that the required supports are provided to develop and leverage the Work and Welfare Longitudinal Database (WWLD).

Responsibility: Department of Social Protection; Department of Further and Higher Education, Research, Innovation and Science; Department of Education; Department of Enterprise, Trade and Employment.

Recommendation 4.2: To address key skills shortages in key areas, the Council recommends that the Government should:

(i) Publish an action plan of the delivery of skills priorities for offshore wind, and monitor and report on its implementation;

(ii) Develop updated training and auditing schemes to ensure builders and installers possess the specialised skills required for emerging building systems like MMC, in line with building regulations;

(iii) Prepare an Action Plan to address the skills requirements for the transition to greater use of MMC, following the publication of the forthcoming EGFSN report on this matter, and continue to monitor existing and arising skills issues in all sectors of the economy.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Education; Expert Group for Future Skills Needs

Recommendation 4.3: To build and retain a skilled labour force, the Council recommends the Government should:

(i) Reform the National Training Fund (NTF) to better foster lifelong learning in workplaces in line with the recommendations outlined in the OECD's review of Ireland's National Skills Strategy; and,

(ii) Ensure that the NTF surplus is deployed to deliver training programmes that directly assist in meeting current and future skills needs, particularly in relation to the skills needed for the digital and green transitions, and for the adoption of emerging technologies (including AI).

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, NDP Delivery and Reform; Department of Enterprise, Trade and Employment

Recommendation 4.4: To ensure Ireland remains attractive to internationally mobile workers while at the same time not overburdening SME's, the Council recommends that the proposed Roadmap for Increasing Minimum Annual Remuneration Thresholds for Employment Permits be reviewed within six months and that the review be published on completion.

Responsibility: Department of Enterprise, Trade and Employment

Chapter 5: Embracing Technological Change and Innovation

Recommendation 5.1: The Council recommends that ambitious action be undertaken to support the take-up of advanced technologies – including AI – by enterprise, particularly by SMEs. This should include:

(i) The introduction of an investment incentive, particularly for SMEs, to operate alongside the R&D Tax Credit, that could be availed of to support advancement in the form of new-to-firm investments, including those related to digitalisation and the take-up of advanced technologies.

(ii) Amendments to the outsourcing limits, and the maximum limit allowable under the Science Test, in order to incentivise collaboration and drive take-up of the R&D Tax Credit, by SMEs in particular;

(iii) The introduction of a pre-approval mechanism for SMEs when engaging with the R&D Tax Credit, to minimise uncertainty – particularly regarding the eligibility of projects involving emerging technologies – and to streamline the application process.

Responsibility: Department of Finance; Department of Further and Higher Education, Research, Innovation and Science; Department of Enterprise, Trade and Employment

Recommendation 5.2: The Council recommends that further analysis be undertaken to identify current and potential future barriers to the adoption of advanced technologies – including AI – by enterprise, to inform an action plan that would seek to address these barriers. This analysis should cover:

(i) An assessment of the capabilities and return on investment of advanced technologies when deployed across a range of sectors, and a consideration of the incentives that might improve take-up in each case.

(ii) A detailed risk-based examination of current and potential future barriers to AI adoption by enterprise, and an assessment of how these barriers might be addressed, including a consideration of issues relating to the resourcing of relevant regulatory authorities;

(iii) A mapping of the existing supports for the adoption of advanced technologies by enterprise – both direct and indirect – linked to a measure of the scale of public funding provided, and availed of, as part of these supports; and,

(iv) A review of the existing data sources that can be used to track AI adoption by enterprise, and where data gaps are identified, the implementation of a plan to address these gaps, including by leveraging existing surveys in a way that does not add significantly to the reporting burden for firms.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 5.3: The Council recommends the publication of a detailed implementation plan, setting out key timelines and milestones in the delivery of the National Quantum Strategy.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

Recommendation 5.4: It is vital that Ireland is an active participant in the development of an open and ambitious EU digital trade agenda. The Council recommends that the Government:

(i) Promote and shape an open and ambitious EU digital trade agenda, and work with likeminded partners at multilateral, bilateral and local levels in order to achieve this.

(ii) Encourage indigenous capacities while remaining open to co-operation and trade with likeminded international partners.

(iii) Ensure governance and regulation supports further digital trade and facilitates data flows.

Responsibility: Department of Foreign Affairs; Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science

Chapter 6: Planning and Delivering Sustainable Infrastructure

Recommendation 6.1: The Council recommends that action is taken to address the inadequacies in the infrastructure that underpins our public utilities, to ensure the stability of supply for current and future users. As part of this action, the Council recommends:

(i) That the medium-term ambition for Ireland as a green-powered, digitally-enabled economy in the 21st century, must be matched by a similar level of ambition in the supply and competitive provision of public utilities;

(ii) A careful review of the management of Ireland's energy supply against the backdrop of increasing demand and required infrastructural works, together with ensuring that incidence of risks and warnings are brought back within CRU energy security standards; and,

(iii) The forthcoming National Planning Framework (2024) – currently underway – should reflect the most recently available data on population projections. In planning for the future, it is also important that we plan how these additional persons will be accommodated within the labour market.

Responsibility: Department of Environment, Climate and Communications; Department of Enterprise, Trade and Employment; Department of Housing, Local Government and Heritage

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Recommendation 6.2: The Council considers that reforms to the planning system are fundamental to address issues relating to the delivery of infrastructure. As part of these reforms, the Council recommends:

(i) That the Planning and Development Bill 2023, once enacted, is speedily implemented;

(ii) That priority is given to addressing the exceptional data deficiencies in the planning permission data and housing commencement data, such as through the action proposed in *Housing for All* to improve the quality of Building Control and Management System (BCMS) data; and,

(iii) That the work of the new Planning and Environment division of the High Court is kept under constant review to ensure that sufficient resources have been allocated to address the backlog of existing cases and clear incoming cases within a defined period, and that relevant training is provided. It is further recommended that a strong data collection system is put in place from the outset, in the context of overall improvement in data systems related to legal and justice issues so that policymakers can continue to monitor progress.

Responsibility: Department of Housing, Local Government and Heritage, Court Services

Recommendation 6.3: The Council considers that action must be taken to address legal costs in Ireland, including both financial costs and time costs. As part of this action, the Council recommends:

(i) That recommendations included in the LSRA report regarding the digitalisation of conveyancing services, and measures to enhance price transparency, are implemented as a priority; and,

(ii) That a specialist conveyancing profession be introduced and implemented, in order to drive competition and efficiencies in the provision of conveyancing services.

Responsibility: Department of Justice

Recommendation 6.4: Meeting the targets set out in the Climate Action Plan will require investment in green infrastructure and the prioritisation of renewable energy projects. The Council recommends:

(i) That renewable projects are prioritised (via measures such as the recent establishment of the Planning and Environment division of the High Court) to ensure that Climate Action Plan Targets for 2030 and 2050 can be achieved;

(ii) That continued progress is made to ensure that the ORESS 2.1. auction can occur in a timely manner; and,

(iii) The timely implementation of the South Coast DMA, in particular to ensure that the remaining 1.1 GW target (5 GW by 2030 overall) can be reached, and the development of other DMAPs.

Responsibility: Department of Environment, Climate and Communications

Chapter 1: Immediate Issues Facing the Irish Economy

1.1 Introduction

The National Competitiveness and Productivity Council is primarily concerned with developments in Ireland's productivity and economic performance which have a lasting impact on Ireland's international competitiveness performance. This performance is key to improving living standards and the ability of people to experience increased wellbeing and to enjoy the benefits of sustainable economic growth. Recommendations on policy changes to improve Ireland's competitiveness performance are targeted at areas where the impact of such changes are more likely to be seen over the medium- to long-term. However, the experience of citizens and their wellbeing is rooted in the present, and as such, it is important to reflect on Ireland's current position also, in order to add context to the analysis and recommendations in this Challenge report.

This Chapter examines the current global and domestic economic outlook and Ireland's current competitiveness position. It then looks at developments across 2024 and 2025 which may impact on Ireland's future competitiveness position, including global developments in trade and strategic value chains, high interest rates. The chapter then examines Ireland's fiscal position in the context of significant windfall tax revenue, developments in consumer and producer prices, and Ireland's current labour market position and its constraints.

There is a range of factors at play presently which are impacting upon enterprises across the country – whether large or small and regardless of their location. As part of its process of engagement with enterprises and in recognition of different regional factors that impact competitiveness, the Council held its first regional seminar in April 2024 in Limerick. It was clear the extent to which the same small number of key themes arose across the varied participants from the Mid-West region (Box 1.A).[3]

[3] The Seminar was hosted by the University of Limerick and organised jointly by the Council's Secretariat and the Limerick Chamber of Commerce.

Box 1.A: National Competitiveness and Productivity Council (NCPC) – Mid-West Regional Seminar

The theme of the Seminar was ***Regional Perspectives on Competitiveness,*** and its purpose was to contextualise competitiveness issues at a regional issue. The attendance included representatives of local business, businesses, Local Government officials, public representatives, and education and research providers from across the region.

The Seminar drew on a series of presentation about the measurement of performance at a regional level, based on Eurostat data. These outlined the performance of the Mid-West region – relative to Ireland and the EU – based on the Regional Competitiveness and Regional Innovation indices. This demonstrated that the region performs well in many areas, including Technological Readiness.

The presentations were followed by a roundtable discussion involving a number of local business owners/representatives, who were invited to identify the key issues in the region impacting them from a competitiveness perspective.

There was exceptional commonality in the local competitiveness issues identified by the stakeholders in the region, both on the Panel and among the attendees in the audience. The key issues were **housing, public infrastructure deficits and the challenges facing commuters**.

1.1.1 Ireland's Current Economic Performance and Outlook

Last year's *Competitiveness Challenge* was framed against an uncertain global economic outlook. While this uncertainty has persisted, global growth remains steady, with the OECD projecting the global economy to grow by 3.1% in 2024 (See Figure 1.1.1). The IMF, European Commission and OECD have all made a minor upward adjustment to their forecast of global growth for this year, compared to earlier estimates. The Irish labour market continues to perform strongly with a record number of people at work. As of Q1 2024, there are over 2.7 million workers in Ireland, while the standard measure of monthly unemployment (for persons aged 15-74 years) was 4.2% in June 2024. In terms of the near-term outlook, the Department of Finance[4] expects over 2.8 million people to be employed by 2026 and the unemployment rate to remain under 5%.

Inflation is decreasing and is expected to decline further throughout 2024. The energy price shock is dissipating and the pass-through of lower wholesale prices to retailers has triggered a faster-than-anticipated decline in headline inflation. The Department of Finance estimates that the inflation will be 2.1% for in both 2024 and 2025, dropping to 2.0% in 2026. This is close to the European Central Bank's (ECB) medium-term target rate. The falling rate of inflation in Ireland over the past year has mirrored the broader pattern observed across the euro area. This is reflected in the decision by the ECB to decrease key interest rates by 0.25%[5]. This will have a positive impact on lending rates to business once passed on by domestic banks. Energy costs still remain a significant challenge for Irish competitiveness and will be discussed in more detail in Chapter 3 of this report.

[4] Draft Stability Programme Update, Department of Finance, April 2024.
[5] Lagarde, C. "Why we adjusted interest rates", The ECB Blog.

Figure 1.1.1: Forecasts for Global GDP – percentage change Global (GDP)

	2023	2024	2025
IMF[6] (April 2024)	3.2	3.2	3.2
European Commission[7] (May 2024)	3.1	3.2	3.3
OECD[8] (May 2024)	3.1	3.1	3.2

Source: OECD Economic Outlook, European Commission Autumn Economic Forecast, IMF World Economic Outlook

Figure 1.1.2 shows that, despite global uncertainty, the Irish economy is in reasonable shape and continues to exhibit resilient growth. Modified domestic demand – a proxy for domestic economic performance – is expected to grow by between 1.9% and 2.3% in 2024. Indeed, it could be argued that the economy is currently operating at (or beyond) sustainable capacity, with current domestic demand limited by supply constraints. However, the Department of Finance expects that this positive output gap will narrow in the short-term.[9]

Figure 1.1.2: Forecasts for Ireland's Modified Domestic Demand[10] GDP – percentage change

	2023	2024	2025
Central Bank of Ireland[11] (June 2024)	0.5	2.1	2.5
ESRI[12] (March 2024)	0.5	2.3	2.5
Department of Finance[13] (April 2024)	0.5	1.9	2.3

Source: Central Bank of Ireland Quarterly Bulletin, ESRI Quarterly Economic Commentary, Department of Finance Stability Programme Update.

The most pressing economic threats to the Irish economy are external in origin, stemming from geopolitical tensions as well as potentially more adverse external demand conditions. The cumulative impact of monetary policy tightening will weigh on activity in many of Ireland's key trading partners, undermining external demand. The concentration of economic activity in Ireland also remains a risk.

The degree of demand reduction that has been set in motion by interest rate increases – which have occurred at a scale and speed previously unseen – remains uncertain. According to the April 2024 euro area Bank Lending Survey, loan demand from firms declined substantially (contrary to expectations of the patterns expected in a recovery[14]). Additionally, there may be a lag between rate changes and the associated economic effects that has yet to be realised. As fixed rate credit matures or loan conditions are adjusted, the effect of higher rates on households and businesses will become clearer. It is also possible the lagged effects of increased policy rates on growth and employment may prove stronger than expected. It is possible that there are risks inherent to this situation which need to be very carefully monitored.

[6] World Economic Outlook, IMF, April 2024.
[7] Spring 2024 Economic Forecast, European Commission, May 2024.
[8] OECD Economic Outlook, Volume 2024 Issue 1, OECD, May 2024.
[9] Stability Programme Update – April 2024, Department of Finance.
[10] Modified Domestic Demand refers to Modified Final Domestic Demand, which excludes large transactions of foreign corporations that do not have a large impact on the domestic economy.
[11] Quarterly Bulletin, QB2 – June 2024, Central bank of Ireland.
[12] Quarterly Economic Commentary – Spring 2024, ESRI.
[13] Stability Programme Update – April 2024, Department of Finance.
[14] April 2024 Euro Area Bank Lending Survey, ECB Press Release, April 2024.

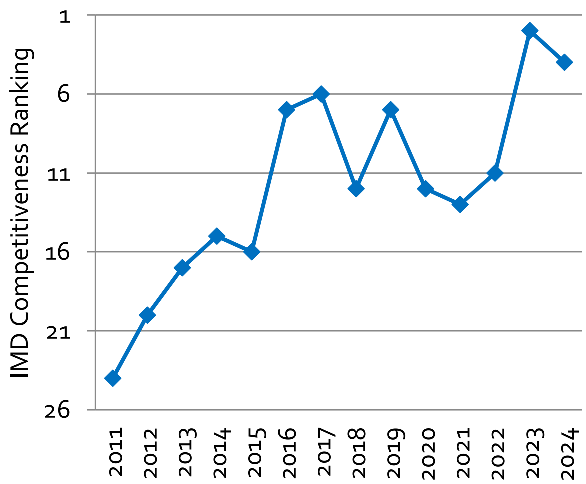
1.1.2 Global Competitiveness Position

The Institute for Management Development (IMD)'s World Competitiveness Yearbook 2024 ranks Ireland as the most competitive country in the euro area and the 4th most competitive economy in the world (out of 67 economies), a decline from 2nd position last year. The Council has recently published a Competitiveness Bulletin[15] discussing Ireland's global competitiveness position in more detail. Figure 1.1.3a demonstrates that Ireland has consistently been placed in the top 20 most competitive economies globally since 2012.

This year's decline in Ireland's overall ranking is largely due to a drop in its 'Economic Performance' – this category covers themes relating to growth and employment. Ireland's ranking dropped to 10th (down from 1st last year). Ireland continues to perform strongly across Government Efficiency (6th) and Business Efficiency (3rd), while the Infrastructure (17th) performance continues to lag compared to other pillar areas, as it has done consistently since 2014. See Figure 1.1.3b for Ireland's ranking across these four pillars.

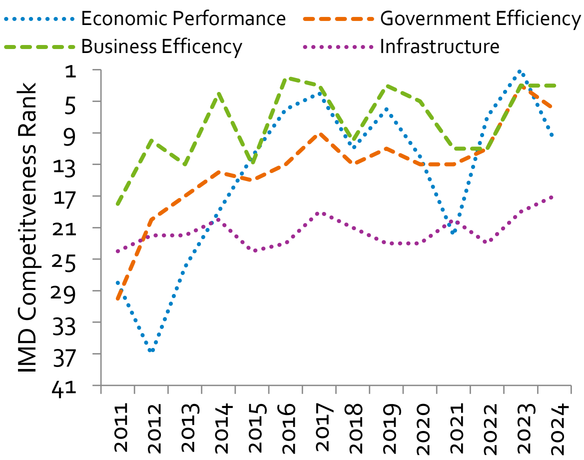
From an inward investment perspective, IDA have acknowledged the challenges facing Ireland in winning investment in "increasingly challenging and complex" conditions, and in a current state-of-play that is "intensely competitive".[16]

Figure 1.1.3a: IMD Competitiveness Rankings 2011-2024



Source: IMD

Figure 1.1.3b: Ireland's Ranking across Four Pillars 2011-2024



Source: IMD

1.1.3 EU Competitiveness Challenges

The competitiveness of the EU, as an issue, has come to the fore over the last eighteen months and is examined in further detail in Chapter 2. Significant supply chain pressures and resulting delays in the wake of the COVID-19 pandemic exposed vulnerabilities in global supply chains. The Russian war in Ukraine prompted significant energy price inflation which has impacted EU energy prices, in particular, and has raised major questions about the EU's energy in terms of independence and security of supply. Rising energy prices led to an increase in input costs for many businesses, resulting in rising consumer price inflation – and concerns in relation to cost competitiveness.

[15] Bulletin 24-2 IMD World Competitiveness Rankings, NCPC, June 2024.
[16] Up to the Task: IDA's Michael Lohan on the Three Challenges Ireland Faces in Winning Investment, Business Post, July 2024.

The ongoing digital transition, including development of technologies such as Artificial Intelligence (AI), has placed increased emphasis on a country's place in global hi-tech value chains. These developments led the US to introduce the Inflation Reduction Act (2022) which focused on investments in energy and health, alongside the CHIPS and Science Act, which seeks to increase the manufacturing of chips in the US. The EU in turn has utilised the Temporary Crisis and Transition Framework (TCTF), which was adopted by the European Commission in March 2023 as an amendment and prolongation of the 2022 Temporary Crisis Framework (TCF); it will now operate until end-2025. The Framework has loosened State Aid rules to enable Member States to provide 'matching aid' subsidies to counter those offered elsewhere. The EU has been perceived as lagging both the US and China in terms of its innovation performance (particularly digital innovation), which has implications for its long-term productivity performance and competitiveness[17].

While the Communication from the European Commission in March 2023 brought competitiveness back onto the agenda, the recent report from Enrico Letta on the Single Market (April 2024)[18], and the forthcoming report on EU Competitiveness from Mario Draghi have seen it feature much more heavily. The Letta report cuts across many areas with a direct impact on the competitiveness of the EU, such as strengthening of the Single Market through greater integration of services – including financial (proposing a Savings and Investment Union), energy markets and reduced energy costs for competitiveness, and telecoms markets; the need to better develop an infrastructure network connecting Europe and its partners and the need to reduce administrative burden. It also proposes a '5th freedom' to enhance research, innovation and education in the Single Market. Letta's report also acknowledges, that while temporary increases in State Aid may have been necessary in the context of recent crises, continued relaxation of rules risks distorting the level playing field of the Single Market.

The Draghi report is expected to follow on from the Letta report. The former is expected to look more critically at ten key economic sectors through three distinct lenses:

(i) Enabling the scalability of European firms
(ii) Deliver public goods – beyond what a single country can deliver individually.
(iii) Securing the supply of essential resources

Both reports are expected to converge and influence the legislative agenda of the next EU Commission. In its Presidency Programme (published on 18 June), the incoming Hungarian Presidency has identified strengthening European competitiveness as its overarching priority. Competitiveness is also expected to be an important pillar of the EU's Strategic Agenda 2024-2029, which will set the political framework for the next institutional cycle and define priorities for the EU's development over the next five years.

1.1.4 Key Challenges Facing Irish Firms

Ireland's competitiveness can be illustrated by using Harmonised Competitiveness Indices (HCIs). The purpose of HCIs is to provide comparable measures of countries' price and cost competitiveness that are consistent with real effective exchange rates of the euro. Figure 1.1.4 below shows both a nominal and real HCI. The nominal HCI is an effective exchange rate for the Irish economy that reflects on a trade-weighted basis, movements in the exchange rate vis-à-vis trading partners. The real HCI (deflated by producer prices) considers relative price changes along with exchange rate movements. From approximately October 2000 to September 2009 both nominal and real HCI slope upwards – indicative of a decrease in Ireland's competitiveness. From September

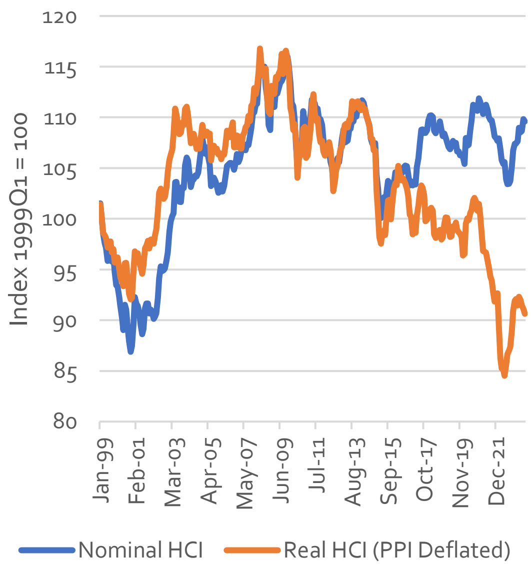
[17] Transforming for Competitiveness – Investment Report 2023/2024, European Investment Bank.
[18] Letta, E. "Much more than a market – Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens", April 2024.

2009 both nominal and real HCI broadly trend downward, indicating increasing competitiveness. However, towards the end of 2016 there is significant divergence between the two indicators with nominal HCI moving around in the 100-110 range whilst real HCI continues to trend downwards. This divergence reflects lower inflation rates in Ireland relative to trading partners.

Figure 1.1.5 presents some the results of the SAFE survey, namely the most pressing issues SMEs self-perceive. Compared to the first half of 2016 (2016 H1) finding customers is a significantly less pressing issue in 2023 H2, with 16.7% of respondents listing it as the most pressing issue, compared to 29.2% previously. Similarly, accessing finance is the most pressing issue for 4.1% of respondents in 2023 H2, compared to 11.9% in 2016 H1. Over the same period competition has declined as the most pressing issue, from 12.1% of respondents to 7.6%. Regulation is largely unchanged at approximately 12%.

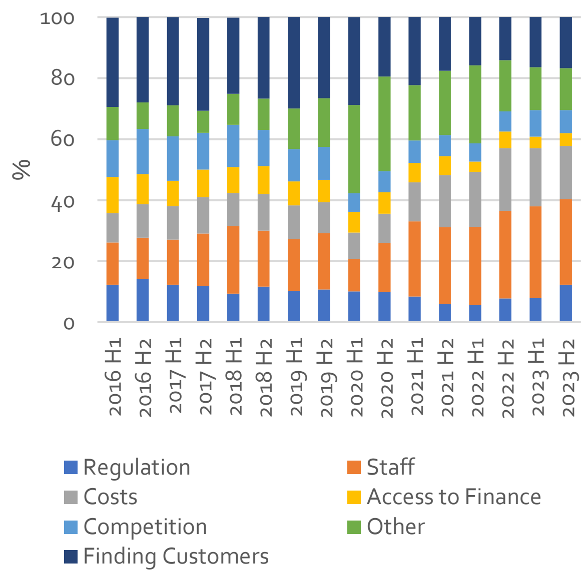
The results underscore the increasing importance of staffing and operating costs for SMEs, even since 2021. Compared to H1 2016 when 9.6% of respondents listed costs as the most pressing issue, the most recent data puts that percentage 17.4%. Similarly, in H1 2016 13.9% of businesses listed staffing as the most pressing problem they perceive but this number has now grown to more than 28%.

Figure 1.1.4: Harmonised Competitiveness Index



Source: Central Bank of Ireland

Figure 1.1.5: SAFE Survey – Most Pressing Problems Facing Irish SMEs (self-perceived)



Source: ECB

Levels of indebtedness is another important consideration for many firms. The COVID-19 Tax Debt Warehousing scheme provided a vital liquidity support during the pandemic and at its peak in 2022, more than €3.2 billion was warehoused by Irish businesses. By June 2024, approximately 93% of the debt had been paid (or was secured via a Phased Payment Arrangement (PPA)). In terms of the PPAs, these account for close to 13,000 clients with a total debt of €1.2 billion to be repaid over time. More than 1,500 clients – with a total debt of €120m – have exited the scheme as the debt was deemed uncollectable[19]. A further 7,000 clients – with a total debt of €100m – have not engaged and as a consequence, this debt is now subject to standard collection and enforcement at the full interest rates of 8-10%.

[19] Due to business cessation, liquidation, etc.

Against this backdrop, the scale of insolvencies across the Irish SME sector has begun to receive greater attention in public discourse. According to the latest iteration of the PwC Insolvency Barometer, there were 416 'insolvencies' in H1 2024. This compares with 331 'insolvencies' for the same period in 2023 (or a year-on-year increase of 25%). Deloitte have reported 412 'insolvencies' for H1 2024. The latter have noted that this is the highest half-yearly figure reported since H1 2018[20]. The PWC insolvency Barometer notes that retail, hospitality and construction accounted for 53% of all insolvencies during the second quarter of 2024. Hospitality was the most adversely affected at 17 insolvencies per 10,000 businesses, followed by retail at 7 per 10,000 and construction at 6 per 10,000. There are, however, far more firms in Ireland now than in 2018. Box 1.B below presents data on the current situation using time series data provided by the Companies Registration Office (CRO).

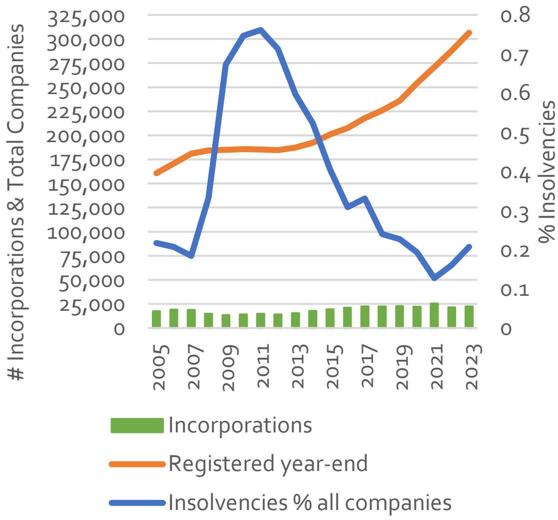
At present, the available data does not indicate any significant increase in the volume of insolvent liquidations – across retail and hospitality firms registered with the CRO – between 2023 and 2024 but the situation warrants ongoing monitoring. This is a topic that the Council intends to return to in a follow-up *Competitiveness Bulletin* later this year.

[20] It is our understanding that both parties classify 'insolvencies' as including CVL and CLO (plus all restructuring activity).

Box 1.B: Recent Patterns in Insolvencies

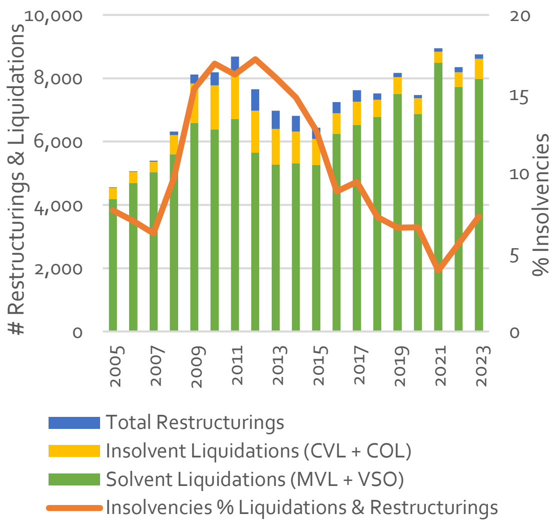
Businesses can close for a variety of reasons and the information available to the CRO relates to filings by those firms which wish to be voluntarily struck off the register and those notifying the CRO when entering liquidation. It should be noted that the term 'liquidation' cover situations where a company may be solvent (and pursues a Members' Voluntary liquidation), or insolvent (and is subject to a Creditors' voluntary liquidation or a Court ordered liquidation). In 2023, there was a year-on-year increase of 4.4% in the number of incorporations (22,384). Insolvencies as a percentage of all registered companies increased from 0.16% in 2022 to 0.2% in 2023. During 2023, 7,980 solvent liquidations occurred, accounting for over 91% of all restructurings/liquidations.

Figure 1B.1: Number of Companies Registered (at year-end), Incorporations and Insolvencies as a % of Registered Companies, 2005-2023



Source: CRO

Figure 1B.2: Annual Restructurings and Liquidations, 2005-2023



Source: CRO

As shown in Table 1B.3, in the hospitality sector, 629 new companies were incorporated in the first five months of 2024. This marks a marginal decrease (3.4%) relative to the same period in 2023. In the retail sector, 528 new companies were incorporated in the first five months of 2024 (up by 2%). The total number of liquidations for both sectors was also slightly lower.

Table 1B.3 Incorporations and Liquidations

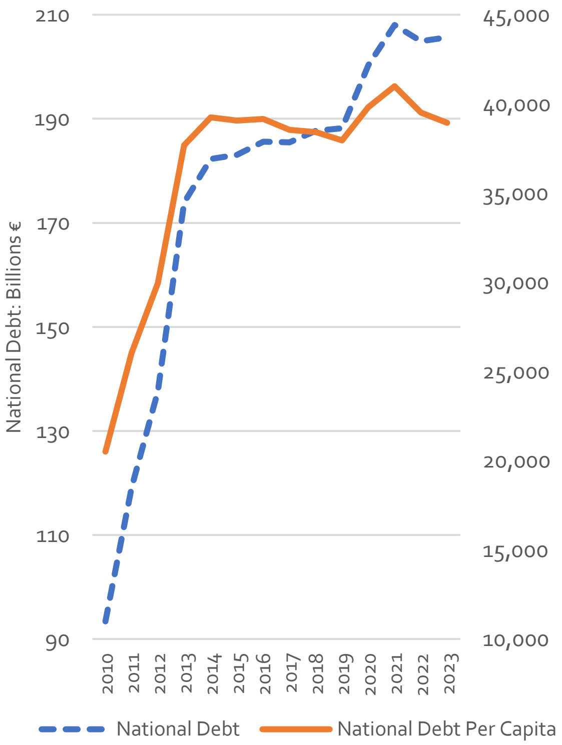
	Jan – May 2023		Jan – May 2024	
	Retail	**Hospitality**	**Retail**	**Hospitality**
Incorporations	517	651	528	629
Voluntary strike-offs	178	109	117	100
Total Liquidations *comprised of :*	53	70	51	55
Members Voluntary (MVL)	*27*	*14*	*21*	*26*
Creditors Voluntary (CVL)	*26*	*55*	*30*	*28*
Court ordered (COL)	*0*	*1*	*0*	*1*
Net change (+/-)	**286 (+)**	**472 (+)**	**360 (+)**	**474 (+)**

Source: CRO. Notes: (i) Data may be subject to change. (ii) CRO data does not include data on sole traders (iii) 'Restructuring activity' includes Examinerships, Receiverships and SCARP – these do not necessarily end in a liquidation.

1.1.5 Fiscal Developments

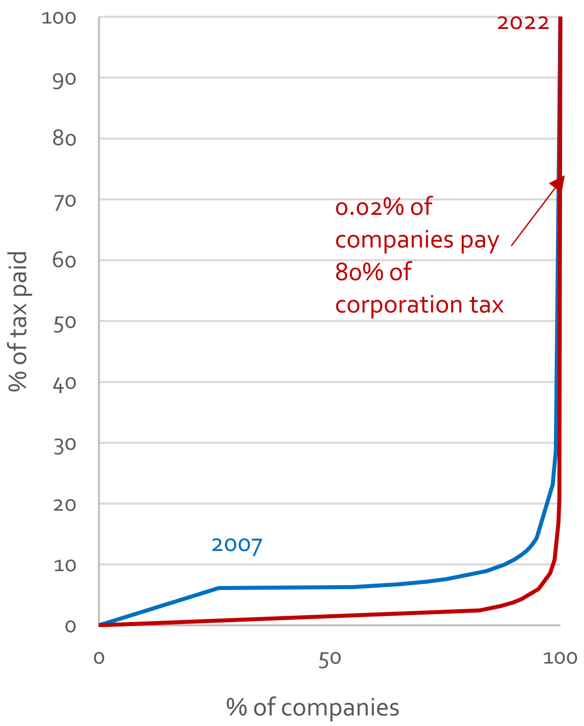
Ireland's National Debt in 2023 was measured at over €205 billion (see Figure 1.1.6). Following a slowdown in the pace of debt accumulation between 2014 to 2019, this debt rose sharply during the pandemic. It has since plateaued. On a per capita basis, the National Debt has decreased since 2014 (and was €38,932 in 2023) as a result of demographic changes.

Figure 1.1.6: National Debt and National Debt Per Capita



Source: NTMA

Figure 1.1.7: Companies by tax paid as a %, 2007 and 2022



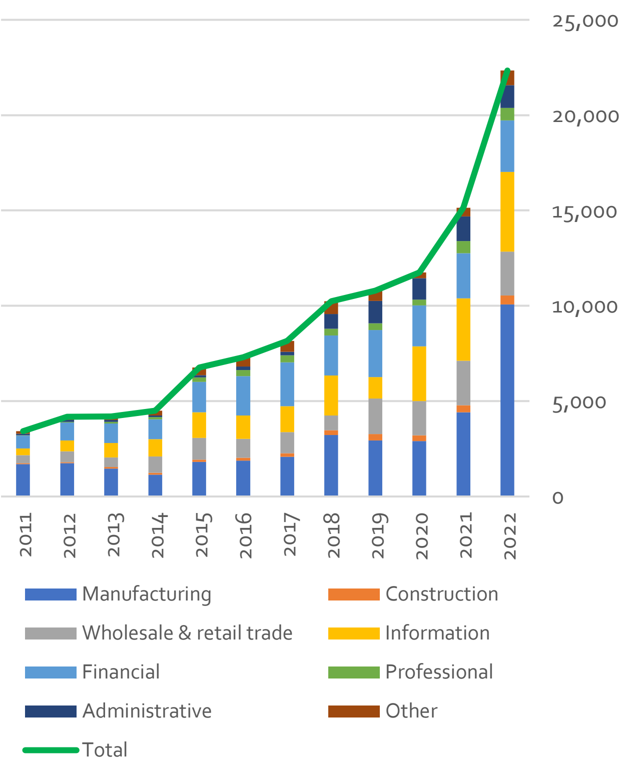
Source: Revenue Commissioners; Casey & Carroll (2023) and Fiscal Council workings. Note: For illustration purposes, 'other excise' is assumed to be unchanged as a share of GNI*. However, this may require policy changes to ensure this is unchanged as a share of GNI*.

The latest *Fiscal Assessment Report*[21]– published by the Irish Fiscal Advisory Council (June 2024) – suggests that Corporation Tax receipts are highly concentrated, and this concentration has increased over time (see Figure 1.1.9). In 2022, the top 3 corporate entities accounted for 43% of corporation tax receipts while only 0.02% of companies accounted for 80% of corporation tax receipts. Figure 1.1.8 demonstrates the changing corporation tax receipt profile. Manufacturing[22], Information & Communication and Financial & Insurance Activities[23] accounted for just over 70% (€16.794 billion) of Corporation Tax receipts in 2023. The *Fiscal Assessment Report* also notes that Ireland's income tax revenue is currently relatively concentrated across the income distribution

[21] Fiscal Assessment Report, Irish Fiscal Advisory Council, June 2024.
[22] Of which over 42% is from chemical and pharmaceutical manufacturing
[23] Of which over 18% is associated with holding companies

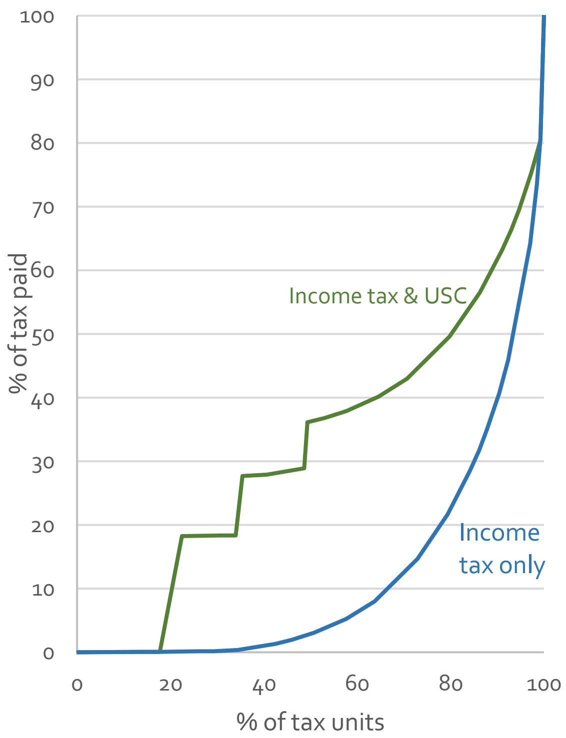
(see Figure 1.1.9). In 2021, the income tax yield collected from the bottom 50% of taxpaying units[24] amounted to 3% of all income tax. The distribution of income tax paid in 2021 was broadly similar to that in 2006, pre-Financial Crisis. It is also highlighted that once USC revenue is included, the base becomes noticeably broader. The bottom 50% of units paid approximately 36% of income and USC revenue.

Figure 1.1.8: Corporation Tax Receipt Profile – Millions €



Source: Revenue

Figure 1.1.9: Taxpayers by taxable income as a %, excluding USC, 2021



Revenue Commissioners and Fiscal Council workings. Note: Figures relate to the 2021 income tax year.

The increase in Ireland's Corporation Tax receipts over the past decade has been well documented – revenue from Corporation Tax has increased from an average level of €4 billion across 2010 to 2014, to over €23.8 billion in 2023. A substantial portion of this increase has arisen from a small subset of firms – in 2023, approximately 52% of Corporation Tax receipts were from the 10 largest taxpayers[25]. This has led to significant concentration risk in the tax system, based on potential windfall gains that are not assured for Ireland into the future. The Department of Finance has estimated that the likelihood that Corporation Tax receipts will significantly decline in the short to medium term is low[26]. However, that risk became more pronounced over 2023, with the uncertain global economic environment, combined with job losses in the global ICT sector (which has impacted the Irish jobs market), alongside a significant contraction in exports in both the ICT and Pharmaceutical sectors[27]. The Department of Finance estimates that of the €24.5 billion projected in Corporation Tax in 2024 approximately €11.2 billion will be windfall in nature – if these revenues were excluded it would turn a planned

[24] This includes people on a modest pension (under €18,000 a year), in receipt of contributory welfare payments (e.g. €274 a week maternity benefit) or maintenance payments or other unearned income (dividends and interest on savings).
[25] Corporation Tax – 2023 Payments and 2022 Returns
, Revenue Commissioners, May 2024.
[26] Stability Programme Update – April 2024, Department of Finance.
[27] Quarterly Bulletin, QB2 – June 2024, Central bank of Ireland.

budgetary surplus into a deficit[28]. Corporation Tax has continued to surprise on the upside in 2024, with the first half performance €1.2 billion ahead of profile[29].

Given these uncertainties, the Council welcomes the decision by Government to use a portion of these receipts to capitalise two new savings vehicles in the form of the *Future Ireland Fund* and the *Infrastructure, Climate and Nature Fund*. This is a positive development for both macroeconomic stability (mitigating the risk that windfall gains will be used to fund current expenditure) and the increased delivery of infrastructural priorities in the coming years. However, fiscal resources have not been the only limiting factor in the delivery of infrastructure in recent years, with labour market constraints combined with planning delays presenting significant challenges for delivery (see Chapter 6).

It is not immediately clear that allocating further funding on its own will lead to additional capacity unless other constraints are also relieved. This issued was raised by the Council in the *Challenge 2023* report in the context of carrying capacity of the public service and the need to sufficiently resource key areas of the public (and private) sector in order to facilitate the delivery of infrastructure.

1.1.6 Interest and Exchange Rate Developments

There have been significant developments in monetary policy over recent years. In response to heightened inflation, central banks have increased interest rates to nominal levels not seen in twenty years. The ECB adjusted rates upwards eight times in the 12 months from September 2022 to September 2023 – at which point the deposit rate reached 4%. In June 2024, this was cut to 3.75%. In the US, where the Federal Reserve rates were raised earlier and more aggressively to tackle inflation (with the first rate increase in March 2022), the Federal Funds Effective Rate remains at 5.3%. While rising interest rates are primarily intended to achieve price stability goals, there have been wider impacts such as the follow-on impact on banks adjusting to a particularly rapid increase in the rates. This has seen the collapse of a number of American banks arising from losses realised on bonds as a result of rising rates.

More broadly, rising rates will have significant impacts on the funding of public investment and private investor appetite in areas such as housing and energy infrastructure. Rising interest rates (Figure 1.1.10) have also led to increased household mortgage interest payments which have been a contributor to CPI growth. While Irish banks had been slower to pass on mortgage rate increases in late 2022 to 2023 (compared to banks in other euro area countries), rates on new mortgages increased throughout 2023. At end-April 2024, the rate stood at 4.24%,[30] exceeding the euro area average by 43 basis points, which stood at 3.81%. The rate in Ireland was the 7th highest in the euro-area for April.

In terms of exchange rates, Figure 1.1.11 shows that the pound sterling has remained stable, mostly under 0.90£/€, over the recent years. On the other hand, the dollar has experienced some increase during COVID-19 period but has returned to pre-pandemic figures of 1.08$/€ in the beginning of 2024. The figure below also demonstrates that Japanese yen has been increasing thus showing continued weaking of the currency. As of Q1 2024, yen is at 161.2 ¥/€ which is an increase of over 20% since Q1 2019. Euro Japanese Yen is forecast to be priced at 173.855 by the end of this quarter and at 175.767 in one year[31].

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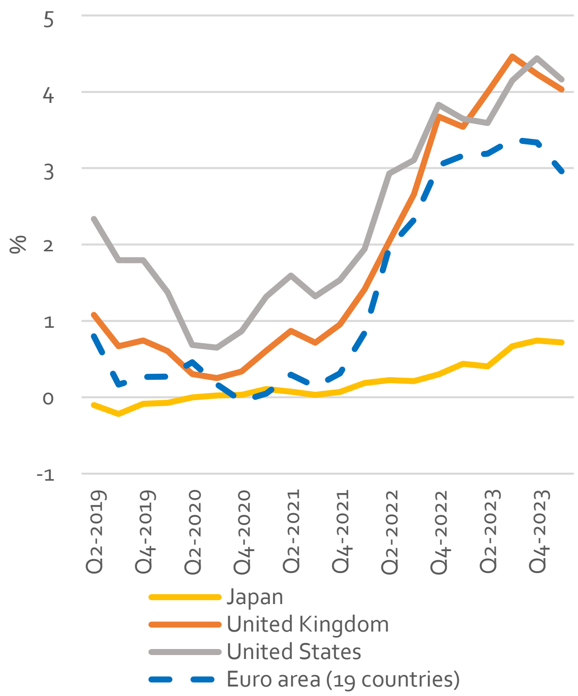
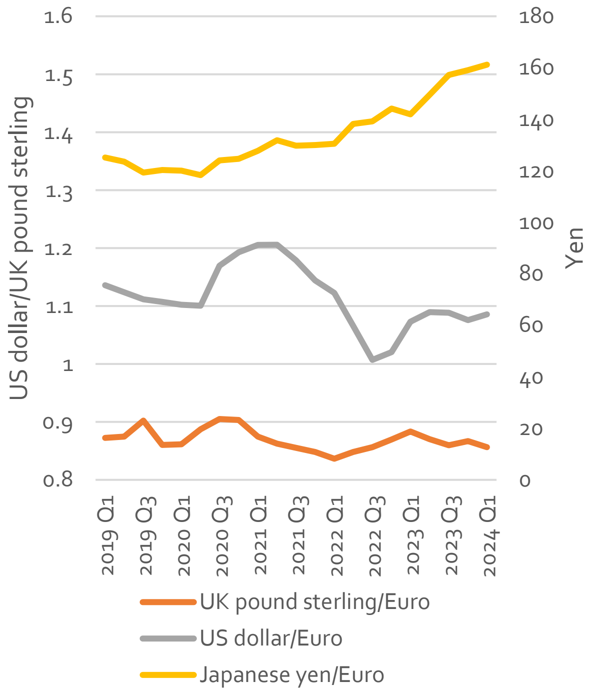
[28] Stability Programme Update – April 2024, Department of Finance.
[29] Summer Economic Statement, Department of Finance and Department of Public Expenditure, NDP Delivery and Reform, July 2024.
[30] Retail Interest Rates – October 2023, Statistical Release, Central Bank of Ireland.
[31] EURJPY Euro Japanese Yen - Currency Exchange Rate Live Price Chart (tradingeconomics.com)

Figure 1.1.10: Interest Rates, Q2 2019 – Q1 2024



Source: OECD

Figure 1.1.11: Exchange Rates



Source: Central Bank of Ireland

Ireland is exposed to movements in global commodity prices through its imports and price dynamics on international markets continue to have a direct impact on prices for both households and enterprises here. The latest data showed Ireland's import dependency on imported energy was 78.4% in 2023[32]. This a slight reduction from 2022, when 79.7% of Ireland's energy was imported, making Ireland the 6th most energy import-dependent county in the European Union. For comparison the EU average was 62.5% in 2022[33]. In the case of energy imports, there is evidence that international wholesale prices have declined significantly but this has taken time to feed through to domestic consumers (in part, at least, due to the hedging strategies adopted by energy companies).

1.2 Consumer and Producer Prices

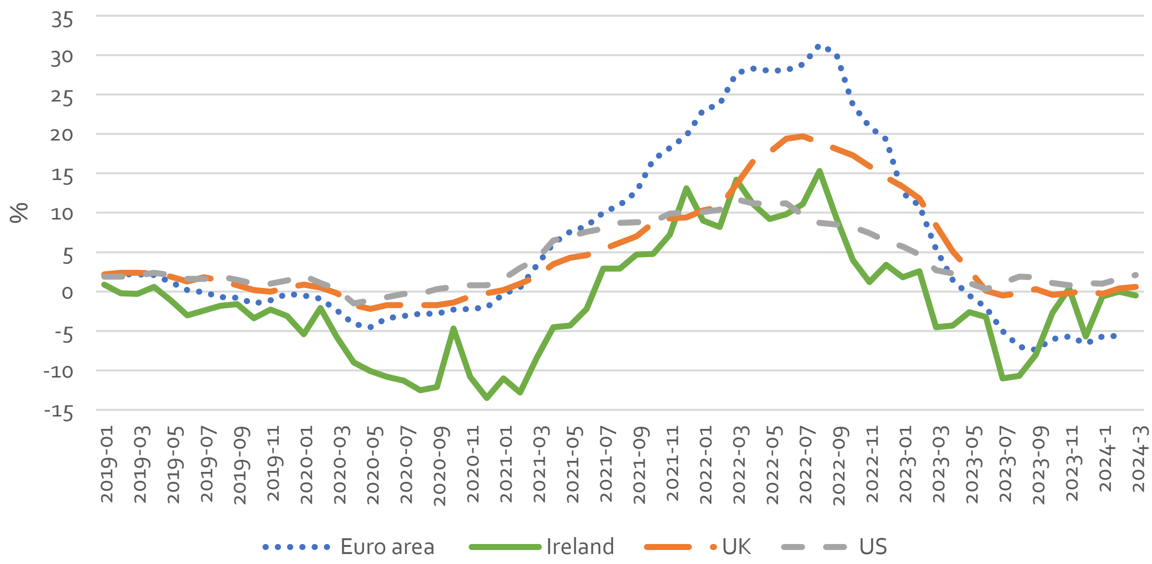
The following sections explore the drivers of recent changes in inflation for both enterprises and consumers.

1.2.1 Producer Prices

Figure 1.2.1 shows developments in the Producers Price Index (PPI) for Ireland, the broader euro area (hereafter: EA), the UK, and the US from 2019 to March 2024. Ireland's PPI fell at a faster rate than the EA, UK and the US following the impact of COVID-19, before rising again in early-mid 2021. Ireland's PPI started to fall again in mid-2022, alongside the broader EA, the UK, and the US. From mid-to-late 2023 up to 2024, Ireland's PPI increased, converging with the UK and US PPI's and rising above the Euro Area average. In March 2024, Ireland's PPI was 0.5% lower compared to March 2023.

[32] Imports and Import Dependency, Sustainable Energy Authority of Ireland.
[33] The most recent EU level data is from 2022.

Figure 1.2.1: Annual changes in industrial PPI for Ireland and selected jurisdictions



Source: Eurostat, Office for National Statistics and U.S. Bureau of Labour Statistics

This has been a volatile period for producer prices – in Ireland and abroad – and despite an uptick in recent months, producer price inflation in Ireland remains considerably below the peak levels reached during 2022.

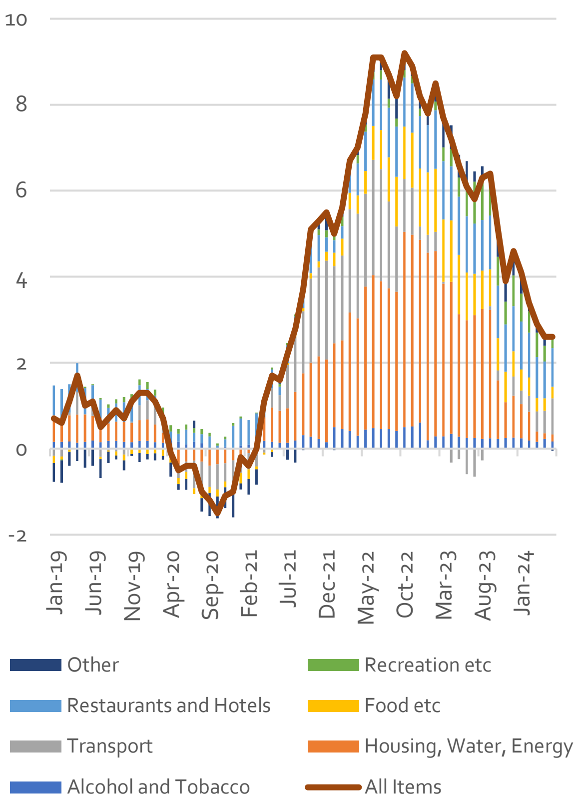
1.2.2 Consumer Prices

The rise in consumer price inflation commenced in 2021 as the effects of the COVID-19 pandemic unwound with a rapid resumption in economic activity, and amid heightened geopolitical uncertainty following Russia's invasion of Ukraine. These geopolitical tensions disrupted supply chains, causing large rises in international prices for energy, food, and other commodities. As supply chains have adjusted and interest rate hikes have moderated demand, the inflation rate has markedly decreased. Figure 1.2.2 shows how the CPI has evolved in Ireland since 2019, and tracks the contribution of individual components, such as transport, food, and recreation. As shown, the CPI peaked at annual growth of 9.2% in October 2022 but had fallen to 2.6% for May 2024. The decline in inflation has primarily been driven by an easing in supply-side factors such as food, furnishings, and energy[34].

The main drivers of overall inflation are observed in two categories illustrated in Figure 1.2.3: '*Housing, Water, Electricity, Gas and Other Fuels*' as well as in '*Food and Non-Alcoholic Beverages'*. For the former, the key drivers over the past 12 months are increases in the cost of Electricity, Natural Gas and Mortgage Interest.[35] These areas are the most exposed to international price changes (including interest rate increases). The Central Bank of Ireland has noted that uncertainty in relation to oil supply in the short to medium term has added uncertainty to the Irish inflation outlook[36]. The theme of Ireland's housing market is addressed in more detail below.

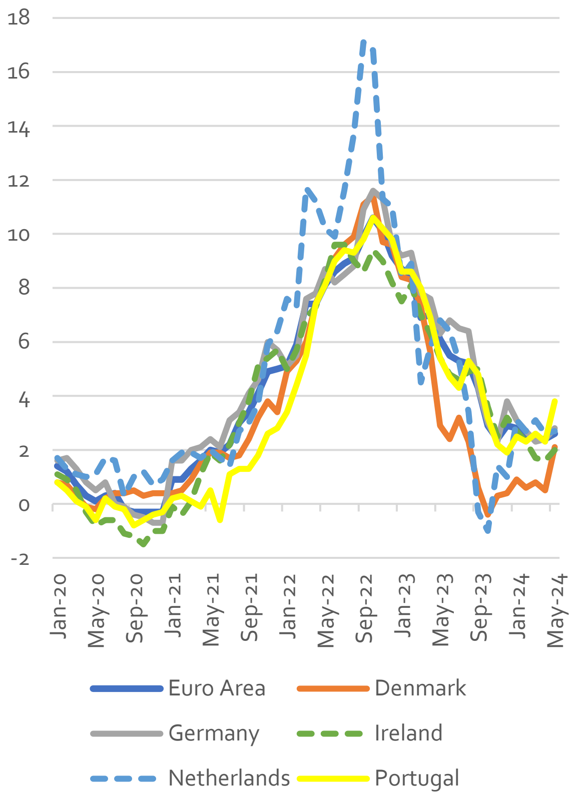
[34] McLaughlin D., and T. Conefrey, "Supply and Demand Determinants of Inflation in Ireland", Vol. 2023, No. 4, Economic Letter, Central Bank of Ireland.
[35] Mortgage interest repayment costs have increased by 44.1% over 12 months May 2022 – May 2023
[36] Quarterly Bulletin, QB2 – June 2024, Central bank of Ireland.

Figure 1.2.2: Contributions to CPI, Ireland, January 2020 – May 2024



Source: CSO

Figure 1.2.3 HICP for selected European countries (annual rate of change) January 2020 – May 2024



Source: Eurostat

1.2.3 Housing

The Council has commented on housing on many occasions over recent years, particularly with regard to the impact of a dysfunctional market with regard to quality of life, staff recruitment and retention, and the scope for housing costs to drive upward wage pressures. It is very clear that significant progress has been made in recent years to boost the level of construction sector output. New dwelling completions have gone from under 5,000 in 2013 to almost 33,000 in 2023[37]. There are, however, continuing constraints. These include matters relating to planning system and the risk that the future supply of new housing could be disrupted due to developments that have already been approved encountering a 'planning cliff edge'. Issues pertaining to the planning and regulatory system – and how these can impede the delivery housing and public capital infrastructure are addressed in Chapter 6 below.

Given the continuing challenge posed by the housing market and its negative implications for competitiveness, the Council decided to return to this theme in *Competitiveness Bulletin 24-3* (Competitiveness and the Housing Market in Ireland)[38]. This worked focussed, in particular, on labour capacity constraints as they relate to the residential construction sector and found that close attention must be given to the competing demands for labour across all facets of the construction sector and that greater adoption of Modern Methods of Construction is crucial to reduce pressures for labour demand.

[37] New Dwelling Completions – CSO
[38] Bulletin 24-3 Competitiveness and the Housing Market in Ireland, NCPC, May 2024.

The structure and composition of Ireland's housing market has changed over the past decade, most notably with regard to the significant expansion of the role of 'non-household' buyers in the purchase of residential property assets. This cohort includes institutional investors, the Local Government sector, and Approved Housing Bodies (AHBs). It will, however, also include those employers opting to – or, perhaps, feeling compelled to – purchase dwellings in order to address the accommodation needs of current and future staff.[39] From a competitiveness perspective, this gives rise to multiple concerns including the emergent risk that direct housing expenditures become a new source of operating cost for firms and that firms are deploying scarce capital into activities that are non-core to their principal line of business. Furthermore, the nature of Ireland's current private residential tenancy framework could lead to the possibility that such a firm would find itself providing accommodation to former employees (i.e., if and when an employee left the firm, they would retain a legal right to said tenancy). On the other hand, employee might also feel reluctant to change jobs thus stalling labour force mobility if their employment was linked to their accommodation.

In the aforementioned *Competitiveness Bulletin*, the Council also noted the importance of ensuring that we strike the optimal balance between types of construction sector activity and output (for instance, residential versus commercial). This, in part, reflects concern as to construction labour allocation. The latter issue warrants recognition when one considers the current scale of vacancy across the commercial property sector. The latest edition of the *GeoView Commercial Vacancy Report*[40] found that there is evidence for an emerging oversupply of office space with more than 30,000 vacant commercial premises in Ireland by end-2023. This equates to a vacancy rate of 14.3% (or the highest rate since this report commenced in 2013). While, according to the Central Bank of Ireland, the passthrough of rising interest rates to corporate real estate borrowers has been modest – the degree to which the vacancy has a bearing on asset prices could lead to increased vulnerability[41]. During the preparation of this report, the Secretariat engaged with market participants to better understand some of the underlying dynamics here. Some of the key insights are summarised in the Box 1.C below.

There is now an increasing focus on the possibility of re-purposing vacant office space. For instance, a recent report by the Housing Agency[42] presents a series of case studies on office-to-residential conversions. The latter notes that recent changes to Planning Regulations have sought to encourage these conversions (by introducing exemptions aimed at the productive re-use of qualifying vacant commercial buildings).

[39] Such action has been the subject of considerable recent media attention. For example, see: Firms considered buying 'entire housing estates' for staff, committee will hear – The Irish Times. This is also explored in NCPC Bulletin 24-3.

[40] Commercial Buildings Report – Q4 2023, GeoDirectory.

[41] Lambert, D., Mahony, M., and N. McGeever, "The Financial Resilience of Irish CRE Borrowers", Financial Stability Notes, Vol. 2024, No. 4, Central Bank of Ireland.

[42] Office-to-Residential Conversions: Case Studies from Tuath Housing, Housing Insights – Policy Insights Series, Issue No.: 4, The Housing Agency.

Box 1.D: Key messages from the *Report of the Housing Commission*

- The Housing Commission has identified that over several decades there have been a range of interventions to deal with housing. However, these interventions have not resolved failures that are fundamentally systemic.

- The Housing Commission sought to build consensus by developing a vision for a well-functioning housing system in Ireland post-2030 and defining the principles and characteristics that would underpin it.

- Ireland has, by comparison with our European partners, one of the highest levels of public expenditure for housing, yet one of the poorest outcomes.

- A major issue of concern to the Commission is **Ireland's housing deficit**. It is critical that this housing deficit is addressed through emergency action. Coupled with this is the need for a step change increase in the level of housing supply on an ongoing basis.

- The Housing Commission identified a need for up to **an additional 1.8m dwellings based on population forecasts ranging between 6.25m and 7.25m persons between 2050** (note: this is a greater scale of population expansion than that envisaged in the original National Planning Framework forecast (2018) – an increase of 1m. persons between 2016 and 2040 (up to 5.7m persons)).

- The Commission believes that increasing housing delivery depends on **effective coordination of the planning system, land availability, infrastructure development and finance**. Removing barriers associated with these elements of the housing system is paramount to the effective supply and delivery of housing.

The Housing Commission was established by the Minister for Housing, Local Government and Heritage in December 2021. The *Report of The Housing Commission*[43] was published on the 22nd of May 2024. This report notes that housing in Ireland is impacted by a range of failures that are fundamentally systemic in nature and that there are core issues to be resolved, including ineffective decision-making and reactive policy-making. This is a wide-ranging enquiry into housing in Ireland with 83 recommendations covering themes such as increasing housing supply, creating an appropriate housing composition (private rented, social housing, first-time buyers etc), and doing so in an environmentally friendly and inclusive way. Some of the key insights are summarised in the Box 1.D below.

1.3 Actions Crucial to address Immediate Issues

1.3.1 Fiscal Policy in a Constrained Economic Environment

Ireland has scored highly on international competitiveness rankings in recent years, with our placing driven by strong economic growth, our highly skilled workforce, and our success in attracting inward investment in high value-added economic sectors. Despite this, long-standing issues continue to weigh on our economic performance. Ireland's high cost/price position, and our low levels of unemployment point to an economy operating at capacity.

[43] Report of the Housing Commission, The Housing Commission.

In the context of such concerns and given the concentration of corporation tax (and income tax) returns arising from a small number of large multi-nationals, prudent fiscal policy is advised – with a focus on productivity enhancing capital investment ahead of pro-cyclical expansion in current expenditure. The degree to which the labour market can respond to additional capital investment, is itself unclear, given the full employment position.

In the context of capacity constraints limiting the degree to which Ireland's labour market can respond to additional investment, the Government should act prudently in decisions relating to increased investment, focusing on actions and investments which mitigate rather than exacerbate capacity constraints, and which also do not lead to excess risks in terms of its fiscal position.

Recommendation 1.1: The Council recommends that the Government should continue to focus on actions which mitigate rather than exacerbate capacity constraints, and which avoid excess risks and imbalances in terms of its macroeconomic and fiscal position.

Responsibility: Department of Public Expenditure, NDP Delivery and Reform; Department of Finance

1.3.2 Prioritisation of Residential Development

In *Competitiveness Bulletin 24-3*, the Council focussed on labour capacity constraints as they relate to the residential construction sector and found that close attention must be given to the competing demands for labour across all facets of the construction sector. In particular, greater adoption of Modern Methods of Construction is crucial to reducing pressures for labour demand. The Council also noted the importance of ensuring that Ireland achieves an optimal balance between types of construction activity and output. This, in part, reflects concerns relating to the allocation of construction labour, particularly at a time of emerging oversupply in respect of commercial office space (the *GeoView Commercial Vacancy Report* estimates a vacancy rate of 14.3%, the highest rate since the report commenced in 2013).

Recommendation 1.2: The Council recommends that in the assessment by the local government sector of new planning applications in respect of commercial property developments, careful consideration be given to vacancy rates in the commercial property sector, the labour input required to complete these developments, and the excess demand for residential property.

Responsibility: Department of Housing, Local Government and Heritage

1.3.3 Data on Insolvencies and Incorporations

Over the last number of months there has been an increasing level of discourse in relation to corporate insolvencies, particularly as the debt warehousing deadline passed in May 2024. There is a lack of clarity and accessibility in relation to much of the data on insolvencies and liquidations. A number of private companies utilise data which is ultimately sourced from the Companies Registration Office in order to report on trends in relation to insolvency. However, there is a lack of clear transparency as to the methods and data cleaning, which is applied to these figures, as well as the comparability between different reports. There should be increased reporting from public sources on trends in relation to incorporations, restructurings, strike-offs and liquidations. This would improve transparency in this area, as well as the quality of information available to businesses and those making investments.

Recommendation 1.3: The Council recommends that the Department of Enterprise, Trade and Employment produce a detailed annual time-series that examines trends in incorporations, restructurings, strike-offs and liquidations (by sector).

Responsibility: Department of Enterprise, Trade and Employment

1.4 Remainder of Report

This section is followed by **Chapter 2 ("Ireland and EU Single Market")** which examines EU competitiveness across the areas of industry, innovation, investment, and energy, and the regulatory burden on firms. The chapter also examines the evolving State Aid position, and how Ireland might position itself within the European debate on competitiveness.

Then, **Chapter 3 ("The Cost of Doing Business in Ireland")** analyses rising costs for business and the impact of new and forthcoming measures to improve working conditions in Ireland. This Chapter also assesses trends in energy, transport and shipping costs. The chapter finishes with recommendations to government about how to support businesses boost productivity and maintain cost competitiveness.

Chapter 4 ("Building and Retaining a Skilled and Talented Labour Force") explores skilled labour demand and supply and the observed mismatch between them, particularly as it relates to key sectors: construction, digital and green. This chapter also considers the employment permit system and migration.

Chapter 5 ("Embracing Technological Change and Innovation") sets out the state of play of investment in RD&I in Ireland. This chapter also progress towards enterprise digitalisation and AI adoption and references joint research by Department of Enterprise, Trade and Employment (DETE) and the Department of Finance on the potential impact of AI adoption. The Government's National Quantum Strategy, and the cyber-security preparedness of Irish firms are also examined in the chapter.

Lastly, **Chapter 6 ("Planning and Delivering Sustainable Infrastructure")** considers the role of sustainable infrastructure in Ireland, with a focus on how to plan and deliver such infrastructure in the areas of wind power generation, public infrastructure and housing. Chapter 6 also considers the role of the planning and regulatory system, and improvements in this area.

Chapter 2: Ireland and EU Single Market

Key Messages

- EU membership and access to the Single Market have been core to Irish economic success.
- The EU is currently lagging both the US and China in its innovation performance, which has implications for the EU's future productivity performance and ultimately its growth performance.
- In response to recent international crises and geo-political developments, there has been increased use of 'temporary' State Aid at the national level across the EU. This threatens the level-playing field philosophy of the Single Market, given lower levels of fiscal capacity in smaller Member States.
- Further integration of the Single Market, including progressing the Capital Markets Union, is critical for enhanced EU competitiveness performance and to allow EU firms to scale effectively.
- Real progress in reducing administrative and regulatory burdens is needed across the EU.

2.1 Introduction

As set out in *Challenge 2023*, there have been a range of geo-political developments which are influencing the international competitiveness of the European Union and its Member States since 2020. This has been characterised by increasing global geo-political uncertainty – the COVID-19 pandemic, the Russian war in Ukraine and the associated supply chain and price shock across energy and goods markets. More recently, developments in the Middle East have added to this uncertainty.

This period has also seen a continuation of a pre-2020 trend, with the EU lagging on economic growth when compared to both the US and China. This has placed an increased emphasis on the competitiveness of the EU, and increased emphasis on its 'open strategic autonomy', which is defined as the ability to act autonomously, to rely on one's own resources in key strategic areas and to cooperate with partners whenever needed[44]. Divergent views have emerged between Member States, between an approach focused on increased protectionism and use of subsidies to attract key critical industries, set against a view that the EU's approach should focus on competition and better regulation alongside a moderate sustainable industrial policy. The EU has entered a new period of change with both a more pro-active competitiveness and State Aid policy evident which will have different implications across Member States. As noted in Chapter 1, the recent publication of the Letta report on the Single Market and the forthcoming Draghi report on EU Competitiveness will be important in setting the agenda of the next Commission[45].

This Chapter looks at these developments, examining the EU's competitiveness performance along the areas of industry, innovation, investment and energy and the impact of regulatory burdens on firms. It the considers the evolving State Aid position of the EU and explores how Ireland might position itself within the European debate on competitiveness.

2.2 Current Situation

2.2.1 Ireland and the EU

Membership of the EU has been transformational for the Irish economy since Ireland joined as a member in 1973. Membership has provided Ireland with access to a large export market and has facilitated the change in our economy from a primarily agriculture and traditional manufacturing economy to a modern manufacturing and services-oriented one. Technology, finance and other service-orientated industries have been key to the increase in the share of the workforce in the services sector rising from a 45% share in 1973 to 77% in 2022[46]. The labour market has experienced exceptional growth in that time, with the number of persons unemployed declining significantly as a proportion of total employment (Figures 2.2.1a and b below). The creation of the Single Market in 1992, coupled with access to the euro as a stable currency have further aided the Irish economy's growth in the last number of decades – particularly in relation to a reduced exposure to global currency market volatility as well as lower risk of currency impacts on Ireland's Balance of Payments. For example, since 1973 Irish exports have grown from €1.1 billion to over €160 billion today. GNP and GNI per capita in Ireland today are almost four times higher, in real terms, than when Ireland first became a member-state in 1973.

The Single Market has helped facilitate the smaller economies in the EU achieve convergence. For example, GDP per head in Central and Eastern Europe has increased from around 52% of the EU's average in 2004 to nearly 80% in 2021[47]. The economic literature finds that although there can be penalties to growth arising from being a smaller economy, access to the EU Single Market has provided smaller countries with an effective means of overcoming these penalties through improved access to large markets – in effect providing a 'small country bonus'[48]. Denmark and Ireland are both good examples of this[49]. They, along with other Member States, have benefited from membership of the EU which has provided both a strong export market and access

[44] On the Path to 'Strategic Autonomy' – The EU in an Evolving Geopolitical Environment
, European Parliamentary Research Service, September 2020.
[45] Letta, E. "Much more than a market – Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens", April 2024.
[46] Benefits of EU Membership for Ireland, European Commission Representation in Ireland, April 2024.
[47] Economic Cohesion in the European Union: Recent Trends and Future Challenges, European Commission, March 2024.
[48] Konig, J. "European Integration and the Effects of Country Size on Growth", Journal of Economic Integration, Vol. 30 No. 3, September 2015.
[49] Henriksen, I. "An Economic History of Denmark", Economic History Association, October 2006.

to broader array of imports – as seen in the rising level of intra-EU exports. (See Figure 2.1c below). As the international geopolitical context becomes increasingly multipolar, the EU will seek to preserve its role as a key strategic global player. It is important that we do not lose sight of the importance of the level-playing field for the Single Market, and the risks associated with a continued reliance on public subsidies to attract industries. This approach favours the fiscal capacity of larger member-states compared to smaller member-states, and potentially undermines Ireland's competitiveness offering.

Figure 2.2.1a: Persons Employed and Unemployed in Ireland (LHS) and Unemployment Rate (RHS)

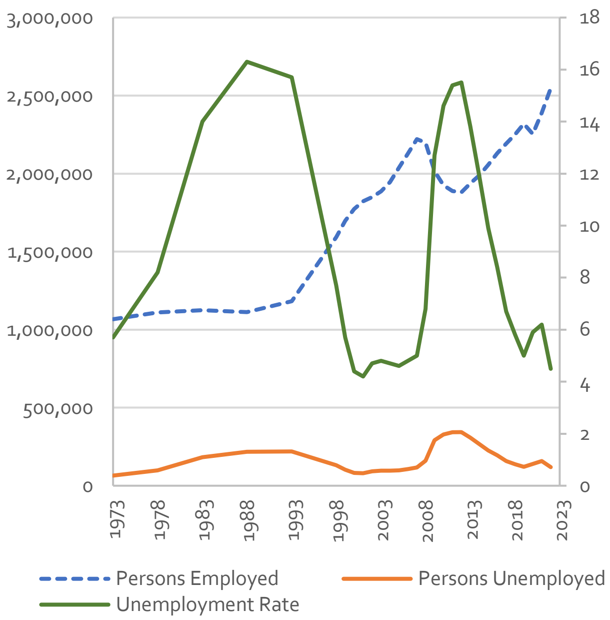


Figure 2.2.1b: Value of Irish Goods Exports, 1961-2023

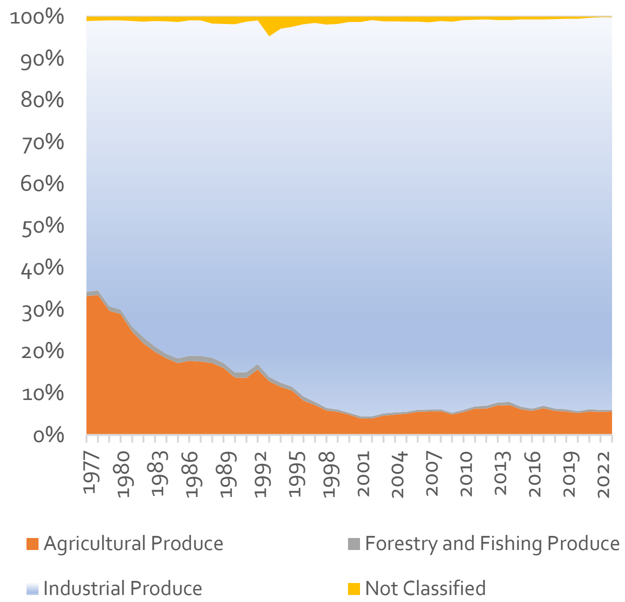


Figure 2.2.1c: EU Exports by destination, 2002-2024 (2002 =100)

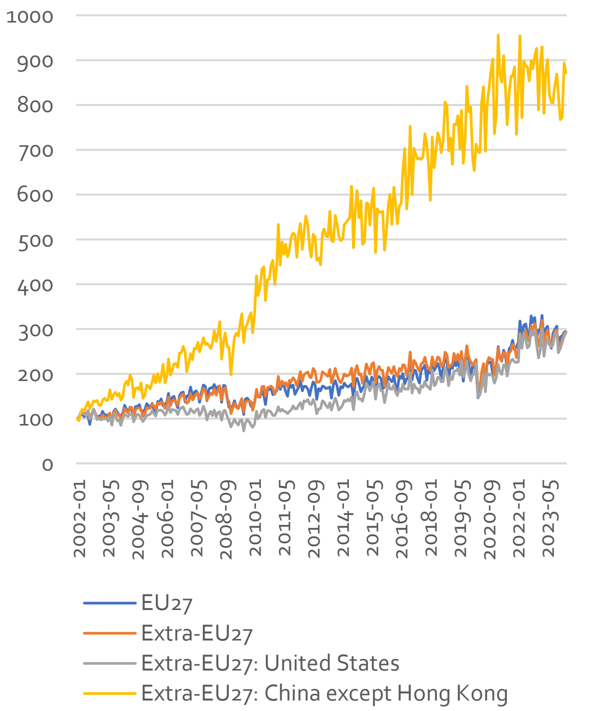
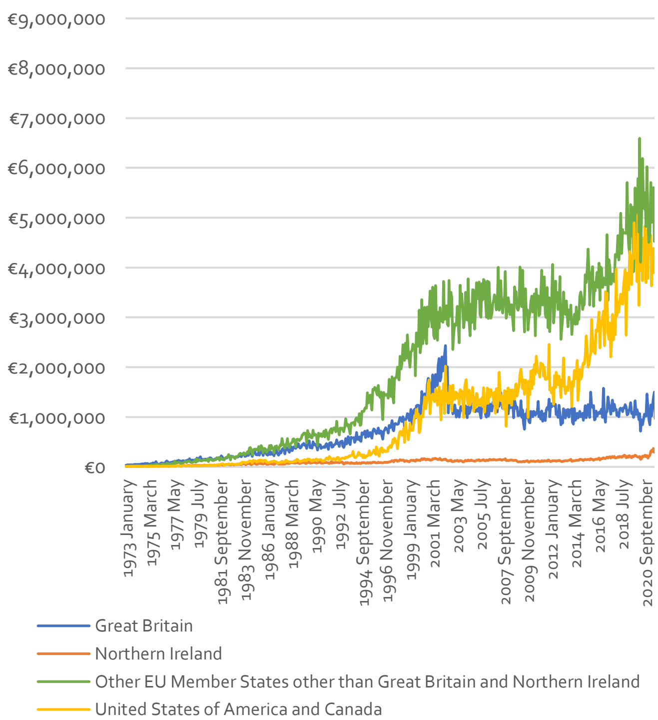


Figure 2.2.1d: Value of Irish Goods Exports by Destination, 1973-2022



Source: CSO, Eurostat. Note: 'EU27 (from 2020)' in Figure 2.2.1d is included under 'Other EU Member States'.

2.2.2 EU Competitiveness Performance

In 2023 the EU agenda turned increasingly towards considering its own competitiveness. The Communication from the European Commission in March 2023 on long-term competitiveness[50] set out the challenges for the EU in remaining competitive over the long-term, and how the EU would secure its competitiveness position through nine drivers and related Key Performance Indicators (KPIs). This was followed by the announcement in Commissioner Von der Leyen's 2023 State of the Union address that Mario Draghi will undertake an assessment of the EU's competitiveness and actions for industrial policy to be published in Summer 2024[51]. The Draghi report will follow on from the recent Letta Report *'Much More Than A Market'*.

The Letta report considers the future of the Single Market and the actions necessary to ensure its continued success and competitiveness in a modern, larger global economy. Actions include greater integration of financial, energy, telecoms markets; the need to better develop an infrastructure network connecting Europe and its partners; the need to reduce administrative burden – the Letta Report advises the use of regulations (applied in their entirety across the EU) over directives (which give Member States discretion in how they are implemented in achieving a target).

Both reports will seek follow-on action to enhance the EU's current competitiveness position. The EU's current competitiveness position is assessed in the Annual Single Market and Competitiveness Report for 2024 which utilises the nine identified drivers to monitor the EU's competitiveness position. Looking at the nine drivers – a functioning Single Market, Access to Private Capital, Public Investment and Infrastructure, Research and Innovation, Energy, Circularity, Digitalisation, Education and Skills, Trade and Open Strategic Autonomy – the report notes that there has been positive developments across the majority of drivers, with 9 of the 17 KPIs improving and another 3 stable.

Areas which the report highlights as needing improvement include:

- **Administrative and Regulatory Burden** – efforts to improve and simplify the implementation of agreed rules to facilitate doing business and entrepreneurship in Europe
- **Address Energy Costs** – through accelerated deployment of decarbonised energy and investment in infrastructure, including grids and cross-border interconnections.
- **Progress Capital Markets Union** – to unlock private investment and diversify sources of funding, to enable the scaling-up of companies in Europe.
- **Open Strategic Autonomy** – continue to promote fair and open trade and employ trade defence instruments to protect the Single Market when necessary.
- **Labour and Skills** – the skills and labour gaps should receive increased attention in the context of wider demographic trends, notably via efforts on education and training, but also by easing skills and talent mobility within and to the EU.

These six areas for action echo a number of the Council's own concerns and recommendations in recent years in order for Ireland to improve its own competitiveness position. The first of these is energy costs, which the Council has repeatedly cited as a significant competitiveness issue for Ireland. They also include public investment and the effective delivery of infrastructure, which is necessary to enhance the productive capacity

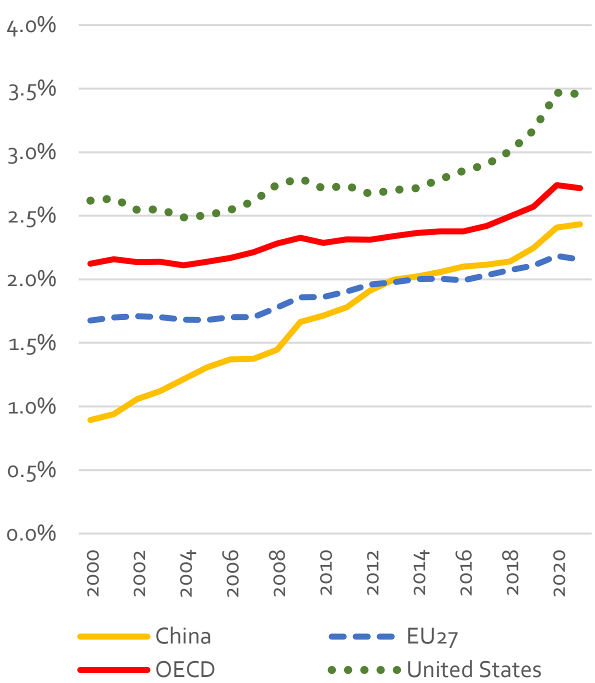
[50] Long-term competitiveness of the EU : looking beyond 2030, 16 March 2023. See: https://commission.europa.eu/system/files/2023-03/Communication_Long-term-competitiveness.pdf
[51] 2023 State of the Union Address by President von der Leyen, European Commission, September 2023.

of the economy, and the importance of R&D and commercialisation to continued growth in Ireland's productivity performance.

2.2.3 Innovation Performance

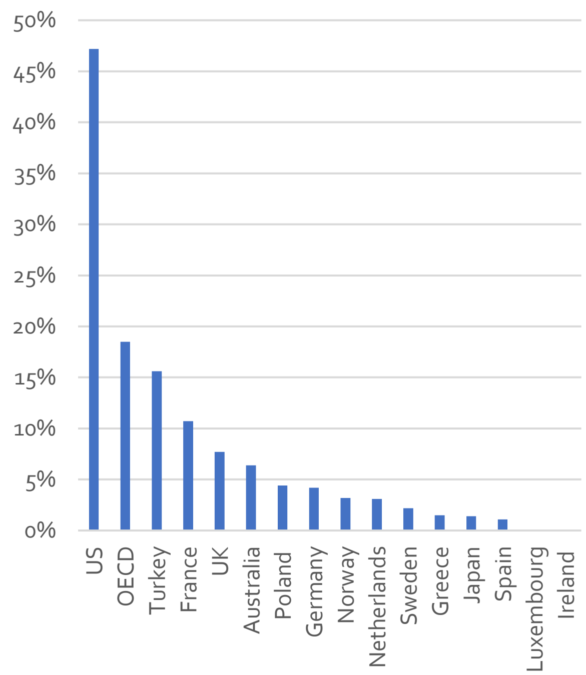
A critical issue for the EU is its consistent lagging of both China's and the US' innovation performance, which in turn is a strong determinant of competitiveness and economic growth over the long-term. The EU has consistently trailed the US on expenditure on R&D, and now it is also falling behind China on R&D investment as a proportion of GDP (see Figure 2.2.2a below).

Figure 2.2.2a: R&D Expenditure as a proportion of GDP, 2000-2021



Source: OECD

Figure 2.2.2b: Defence R&D as a share of R&D Budget,2021



Source: Statista

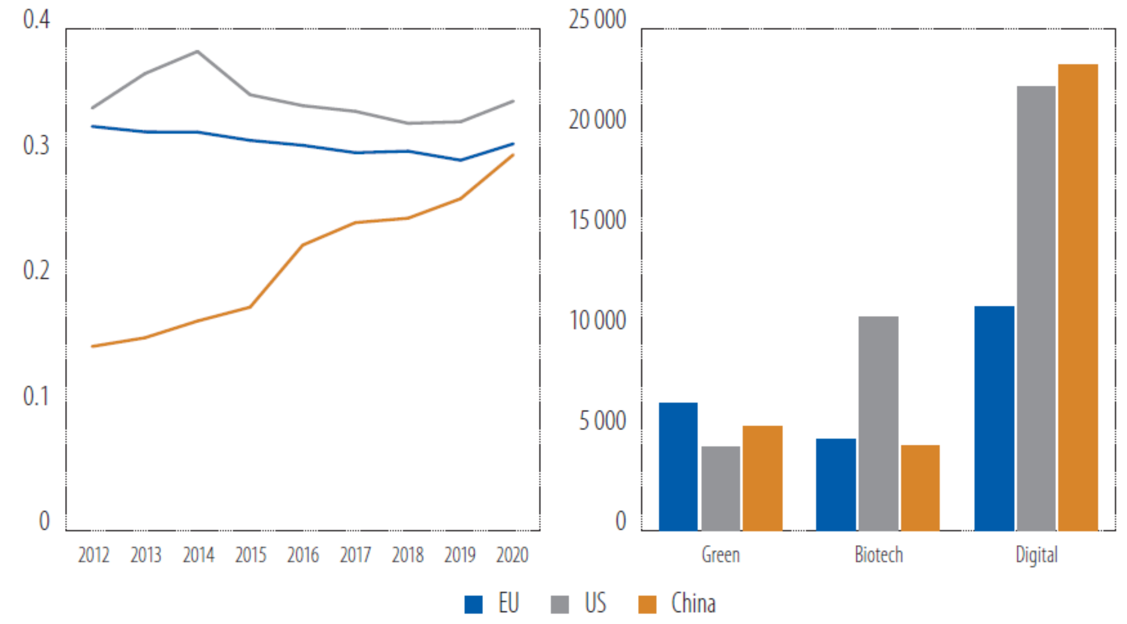
R&D investment – comprised of both public and private spending – is critical for long-term innovation and productivity performance, and while the data shows that the EU has a lead in clean technology, it is now falling behind on digital performance. In considering R&D differences across countries and regions, the degree of military expenditure in R&D can serve to distort the picture. The latter can be a significant component of total R&D expenditure – with almost half of the US's public R&D funding going through defence budgets. This can also crowd in additional privately-funded R&D, driving further differences in total R&D expenditure by country[52]. Figure 2.2.2b above sets out defence R&D as a proportion of public R&D expenditure and points to significant differences in rates between countries. While there is less public information available on the extent of Chinese defence expenditure, it is estimated to have grown considerably in recent years and to be catching up on US expenditure[53].

[52] Moretti, E., Steinwender, Cl, and J. Van Reenen. "The Intellectual Spoils of War? Defense R&D, Productivity and International Spillovers", NBER Working Paper 26483, November 2019.
[53] China's Defense Budget Is Much Bigger Than It Looks, Foreign Policy, September 2023.

In terms of private investment in innovation, EU firms in general have been investing in innovation at lower levels than their American counterparts for the last number of years. This gap is called out in the EIB Investment Report 2023/2024: Transforming for Competitiveness[54] which draws attention to the impact of a lack of investment on EU firms' competitiveness.

Figure 2.2.3a: Number of patents issued (weighted by GDP)

Figure 2.2.3b: number of patents issued, 2020, by technology domain



Source: EIB Investment Report 2023-2024

China has continued to catch up in terms of number of patents issued (weighted by GDP), while the EU still falls behind the US in this area. As stated above – the EU maintains a lead in Green technology innovation as measured by its patent performance. However, it is falling significantly behind on digital innovation, as reflected in the gap between the number of patents issued in the EU compared with both the US and China in digital spaces and in particular for Artificial Intelligence.

The lower level of investment in R&D (as set out in Figure 2.2.2a above) has impacted the development and introduction of new products and processes – this will ultimately impact the EU's innovation performance and economic growth. Investment in R&D and innovation is critical for long-term growth as firms in sectors with high R&D intensity tend to be more innovative, coupled with the fact that innovative firms generally outperform less innovative firms. A challenge for firms in the EU in improving their innovation performance has been in getting greater access to capital (including seed and venture capital finance) in order to scale as effectively as international competitor firms.

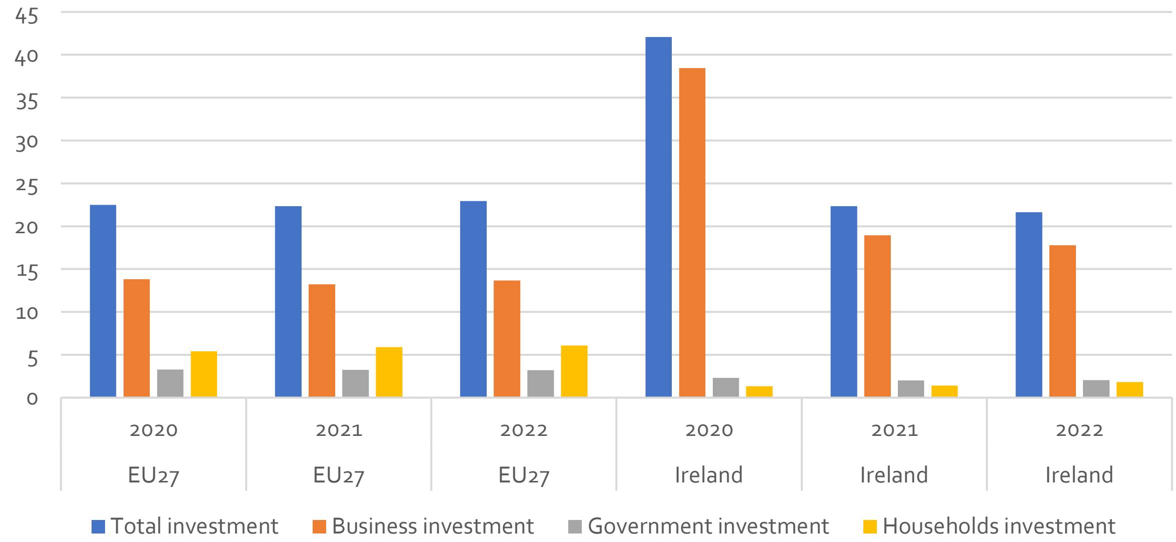
2.2.4 Investment and Energy

In contrast to the euro debt crisis a decade earlier, public investment remained relatively strong through the COVID-19 crisis. In order to maintain EU economic performance and boost industrial competitiveness, particularly in critical and potential high-growth sectors, the EU has increased investment along multiple lines

[54] Transforming for Competitiveness – Investment Report 2023/2024, European Investment Bank.

including the Recovery and Resilience Facility (RRF) which took the form of €648 billion in grants and loans to invest in reforms and projects across the EU. However, the data show that the RRF only features in quite a limited part of Ireland's Gross Fixed Capital Formation in comparison to other EU countries. For example, Ireland's planned RRF expenditure of €914m is equivalent to circa 0.3 % of the country's 2019 gross domestic product (GDP) (0.4% on a GNI* basis), while the total RRF amounts to 5.2% of 2019 EU-27 GDP.

Figure 2.2.4: Gross Fixed Capital formation as a share of GDP, by institutional sector, EU27 and Ireland, 2020-2022



Source: Eurostat

Despite current expenditure (in the form of energy supports) consuming available fiscal space in 2023, total nominal Government investment grew by 10% in H1 2023 (following slight declines in 2021 and 2022). According to Eurostat data, infrastructural investment has increased and in 2023 surpassed the previous highs reached prior to the global financial crisis (2008). Public support, and the recovery in private demand across 2021-2023, has also facilitated resilience in private corporate investment. Figure 2.2.4 (above) shows that business investment remains the largest form of investment contributing to Gross Fixed Capital Formation for the EU, with it forming an even larger share of Ireland's capital formation. In comparison to other EU Member States, Irish households continue to display a lower tendency to invest in capital improvements (or purchase) than other Member States – though GDP effects somewhat distort this interpretation.

Another arm of investment has been specifically in the areas of green investment and energy. Energy has been seen as detracting from EU competitiveness in recent years following the increase in energy costs. In comparison to other major economic blocs, the EU has a relatively high energy import dependency (importing 58% of its energy in 2020) and therefore is exposed to swings in energy prices and unable to offset high prices through domestic supply to the same extent as other regions[55].

This high energy cost has had real impacts on EU industrial production – with production in energy-intensive sectors in Germany still well below 2021 levels (prior to energy price increase) and expected to remain below these levels[56]. Despite the increase in energy costs and labour costs in recent years, firm profitability has

[55] "How Dependent are EU Member States on Energy Imports?", European Council, April 2024.
[56] See: https://www.frontier-economics.com/uk/en/news-and-insights/news/news-article-i20125-the-future-of-energy-intensive-industries-in-germany/

remained generally strong – with EU firms passing on higher energy costs on to customers and ultimately spreading these costs through the economy. This is also seen in the share of EU national income arising from profits holding steady at just above 40% of gross national income. However, firms passing on increased cost has resulted in lower sales, and the EIB expects that there will be increased insolvency risk across the EU as firm profitability may decline following this initial increase[57]. Despite energy price increases weighing on firm investment decisions, corporate investment across the EU has remained strong, and was 2% higher in real terms in Q2 2023 compared with 2019.

The EIB reports that EU firms have increasingly been using their own internal finance to fund investment during the recent period of high inflation[58]. Respondents to a survey by the EIB point to a lack of finance availability for EU firms to scale up, with high interest rates and monetary tightening impacting the availability of appropriate finance. They also identify a lack of options for taking companies public within the EU. Significant structural differences in financial markets between the US and the EU also continue to drive differences in competitiveness performance. European SMEs primarily rely on debt financing, with private equity and venture capital taking a lesser role; this impacts on scaling performance, particularly that of high potential start-ups. Over 2023 there was a marked decline in the availability of private equity and venture capital in the EU – down 20% - due to declining market sentiment and monetary tightening.

The issues regarding availability of finance for EU firms could be substantially addressed through a Capital Markets Union (CMU). There has been a lack of progress on moving towards a full CMU in recent years. However, with the recent Letta Report identifying CMU as a key step to enhancing the economic performance of the EU and having featured strongly on the European Council agenda in 2024, it is to be hoped that further steps can be taken in the near term towards further integration of the EU's capital markets.

2.2.5 Open Strategic Autonomy

The discussion above points to the EU's performance along a number of areas having fallen behind competitor economies. Understanding the reasons why – or endeavouring to project forward – is complicated by a range of intersecting dynamics – such as reshoring and the growth of GVCs. Geo-political developments may see greater focus on 'regionalisation' rather than globalisation, with companies 'nearshoring' where they can. Regionalism may come with real added production costs arising from companies no longer sourcing goods from the most efficient global source[59]. However, it is also important not to overstate any potential retreat in international trade. While there has been a decoupling of US-China trade in recent years, major global economies remain highly connected through trade[60]. While recent shocks have presented a challenge to international trade, a balanced approach to trade through an industrial policy that encourages function diversification across a range of value adding activities rather than hyper-specialisation in relatively few areas can help countries address vulnerabilities in global value chains[61].

Technological and energy developments have exposed significant supply chain dependencies for the EU economy, such as the increase in the EU's exposure to China over the last two decades. In response to the request of the European Council of October 2020, the Commission identified and started to address the

[57] Transforming for Competitiveness – Investment Report 2023/2024, European Investment Bank.
[58] Ibid.
[59] Di Sano, M., Gunnella, V., and L. Lebastard. "Deglobalisation: risk or reality?", The ECB Blog, July 2023.
[60] Altman, S. and C.R. Bastian. "The State of Globalization in 2023", Harvard Business Review, July 2023.
[61] Coveri, A. and A. Zanfei. "The Virtues and Limits of Specialization in Global Value Chains: Analysis and policy Implications, Journal of Industrial and Business Economics", Vol. 50(1), pp. 73-90, 2023.

strategic dependencies of the EU. Strategic dependencies represent around 9.2% of total extra-EU imports – amounting to 204 goods with foreign dependence in sensitive industrial ecosystems, with single points of failure in 40% of the identified cases (based on assessment of each good's trade network); these raise significant concerns for the strategic autonomy of the EU[62].

The list of dependent products covers raw materials, which are used as inputs across other industrial ecosystems. This includes manganese, nickel, aluminium, chromium, rare earth metals, molybdenum, borates, uranium, silicon, and permanent magnets. Dependencies are also identified in traditional energy inputs such as coal and gases. Within the health ecosystem, for example, the Commission paper finds dependencies in products such as heterocyclic compounds, some medicines, vitamins, alkaloids, iodine, amino-acids, and medical instruments.

The EU's response, to date, in the areas of industry and economic security has been primarily across three pillars:

1. ***Ramping up manufacturing capacity/competitiveness***

   This has involved three main regulations –

   (i) the *European Chips Act* (2023)[63] which seeks to address semiconductor shortages and strengthen Europe's technological leadership through a mix of regulatory and finance levers. It will mobilise more than € 43 billion of public and private investments and set measures to prepare against future supply chain disruptions.

   (ii) The *Critical Raw Materials Act* (2023)[64] which seeks to ensure the EU's access to a secure, diversified, affordable and sustainable supply of critical raw materials.

   (iii) The *Net Zero Industry Act*[65] to help strengthen the European manufacturing capacity of net-zero technologies and overcome barriers to scaling up the manufacturing capacity in Europe.

   The continued utilisation of Important Projects of Common European Interest[66], also represents efforts to boost industrial production where there are perceived market failures.

2. ***Widening sourcing and tech diplomacy***

   As noted in communication on the *Critical Raw Materials Act*, the EU will never be entirely self-sufficient in terms of critical raw materials and so will continue to rely on imports for a majority of its raw material needs. Diversifying the Union's imports of critical raw materials through international trade is therefore essential to retaining strong industry and the region's competitiveness. Actions in this space include the Global Gateway strategy and the EU stepping up trade actions – acting through the WTO, the proposed establishment of a Critical Raw Materials Club and the expansion of Free Trade Agreements.

[62] An Enhanced Methodology to Monitor the EU's Strategic Dependencies and Vulnerabilities, Single Market Economics Papers, European Commission, April 2023.
[63] European Chips Act, European Commission.
[64] Critical Raw Materials: Ensuring Secure and Sustainable Supply Chains for EU's Green and Digital Future, European Commission Press Release, March 2023.
[65] The Net-Zero Industry Act: Accelerating the Transition to Climate Neutrality, European Commission.
[66] Important Projects of Common European Interest (IPCEI), European Commission.

3. ***Protecting against Risks and Shaping Markets***
   This has seen the EU take a stronger position on intellectual property and 'standard essential patents' utilised in the bloc[67], alongside this there has been increased level of investment screening in determining the foreign direct investment made into the EU and the potential impact on security or infrastructure.[68]

In January 2024, the Commission adopted five initiatives, in line with the above 3-pillar approach:

- further strengthening the protection of EU security and public order by proposing improved screening of foreign investment into the EU.
- stimulating discussions and action for more European coordination in the area of export controls, in full respect of existing multilateral regimes and Member States' prerogatives.
- consulting Member States and stakeholders to identify potential risks stemming from outbound investments in a narrow set of technologies.
- promoting further discussions on how to better support research and development involving technologies with dual-use potential.
- proposing that the Council recommends measures aimed at enhancing research security at national and sector level.

How the EU best ensures that it achieves these objectives is unclear and the subject of debate, with, for example, Member States adopting different positions on the utilisation of State Aid as a means to develop key industries.

2.2.6 State Aid

One of the key mechanisms used to drive further investment has been the *Temporary Crisis and Transition Framework* (TCTF) which was adopted by the European Commission in March 2023 as an amendment and prolongation of the 2022 *Temporary Crisis Framework* (TCF); will operate until end-2025. The Framework was a response to subsidies for green technology sectors offered by third countries, in particular the *Inflation Reduction and CHIPS Act* launched by the USA. Concerns in relation to the Inflation Reduction Act relate to its subsidy element, but more critically focus on the 'local-content- requirements' such as the 'Made in America' requirements for cars and batteries[69]. Such requirements have the potential to undermine bilateral trade and present a distinct threat to future foreign direct investment for Ireland and the EU. The Framework has loosened State Aid rules to enable Member States to provide 'matching aid' subsidies to counter those offered elsewhere.

However, there are also significant concerns about the impact the use of matching aid is having on the Single Market and the level playing field. As highlighted in last year's *Competitiveness Challenge*, Ireland and other smaller Member States do not have the fiscal capacity to use State Aid in the same manner as large Member States, such as France and Germany. Consequently, there is an increased risk that FDI investments that may have gone to smaller states, such as Ireland, will be diverted to large Member States. Since the establishment of the TCF and TCTF, Germany and France have accounted for 77% of approved State Aid. While any aid will have been approved by DG COMP, and is therefore allowable within State Aid rules, it is difficult to see a

[67] SEPs are patents that protect technology that has been declared essential in a technical standard or specification developed by a standard development organisation: See: Intellectual property – new framework for standard-essential patents (europa.eu)
[68] EU Foreign Investment Screening Mechanism Becomes Fully Operational, European Commission Press Release, October 2020.
[69] EU's response to the US Inflation Reduction Act (IRA) (europa.eu)

situation where a prolonged relaxation of State Aid rules does not risk undermining the level playing field upon which the Single Market is founded.

The move to greater use of subsidies may also encourage 'forum shopping' by multi-nationals where they choose locations based on level of subsidies offered, which in turn can encourage a subsidies race between countries to the detriment of fiscal sustainability and indeed competitive market signals. Ireland has been clear in its position regarding the relaxation of State Aid rules and signed a joint letter in February 2024 with like-minded countries where it signalled significant concerns relating to the continued use of State Aid in a way which could be detrimental to smaller countries[70]. The letter advocates for alternative approaches within the EU's toolbox, including clear and predicable framework conditions, simplification of regulatory burdens, faster permitting procedures, enhanced innovation capacity, skilled work force, fewer barriers across the Single Market, a large trade network with third countries, and well-functioning capital markets. The letter called for the EU's approach to focus on open and sustainable trade, governed by the rules-based trading system as the means by which the bloc should seek to compete in place of rising subsidies.

The Letta Report also addresses the recent rise in the use of State Aid. While it states that the temporary relaxation of State Aid rules and increased utilisation of State Aid was warranted as a short-term response to recent crises, the report recognises that this has distorted competition in the Single Market, and that over time such distortions may impact on the level play field due to significant differences in State Aid between Members. Letta posits that ultimately, EU industrial strategy (and its funding) must adopt a more European approach, such that certain significant industrial investments would be decided and funded at EU rather than national level. Ireland need a proactive vision for how it can realise opportunities in a changed EU industrial landscape, this may involve a need for Ireland to develop specific approaches for priority sectors or activities such as decarbonisation, digitalisation and innovation – aligned to the White Paper on Enterprise (addressed in greater detail in Chapter 5).

2.2.7 Regulatory Burden

A common criticism of EU regulations is that they detract from the bloc's competitiveness by imposing an undue compliance and regulatory burden on firms. Most commonly cited issues for firms include difficulties in obtaining information and on regulatory requirements, burdensome administrative procedures in selling goods and services to other Member States, inefficiencies related to technical requirements at national level, and services providers reporting issues in relation to entry and exit requirements[71]. Currently, improvements on regulatory burden are driven through the 'Better Regulation' agenda, and there has been some progress on reducing the level of regulatory burden in the European Union over the past year. In March 2023, the Commission proposed to simplify formalities for companies operating in multiple Member States and further expand and upgrade the use of digital tools and processes in company law.

As part of the March 2023 Communication on long-term competitiveness, the Commission has committed to further rationalising and simplifying reporting requirements, with the ultimate aim being to reduce such burdens by 25%, without undermining any related policy objectives. Progress in other areas includes the implementation of the Single Digital Gateway, the EU's flagship eGovernment initiative. Specifically, since December 2023, Member States are obliged to provide online access, for national and cross-border users, to 21

[70] See: https://www.tweedekamer.nl/downloads/document?id=2024D12820

[71] Identifying and Addressing Barriers to the Single Market, Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions, European Commission, March 2020.

types of procedures. The 2024 work programme sets out 15 actions which are underway since early 2023, and a further 26 new actions across a range of policy areas[72]. These include revisions to legislation such as the Union Customs Code – expected to bring savings of €2 billion per annum to traders, European statistics – to reduce the number of surveys for companies, adjusting Accounting Directive and pharmaceutical legislation[73].
In addition, the work programme includes 16 evaluations and fitness checks which will give rise, in due course, to further actions for burden reduction. The Commission has also continued to implement the 'one in, one out' approach (Box 2.A), as well as to introduce a mandatory competitiveness check and strengthen the SME Test for the scrutiny of new proposals.

Box 2.A: EU approach – one in, one out

The European Commissions' approach to 'one in, one out' was set out in the 2021 Better Regulation Communication. This concept falls within the broader 'better regulation' framework and the 'one in, one out' approach had its first full year of implementation in 2022.[1].

The approach aims to offset the burden arising from new legislation by removing an equivalent existing burden in the same policy area. This focus on burden means that the initiative does not focus on the number of initiatives but focuses on keeping aggregate burden in check – it examines this burden through an assessment of compliance costs of each initiative, which is split into (i) adjustment costs – such as costs related to upgrading production lines or improving public health and (ii) administrative costs – costs related to notification, submitting reports, permits, information labelling etc.

The Annual Burden Survey 2022 (published September 2023) sets out the impact of the 'one in, one out' approach for 2022[1].

- 52 initiatives were published by the Commission – 30 of these initiatives resulted in net cost savings, while the remaining 22 did not result in either an increase or decrease of administrative costs or savings.
- There was an overall €4.465 billion in costs introduced, against a saving of €11.781 billion in cost reductions, resulting in a net cost reduction of €7.312 billion.
- Of the six policy areas of the current Commission, only one ("A European Green Deal") resulted in an overall increase of cost burden of €1.9649 billion. The admin costs here relate to admin burden in relation to packaging, the sustainable use of plant protection product, and the proposal on industrial emissions. All five other areas resulted in net savings, with "A Europe fit for a digital age" resulting in €4.1902b in net savings, and "An economy that works for people" resulting in €4.7764 billion in net savings.
- This result was deemed to be expected as the necessary additional cost burden in order to transition to sustainable economic practices were always going to exceed any savings made in this area and would knowingly be offset by the expected savings as a result of increasing digitalisation policies.

While the discussion above sets out the progress being made by the Commission in attempting to control aggregate burden, the overall impression from business is that regulation continues to grow in terms of burden. An example of this is the Corporate Sustainability Reporting Directive (CSRD), for which companies have their first year of reporting on in 2024; it requires companies to report on the environmental and social risks and opportunities for their business and the impacts of their activities. There is a significant reporting requirement

[72] Commission Work Programme 2024, European Commission.
[73] Reducing Burdens and Rationalising Reporting Requirements, European Commission, October 2023.

for certain (especially larger) companies associated with this directive. Earlier this year it was agreed, under efforts set out above to reduce burden, to give an additional two years (to 2026) to certain sectors and non-EU companies to meet reporting requirements under CSRD, while SMEs have also been given to 2026 to begin reporting[74].

It is therefore important, from a competitiveness perspective, that the Commission progress towards its target of a 25% burden reduction, as monitored by the Annual Burden Survey. The lagging innovation performance of the EU when compared to the US and China, highlights the need for the EU to take action to ensure that overregulation is not stifling its innovation performance. It is also important that initiatives around better regulation guarantee the protection and reinforcement of social standards and do not exert downward pressure on employment rights.

2.3 Actions Arising

There are two ways in which Ireland can seek to adapt to these developments impacting on EU competitiveness – first in the way it positions itself in the EU and seeks to influence the EU agenda directly, and second through preparing itself domestically for the possibility of a longer-term shift in the EU towards a more protectionist and subsidy driven economic policy – whether this is realised or not.

There are also actions which Ireland can seek to take in its engagement with the EU which can promote improved EU competitiveness, but also utilise supports where they are available.

2.3.1 Single Market – Level Playing Field and Better Regulation

A strong and resilient Single Market is critical for the competitiveness of the EU and its member-states, including Ireland. The Single Market has allowed Ireland to access larger markets and facilitated Irish enterprise with larger demand for goods and services and in gaining access to diversified supply sources – including access to a skilled workforce. Indeed, in the European Commission's communication on competitiveness it is set out as the first driver of competitiveness.

As the digital and green transition continue, global competition will continue to intensify. In this context it is critical that the EU utilise the Single Market itself as a competitive advantage first, over and above the asymmetric use of State Aid by Member States. The ongoing utilisation of greater levels of State Aid threatens to distort fair competition between Member States and thereby the integrity of the Single Market. Added to this, the continued use of subsidies threatens to encourage a subsidy race both at the Member State level and as the EU competes as a bloc globally.

Instead, further integration of the EU through the Single Market should be seen as the primary means through which the EU competes. There is significant scope to progress integration in the Single Market for services. More consistent enforcement of Single Market rules will aid EU competitiveness. The Letta report advises that regulation is used where possible over directives, and that, where directives are used, individual Member States should not demonstrate greater discipline and not include measures which exceed requirements. Divergence in national regulations, and inconsistencies in national frameworks also hamper trade within the EU, particularly with regard to the provision of services. Progress in this area presents a strong opportunity to secure

[74] Council and Parliament Agree to Delay Sustainability Reporting for Certain Sectors and Third-Country Companies by Two Years, European Council Press Release, February 2024.

concrete gains in competitiveness for EU Member States and firms trading in goods and services within the Single Market.

Alongside this, administrative burden is another avenue through which the EU can enhance its competitiveness. While progress on the 'Better Regulation' agenda through 'one in, one out' is welcome, the experience of firms regarding admin burden as set out in Section 2.2 indicates further action is needed in removing regulatory and administrative burden beyond that which already exists. Addressing this will involve dealing with the root causes of issues for firms including improved regulatory choices at both the EU and national level, improved transposition of directives across Member States, and improved administrative capacity.

This will aid the achievement of a true Single Market, particularly in the market for services across the EU, and indeed will aid SMEs, which feel burden most significantly as they try to scale and grow into foreign markets. In this way better integration through the Single Market can aid the scaling of companies, which in turn will encourage growth more broadly.

The forthcoming Single Market Strategy, which was called for by the European Council in May 2024[75] and is due for publication in 2025, and the Irish presidency of the EU in 2026 both present an opportunity for Ireland to seek to influence the EU agenda in terms of continued progress on achieving further integration of the Single Market, as well as influencing the direction of funding in the next multi-annual financial framework.

Recommendation 2.1: In the context of the forthcoming Single Market Strategy in 2025, the Council recommends that Ireland continues to advocate strongly for an approach to EU competitiveness that emphasises further integration of the Single Market, the maintenance of the level playing field, the importance of reduced regulatory and administration burden to enhanced EU competitiveness, and an open approach to trade and investment coupled with a commitment to working with like-minded international partners.

Responsibility: Department of Foreign Affairs; Department of Enterprise, Trade and Employment; Department of the Taoiseach

2.3.2 Single Market – Access to Finance

In place of a reliance on subsidies the EU should look to scale industries through improved private (and public) investment. The lack of a full Capital Markets Union as well as issues in accessing appropriate finance within the EU is dragging on its competitiveness performance. This is impacting on the ability of EU firms to scale up and compete internationally. The theme of scale is one which emerges strongly from the Letta Report's assessment of the Single Market, and the report identifies improved access to finance via an stronger 'Savings and Investment Union' as a means through which to achieve this.

In comparison to the US, the relatively small size of private equity and venture capital markets presents a competitive disadvantage to EU firms. Venture capital investment in fast-growing firms is about 2% of GDP compared to 6% in the US, and 7% in the UK. This particularly impacts small, innovative and high-growth firms most of all – and results in missed opportunities for improved innovation performance and ultimately growth across the EU, and ultimately missed opportunities for growth. The impact of limited equity and capital markets

[75] Council Adopts Conclusions on the Future of the Single Market, European Council Press Release, May 2024.

in these areas is also seen more broadly in the types of finance utilised by SMEs across the EU – with bank financing, specifically overdrafts, being the most popular type of financing arrangement[76].

Rising interest rates have also increased access to finance challenges, with an increasing number of mid-sized and large firms reporting issues in accessing sufficient appropriate finance. A broader CMU would improve availability of finance for such companies. Alongside this a CMU could also act to improve the market for securitisation of firm debt – in particular SME loans which is at a historically low ebb. This would allow for banks to decrease the risk profile of their loans to SMEs through the onward sale to investors.

In order to improve the competitiveness position of Member States, the EU needs to make real progress towards a Capital Markets Union. This will improve the availability of finance to those firms that will benefit from it most (scaling up), and act to broaden private equity and venture capital markets, thereby helping to improve the availability of options when firms seek to move out of venture capital options. All these developments will contribute to sustainable economic growth of the EU.

Alongside this, pension markets in the EU remain much less developed than those in the US. This has a real impact, such as to the depth of capital markets and the availability of funding for companies. The reasons for this include more fragmented markets, and the role of 'pay-as-you-go' State pension models across many EU Member States. Greater development of pension markets across the EU would ultimately lead to a greater depth of long-term pension savings and in so doing, would provide much needed additional capital to firms and act as an aid to scaling. The Letta report proposes the establishment 'auto-enrolment EU Long-Term Savings Product'. Ireland itself has made progress in this area with the establishment of an auto-enrolment scheme[77]. The establishment of such a product could work in tandem with a full CMU towards improving the availability of funding for firms for growth, while also improving the utilisation of private savings.

In July 2024, the Department of Enterprise, Trade and Employment published a report on the use of finance to develop a scaling ecosystem in Ireland[78]. Following a domestic consultation of the Irish scaling finance ecosystem and a review of peer countries, the report sets out three policy recommendations to help foster and develop the market for capital investment for scaling up investments:

- ensure that scaling finance is available by introducing and promoting funds that will provide scaling finance options to founders and startups.
- investigate options for pension fund and institutional investor participation in scaling equity funds and encourage corporate venturing in Ireland.
- review the State's tax model and design instruments that incentivise investment into scaling companies.

[76] Transforming for Competitiveness – Investment Report 2023/2024, European Investment Bank.
[77] See: gov - Auto-enrolment (www.gov.ie)
[78] The Use of Finance as a Catalyst to Develop a Scaling Ecosystem – A Report of the Findings of the Finance for Scale-ups Working Group, Department of Enterprise, Trade and Employment, July 2024.

Recommendation 2.2: The Council recommends that:

(i) Ireland continues to advocate for further progress on the achievement of a Capital Markets Union in the EU. In particular Ireland should seek for progress to be made on an EU long-term saving product, and in expanding the availability of equity and venture capital financing options, for start-ups, high-growth firms, and more broadly those firms seeking to scale-up activity.

(i) Government progress the implementation of the recommendations in the Department of Enterprise, Trade and Employment's report on using finance as a catalyst to develop a scaling ecosystem.

Responsibility: Department of Foreign Affairs, Department of Finance, Department of Enterprise, Trade and Employment

2.3.3 Positioning Ireland to Compete Globally

Ireland is a globally competitive economy, which has shown an ability to secure investment from high-value innovative sectors consistently over the past 30 years. This success has been based on an evolving mixture of factors including developing a highly skilled workforce, offering companies an English-speaking market with access to the EU Single Market, initially a low-cost focus which was over time replaced with a focus on high-value output, an effective foreign direct policy in terms of pro-active engagement with firms, and favourable tax treatment. Alongside this, Ireland has also developed indigenous firms and sectors of the economy which have also demonstrated that they can compete globally.

It is unclear the degree to which Ireland may be able to effectively influence the EU's direction of travel regarding State Aid. Geo-political developments globally – and the requirements of the digital and green transition – are likely to dominate changes in the flow of investment for high-technology sectors outside the EU. The actions which Ireland can take domestically to improve competitiveness, irrespective of global developments on subsidies and protectionism, remain essentially the same. Ireland should continue to actively pursue those policies which have enabled it to compete globally outside of direct subsidies to firms.

Actions which enhance Irish firm's productivity and their ability to compete internationally over and above the direct subsidisation of international firm will ultimately dictate the long-term sustainable growth of our economy. Many of these actions echo both the recommendations of this Council in previous Challenge Reports and relate to recommendations in other chapters of this current report. They include:

- Continuing to develop our highly-skilled labour market as a differentiator
- Prioritising investment in R&D and taking measures to encourage business investment in R&D
- Effective investment and delivery of infrastructure
- Maintaining efforts to reduce the cost of doing business alongside ensuring Ireland remains a strong locational choice for those wanting to do business in Europe.

Recommendation 2.3: In light of previous recommendations made by the Council, Ireland should continue to actively pursue domestic policies which will enable it to compete globally into the future (whether that be a high or low subsidy international environment).

Responsibility: Department of Enterprise, Trade and Employment

2.4 Summary

The post-pandemic geopolitical landscape is markedly changed from the one which preceded it. Recent years have seen supply chain issues coupled with an increased focus on where different economic blocs sit in global value chains, tensions in relation to energy supply, and energy price inflation feeding over into rising input costs and consumer price inflation.

Trade is not a zero-sum game. Ireland has been a significant beneficiary of trade, which has also been to the benefit of our trading partners. As a small open, island-based economy Ireland will remain dependent on trade partners – within the EU and beyond – to supply inputs to us. Further integration of the Single Market, and an open approach to trade and investment offers the most effective and sustainable way for Ireland, and the EU, to enhance their global competitiveness. The maintenance of the level-playing field will allow firms across the EU to compete fairly. Reducing the level of administrative and regulatory burden will also serve to reduce costs and will aid firms in accessing markets across the EU.

Enhancing access to capital across the EU, through progressing towards a full Capital Markets Union will also aid firms in scaling effectively. The EU has relatively smaller pools of capital available when compared to competitors. This impacts on the choices available to firms seeking to scale at key points in their growth journey. Actions to increase the utilisation of savings and increase the uptake of pensions will also contribute to deeper pools of capital within a Capital Markets Union, this in turn would increase the availability of equity and venture finance options for firms seeking to scale.

While choices made at an EU level can influence Ireland's international competitiveness position, ultimately, domestic actions will be the primary determinant of Ireland's competitiveness into the future. Ireland has performed well in areas such as its business environment, sound macroeconomic policies promoting stability, and a strong pipeline for education and skills – it is important that we maintain a strong performance in these areas. In line with previous recommendations from the Council, we need to refocus efforts on our innovation performance, and infrastructure planning and delivery in order to enhance our competitiveness and productivity performance in an increasingly competitive international environment.

Chapter 3: The Cost of Doing Business in Ireland

Key Messages

- The cost of doing business is a critical determinant in business investment decisions.
- Firms continue to face challenging increases in the cost of doing business arising from outstanding and continuing legacy issues, such as managing debt, legal and insurance costs, in addition to further increases in indirect costs such as housing.
- Labour costs are set to increase with the planned implementation of new policies on working conditions, which will impact more on firms in parts of the SME sector than on multinational firms, many of whom already offer to their employees the conditions contained in some of these policies.
- Inflation, which has been international in nature, emerging from the rapid resumption in economic activity post-pandemic, has also put pressure on the costs of doing business through international supply chains, and particularly through increases in energy price inflation.
- Although, there were significant improvements throughout 2023, energy as well as transport and shipping costs are still elevated and continue to pose financial difficulties for certain firms.
- Based on these cost challenges, the Council has proposed a number of recommendations which should help businesses in Ireland to cope with these pressures.

3.1 Introduction

Ireland – as well as other major economies – has experienced several external shocks, such as Brexit, COVID-19, and major geopolitical uncertainties. In recent years, the impact of these shocks has become embedded in business costs. As an open economy, the relative cost of doing business is a significant determinant of competitiveness, and ultimately, economic growth and the standard of living. Since Ireland is a price-taker on most international markets, external shocks can significantly determine developments in domestic consumer and producer prices. The Council has previously published a Competitiveness Bulletin on inflationary dynamics in Ireland[79] while Chapter 1 has also discussed current trends in consumer and producer prices.

As indicated in the revised Competitiveness and Productivity Framework[80], the business environment is a key driver of competitiveness. The different costs of doing business are crucial, as is the effective regulatory environment and the set of supports available to help businesses to adapt and to thrive. Key influencers of this driver are regulation and competition, policy stability, wage pressures, as well as non-payroll costs. Many of these issues have been considered in previous Challenge reports. There are also new costs to businesses, such as cyber security, which are becoming particularly challenging for all firms. Chapter 5 ('Embracing Technological Change and Innovation') will discuss this challenge in more detail.

This Chapter begins by outlining the current situation of rising business costs in Ireland and the various new measures to improve working conditions, which are set to have an impact on businesses (in particular on SMEs). It will be followed by an assessment of energy, transport and shipping costs. Finally, Section 3.3 will set out the actions that the Council has identified as being able to contribute to reducing business costs. It will focus on how the Government can support businesses through various shocks by boosting productivity and helping business to maintain cost competitiveness.

3.2 Current Situation in Ireland

While the Irish economy has demonstrated resilience thus far through the current period of global uncertainty with employment levels reaching a record high, the cost of doing business has been increasing. Over the last number of years, the Government has introduced or progressed several initiatives to improve working conditions[81], making the Irish workplace more attractive for employees and helping to bring minimum working conditions in Ireland in line with EU countries. However, the introduction of these measures does not come without costs to firms. Among the most affected sectors, will be those employing large numbers of staff, and operating on relatively slim margins. This includes – for example – firms operating in hospitality and retail.

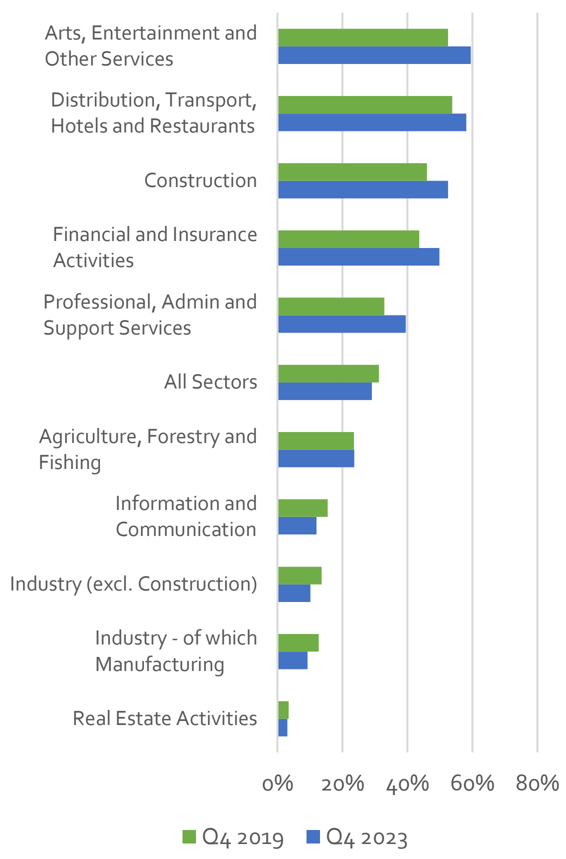
In addition, energy, transport and shipping costs remain elevated which continues to pose competitiveness challenges to Ireland as an open economy. It is important to note that there are other important additional costs that impact on business, such as childcare, which have been addressed in previous Challenge reports. This next sub-section seek to provide picture of the current situation in Ireland in respect of key costs to business, and the section ends by looking at interventions introduced recently to support businesses to tackle these higher costs of doing business.

[79] Bulletin 23-2 Understanding Recent Inflationary Dynamics in Ireland, NCPC, August 2023.
[80] Bulletin 24-2 Ireland's Competitiveness and Productivity Framework, NCPC, April 2024.
[81] Auto-Enrolment Retirement Savings, Parent's Leave and Benefit, Statutory Sick Pay, Additional Public Holiday, the transition to a Living Wage, and the Right to Request Remote Working.

3.2.1 Labour Costs

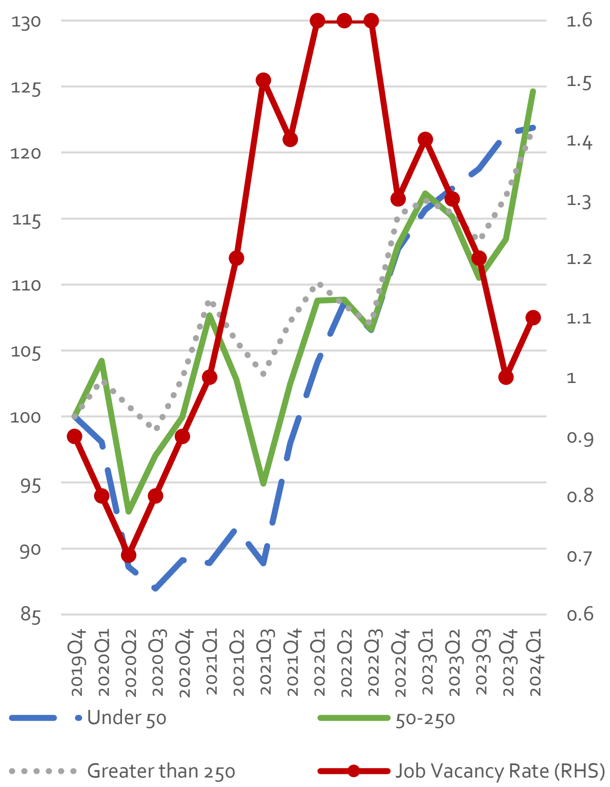
The share in gross value added (GVA) of the compensation of employees varies widely across sectors. [82] Figure 3.2.1a shows that the share is particularly high in customer-facing sectors such as Arts, Entertainment and Other Services as well as in Distribution, Transport, Hotels and Restaurants, which are particularly labour intensive. It is also high in the Construction sector. Consequently, firms in these sectors are most likely to be affected by any increases in the rates of employee compensation. Figure 3.2.1a also shows that while the share of employee compensation fell on average in the five years between Q4 2019 and Q4 2023, it rose significantly in many sectors, the exceptions being ICT, Industry and Agriculture sectors where the share has been lower or unchanged.

Figure 3.2.1a Compensation of Employees share of Gross Value Added, as a %, at Constant Prices, comparing Q4 2019 and Q4 2023



Source: CSO, NCPC calculations.

Figure 3.2.1b Changes in average hourly total labour costs by size of employees per enterprise, and Job Vacancy Rate, between Q4 2019 and Q1 2024, (Indexed 2019=100)



Source: CSO, NCPC calculations. Note: 'average hourly total labour costs' refers to hourly labour costs which are total labour costs divided by the total number of hours paid during the quarter.

In terms of the number of employees, Figure 3.2.1b looks at the size distribution effect, finding that firms which employ less than 50 staff have experienced a sharp increase in average hourly costs over recent years. As of Q1 2024, the scale of the cost increases sustained by these firms (relative to 2021) has been higher than that for firms with between 50 to 250, and over 250 employees. Figure 3.2.1b also demonstrates that the Job Vacancy Rate (JVR) increased during the COVID-19 period but has recently fallen back towards its pre-pandemic rate.

[82] Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done. Compensation of employees is made up of the following components: (a) wages and salaries and (b) employers' social contributions.

The scale of changes in labour costs reflects the dynamic of labour shortages and competition for staff with the bigger firms – which have the capacity to offer employees more favourable employment packages – and a high inflation rate which have exerted an upward pressure on wages. The most recent economic projections from the Department of Finance[83] anticipate wage growth of 4.5% in 2024 and 2025, dropping marginally to 4.1% growth in 2026.

Relating to rising labour costs, Box 3.A (overleaf) outlines the report by the Department of Enterprise, Trade and Employment, and the Department of Social Protection, on *An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland* (March 2024). The preparation of this report followed a recommendation by the Council in *Ireland's Competitiveness Challenge* 2022 that such an impact assessment be undertaken. From an international competitiveness perspective, Table 3.2.2 below demonstrates how Ireland compares to the euro area, the EU27 and the OECD with respect to various working conditions, including Statutory Sick Pay and Auto-Enrolment retirement savings. Until recently, Ireland was one of the few countries in the euro area and the EU without a Statutory Sick Pay scheme[84] and it is also currently the only OECD country that does not operate an Auto-Enrolment system (or similar as a means of promoting long-term retirement savings). To that extent, Ireland has been playing catch-up with many of its trading partners in recent years.

Table 3.2.2 Comparisons of Working Condition Measures in place in Ireland and Relevant Representative Countries

	Ireland	Euro Area	EU27	OECD	UK	USA
Statutory Sick Pay	Yes (as of 2023)	18/20	25/27	35/38	Yes	No
Auto-enrolment Retirement Savings (or similar)	No	18/20	25/27	37/38	Yes	Yes
Number of Public Holidays	10 (as of 2023)	12 (average)	12 (average)	11 (average)	8	10
Remote Working legislation	Yes (as of 2024)	14/20	15/27	25/38	Yes	No
Living Wage (NMW @ c.60% of median gross earnings)[85]	No (53%)	3/15[86]	4/20[87]	-	Yes[88] (£11.44/c.€13.40 as of April 2024)	Min wage $7.25 (variation by State)

Source: MISSOC.org; OECD; parliament.br; Croatia.hr; worldtravelguide.net; Visit Malta; *New remote working legislation around the world* [Updated], globalnews.lockton.com, 29 September 2023; *Telework still largely regulated at company level in Europe*, Eurofound.europa.eu, 1 September 2022; *Right To Request Remote Working – International Review*, Department of Enterprise, Trade and Employment, July 2021; Structure of Earnings Survey (2018), Eurostat; U.S. Department of Commerce; www.gov.uk.; www.hr-brew.com; www.usa.gov/minimum-wage

[83] Draft Stability Programme Update, Department of Finance, April 2024.
[84] The issue of sick pay became particularly salient during the Covid-19 pandemic.
[85] The following countries do not have a minimum wage and are therefore excluded from the EU's Structural Earnings Survey dataset: Austria, Denmark, Finland, Sweden, and Italy.
[86] Excludes Austria, Cyprus, Estonia, Finland and Italy.
[87] Excludes Austria, Cyprus, Czech Republic, Denmark, Finland, Italy, Sweden.
[88] The UK Low Pay Commission met its target of a National Living Wage worth 60% of median earnings in 2020 and is expected to meet its subsequent target of 66% of median earnings in 2024.

Box 3.A: ***Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland*** **(March 2024)**

In **Ireland's Competitiveness Challenge 2022** report, the Council recommended that the Department of Enterprise, Trade and Employment (DETE) and the Department of Social Protection (DSP), collaborate on an assessment of the combined impact of the measures proposed to improve working conditions in Ireland within a comparative EU framework (hereafter: the Assessment). The measures covered were: the Right to Request Remote Work, Statutory Sick Pay, Auto-Enrolment Retirement Savings scheme, improvements to Parent's Leave (and Benefit), the introduction of an additional Public Holiday as well as progress towards introducing a Living Wage. The Council is pleased that the work has been published earlier this year. It is important to note, however, that this work was complicated by the fact that several of these measures are in the process of being rolled-out at present, such as Statutory Sick Pay, whilst others have yet to commence (i.e., Auto-Enrolment Retirement Savings Scheme).

The Assessment provides an overarching assessment of the potential impacts – **both costs and benefits** – accruing to employers and employees on foot of the introduction of these measures. The analysis suggests that while the introduction of these various measures would have a modest impact on wage costs for the economy as a whole, this will not necessarily hold true in the case of small businesses (and particularly for those in low-wage sectors. While such sectors are jobs-rich, they generally have lower profit margins than the sectors dominated by foreign-owned firms. On the other hand, for the employee, good conditions at work not only improve well-being but can also improve staff motivation and, and in turn, yield a potential benefit to employers by way of increased productivity and a reduction in the costs associated with staff turnover.

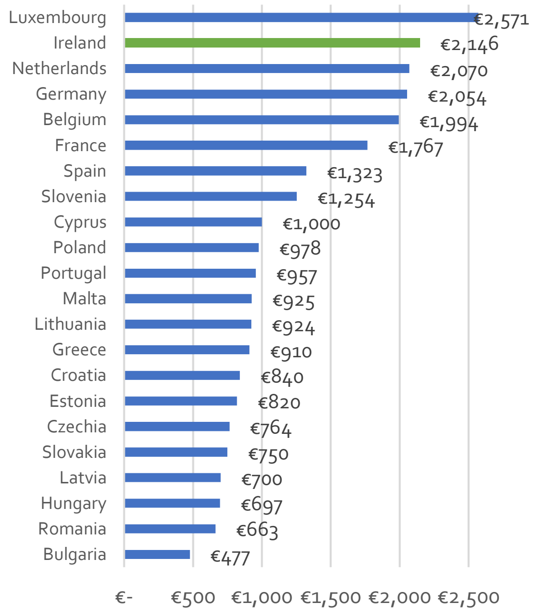
The report found that the Living Wage (LW) will have the most significant impact on the cost base for firms with a greater concentration of staff working at the National Minimum Wage (NMW), such as those in the Accommodation & Food and Retail sectors. In the case of these sectors, payroll expenditure also tends to account for a greater proportion of overall operating costs. For example, the Assessment found that the transition to the LW will mean that the cost of employing a full-time worker **at the NMW** – regardless of sector – would increase by 5% in 2024 and by 15% by 2026*. When the various other measures are included, these cost increases are closer to 7% and 19% in 2024 and 2025, respectively. Furthermore, the Assessment found that increases in wage levels would not be limited to only those employed at the NMW as there are likely to be spillover effects. For example, the transition to the LW will lead to pressure on firms to increase wages for those close to the Living Wage, an effect that will likely continue up the earnings distribution, in order to maintain the relative difference in wage rates prior to the change in the NMW.

These estimates are higher than those posited by the authors of a report at Maynooth University in 2022 which cited an estimated increase in wage costs for the Accommodation & Food sector of 4.5% (and what the authors themselves referred to as a '*back-of-the-envelope'* calculation of an increase in total costs at 1.7%). There are, however, two important caveats to bear in mind here. Firstly, the figure of 4.5% in the report by Maynooth University refers to the change to overall wage costs due to the Living Wage **only** whereas the Assessment undertaken at the recommendation of the Council uses a broad range of metrics to measure cost impacts (and is looking at a broader range of policy changes also). Secondly, the former report made no allowance for the impact of upward wage spillovers, thereby under-estimating the true wage cost impacts associated with this policy change.

***Note:** Even allowing for broader wage developments – in practical terms, the increase would be significantly higher.

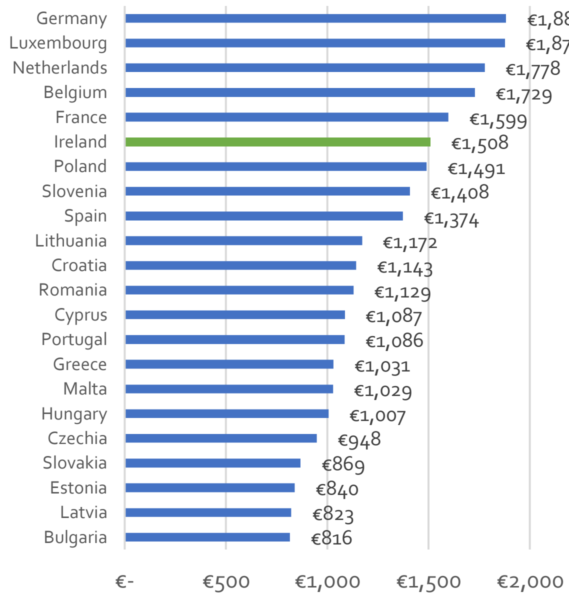
In terms of national gross monthly minimum wages[89], Ireland ranked second highest in the EU in 2024 at €2,146 per month (see Figure 3.2.3a below), up from fifth in January 2023. When adjusted for purchasing power standards (PPS) – which takes account of price differences between countries – Ireland falls to sixth place (see Figure 3.2.3b). This positions Ireland at the lower end of the group of higher income countries (albeit that Ireland has moved up from seventh place in 2023). These dynamics underscore the intersection between prices and incomes – Ireland does have comparatively high wage rates but these are matched by high prices levels.

Figure 3.2.3a Monthly National Minimum Wages, €, EU Countries, January 2024



Source: Eurostat

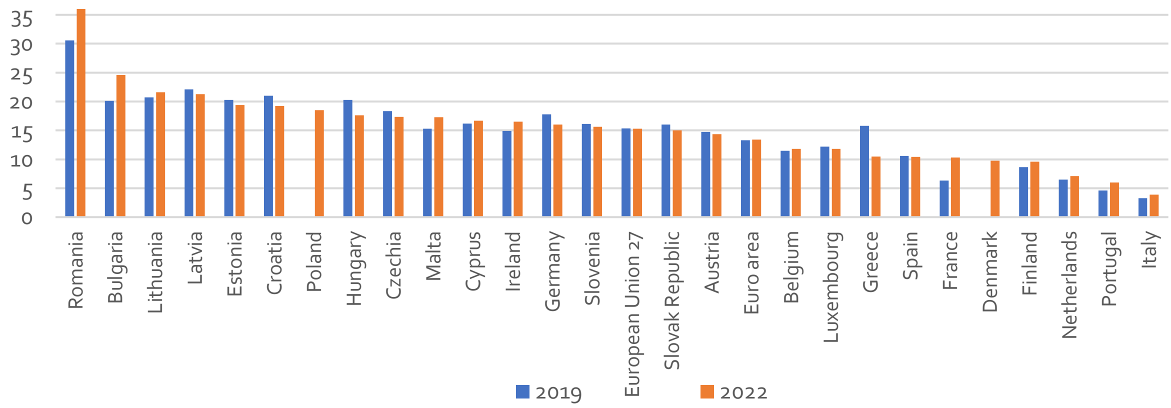
Figure 3.2.3b Monthly National Minimum Wages, PPS, EU Countries, January 2024



Source: Eurostat

Figure 3.2.4 below presents the OECD low-pay incidence index across EU countries, comparing 2019 and 2022. On this index, Ireland ranks 12th when compared to other member states, at 16.50 (an increase from 14.90 in 2019). As shown, there is a wide variation in performance across EU member states, with long-standing members among the best performing countries.

Figure 3.2.4 Low-pay Incidence[90] Index, EU countries, 2019 and 2022



Source: OECD

[89] Minimum wages are generally presented as monthly wage rates for gross earnings, that is, before the deduction of income tax and social security contributions payable by the employee; these deductions vary from country to country.
[90] The incidence of low-paid workers defined as the share of full-time workers earning less than two-thirds of gross median earnings of all full-time workers.

In terms of the National Minimum Wage (NMW), the Low Pay Commission Report 2023 estimates that in 2022, 7.1% of employees in Ireland were earning the NMW or less, which amounts to 148,100 employees. Figure 3.2.5 demonstrates that, as of Q4 2023, approximately three in every five workers in this cohort work in just two sectors – the highest proportion of these employees were in the Wholesale and Retail (33.3%) and the Accommodation and Food (27.3%) sectors. When looking at the share of workers earning the NMW or less within each sector, Accommodation and Food Services (27%) is the highest, followed by Agriculture (21.3%) and Wholesale and Retail Trade (18%).

Table 3.2.5 Employees earning the National Minimum Wage or less in Ireland, by sector, Q4 2023

NACE Sectors	Average no. of employees earning the NMW or less (000's)	Employees earning the NMW or less in sector as a proportion of total employees earning the NMW or less (%)	Proportion of employees earning the NMW or less within sector (%)
Agriculture, forestry and fishing	5.7	3.5	21.3
Administrative & Support Services	7.1	4.4	8.3
Human health & Social Work	6.9	4.3	2
Other NACE Sectors	11.3	7	14.1
Industry (incl. construction)	17	10.6	4.2
Accommodation & Food	44.1	27.3	27
Wholesale & Retail	53.7	33.3	18

Source: Labour Force Survey, NCPC own calculations. Note: Based on persons aged 15 years and over in employment.

In November 2022, the Government decided to introduce a national Living Wage for employees, to be progressed *via* incremental increases in the NMW to meet its obligations under the Adequate Minimum Wage Directive. This will be set at 60% of hourly median wages in line with the recommendations of the Low Pay Commission. The Living Wage is schedulTed to be introduced over a four-year period through annual changes to the NMW and is expected to be fully in place by 2026. This transition is intended to set the floor for pay rates across the economy. It does not specifically mandate pay increases for other workers but, in practice, many employers may find this necessary.

More recent economic projections are suggesting a slightly lower median wage for 2026 than earlier forecasts. This will likely impact on Living Wage projections. Table 3.2.6 compares vintages for wage growth forecasts – from 2023 and 2024 – by the Department of Finance, the European Commission, and the Central Bank of Ireland, covering the period out to 2026. As shown, wage growth is expected to be slower than originally estimated, in line with a sharper than anticipated moderation in inflation. This will have implications for the projected transition to the Living Wage.

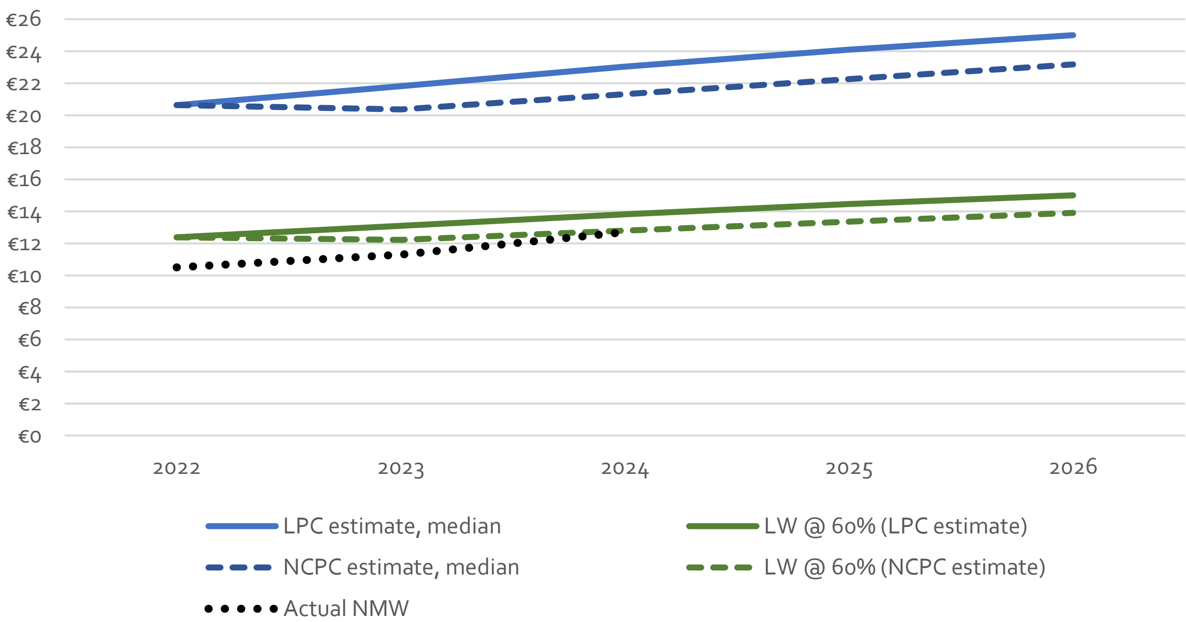
Table 3.2.6 Changes in wage growth forecasts, 2023 vs. 2024

	Wage Growth Forecasts [ref: 2023]				Wage Growth Forecasts [ref: 2024]			
	SPU	European Commission	Central Bank of Ireland	Average	SPU	European Commission	Central Bank of Ireland	Average
2024	6.9%	4.6%	5.2%	**5.6%**	4.5%	4.4%	5.3%	**4.7%**
2025	6.7%	4%	3.3%	**4.7%**	4.5%	4.1%	4.0%	**4.2%**
2026	6.4%	3.6%	3.0%	**4.3%**	4.1%		4.1%	**4.1%**

Source: NCPC based on forecasts by the Department of Finance, the European Commission, and the Central Bank of Ireland.

Figure 3.2.7 shows the projected path of the median wage as estimated by the Low Pay Commission (LPC),[91] alongside an updated projections based on an average of the latest wage growth forecasts. This figure also shows the implied path for the Living Wage (set at 60% of the median wage) under these two median wage scenarios. As shown, in line with recent wage growth forecasts, the likely trajectory for Ireland's median wage (and therefore the Living Wage) is lower than anticipated at the time of the LPC's last report (in 2023).

Figure 3.2.7 Projected path of the median wage (hourly) and implied Living Wage, LPC vs. updated estimates



Source: NCPC own calculations and Living Wage Report by the Low Pay Commission (2023)

In *Ireland's Competitiveness Challenge 2023* report, the Council noted that there has been considerable commentary on the profit margins of enterprises in the wake of the COVID-19 pandemic. Analysis by the European Central Bank and others had shown that rising profits had been a significant contributory factor underpinning the high levels of inflation witnessed over recent years. More recent analysis, however, has pointed to a flattening of profit margins (Box 3.B).

[91] Recommendations for the National Minimum Wage, Low Pay Commission, 2023.

Box 3.B: Interaction of profits, productivity growth and labour costs

As noted by the Council in last year's Challenge Report, analysis from the European Central Bank and the Central Bank of Ireland both show that rising profits had played a role in driving higher levels of inflation across 2021 and 2022. This analysis – published in 2023 – noted that in order for inflation to level off and given that wages were expected to continue to grow in order to compensate for earlier high levels of inflation, there would need to be a reduction in profit growth. The authors of the latter work revisited this topic in early-2024 and found that *'the disinflation that began in 2023…. corresponded with profit margins being relatively flat'*. This has – alongside the rise in labour productivity – offset the growth in wage and non-wage labour costs feeding through to nominal inflation.

Indeed, in its most recent Quarterly Bulletin, the Central Bank of Ireland has provided an update set of forecasts for the growth in wage rates out to 2026. This analysis notes that these forecasts are based on the assumption that higher wage costs will be absorbed by firms via profit margins and productivity growth. This trend has also been observed across the EU, with firms maintaining profitability despite rising energy costs, with the share of national income coming from their gross profits remaining almost unchanged despite the increase in costs, at just above 40%. The European Investment Bank notes that Central and Eastern European countries have seen more significant increases in unit labour costs than those in Western Europe, leading to a corresponding loss in competitiveness for those countries. Despite rising nominal labour costs, Ireland has actually seen a decline in real effective labour costs versus EU competitor countries over the period 2019-2023.

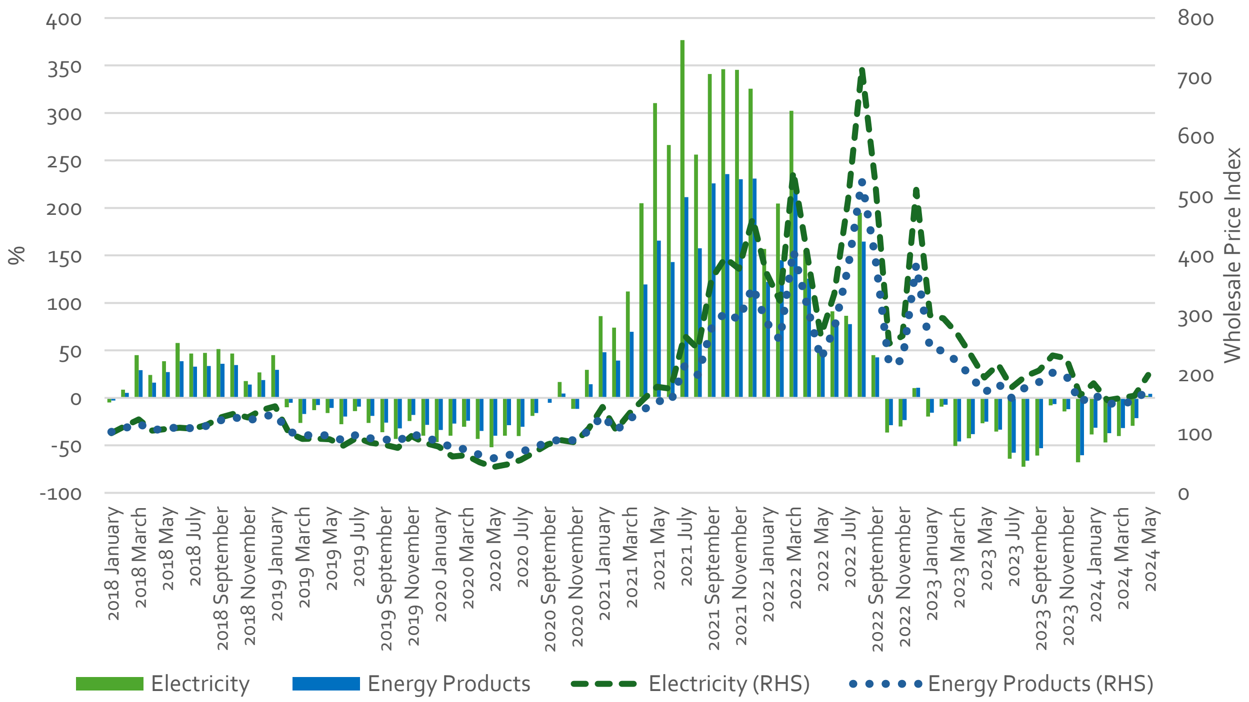
3.2.2 Energy Costs

According to the IMD World Competitiveness Ranking 2024[92], energy costs are one of the key challenges facing Irish competitiveness. Energy costs remain an issue amid heightened geopolitical uncertainty, particularly following the Russian invasion of Ukraine in February 2022, which disrupted supply chains and caused exceptionally large rises in international prices for energy including electricity and gas retail prices.

Ireland's Wholesale Price Index, which tracks price changes in wholesale prices charged to businesses, indicates that, while there were significant improvements throughout 2023, energy costs are still elevated when comparing the index in January 2018 which was 100.6 for electricity, and 102.5 for energy products. The latest CSO data indicates that wholesale electricity prices are 2.4% (now at 198.9) higher in the 12 months to May 2024 while the overall energy products index is up by 4.3% (now at 176.1) when compared with the same time period.

[92] Country Profiles – Ireland, IMD.

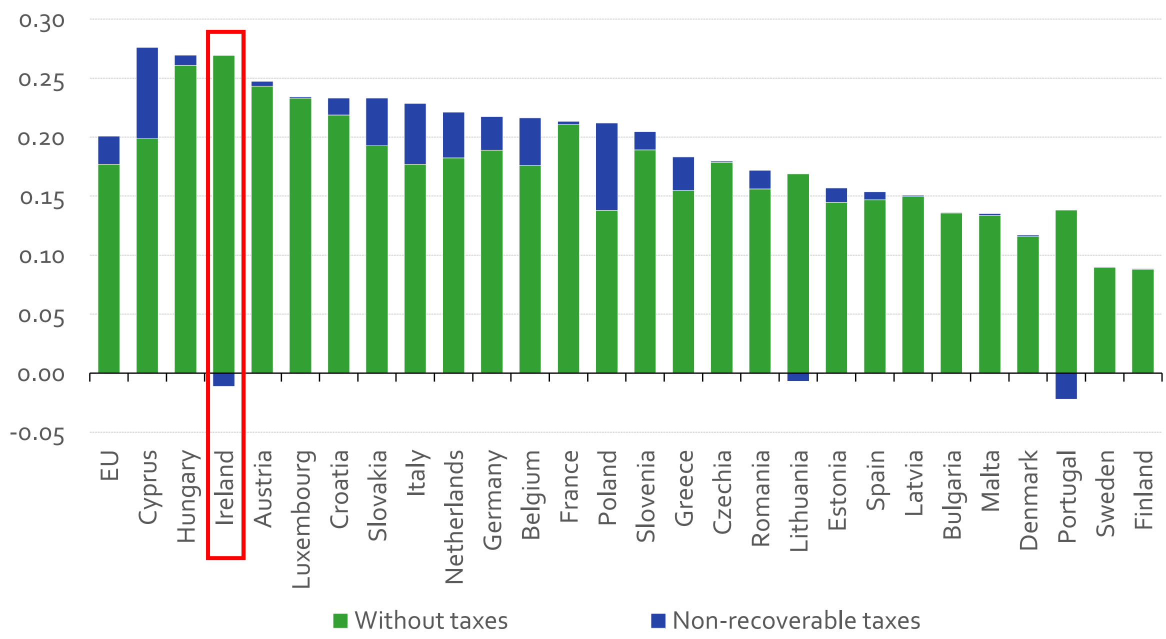
Figure 3.2.8a Wholesale electricity and energy products prices, as a % and indexed 2015=100, between January 2018 and May 2024



Source: CSO

As shown in Figure 3.2.8b, for the second half of 2023, electricity prices for non-household users were significantly higher in Ireland compared to the EU average (at approximately €0.26 kWh versus €0.20 per kWh respectively). As will be explored in Chapter 6, underinvestment in energy infrastructure is undermining Irish competitiveness, and contributing to the cost base for enterprises operating here.

Figure 3.2.8b Electricity prices for non-household consumers, second half of 2023 (€ per kWh)



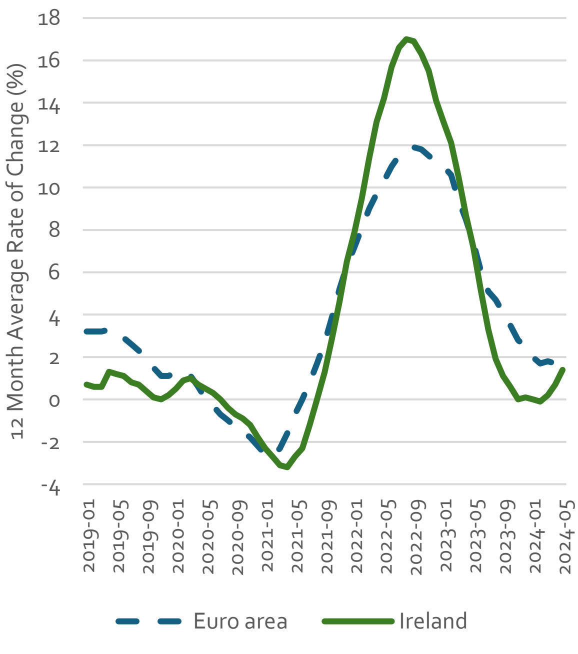
Source: Eurostat

Ireland's small market size and peripheral geographical position also contributes to higher electricity prices in the country. The Sustainable Energy Authority of Ireland (SEAI)[93] suggests that in 2023, Ireland's overall import dependency was 78.5% which is a decrease from 79.7% in 2022. This compares to the average energy import dependency of 62.5% across all EU member states in 2022. The SEAI data also suggests that Ireland has a high energy import dependency due to its importation of all coal and oil products, and 77.5% of natural gas supplies, while its import dependency on renewable energy is low (12.4% of its renewable energy in 2023). Additionally, Ireland has a widely-spread and low-density population. This means that network and connection costs to build, maintain and operate our electricity distribution system are higher.

3.2.3 Transport and Shipping Costs

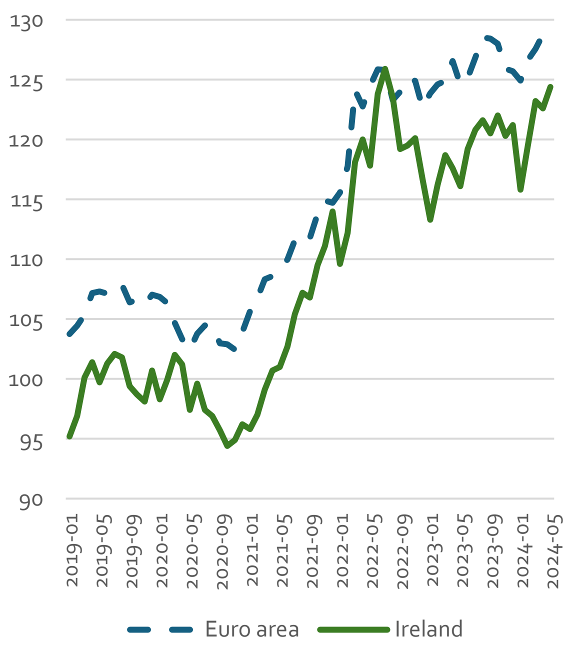
Transport and shipping costs are crucial to Ireland as a highly open island economy, with internationally traded goods being primarily imported and exported by sea or air. COVID-19 had a significant effect on the transport sector as well as the rising costs of fuel following the ongoing geopolitical tensions. Transport costs continue to be volatile and are an additional expense to businesses in the context of global developments. Although Irish transport prices are currently below euro area prices (see Figure 3.2.9a and Figure 3.2.9b below), they are still elevated at 124.4 compared to the pre-COVID-19 index of 95.2.

Figure 3.2.9a HICP 12-Month Average Rate of Change as a %, for Transport in Ireland and Euro Area, between January 2019 and May 2024



Source: Eurostat

Figure 3.2.9b HICP Index (2015=100), for Transport in Ireland and Euro Area, between January 2019 and May 2024



Source: Eurostat

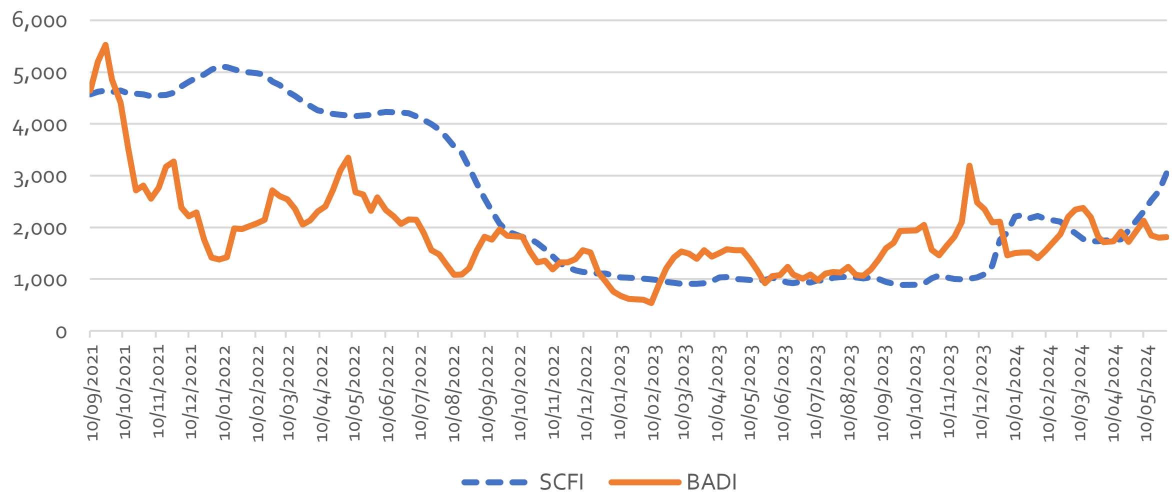
As mentioned previously, shipping costs are important as so many goods need to be imported and exported by sea or air. Additionally, any increase in the shipping costs results in increased transport costs for enterprises and final product costs for consumers. Shipping costs have been quite volatile in recent years which has had a knock-on cost implications for those businesses reliant on imported produce (and those exporting). Prices for containerised freight from South-East Asia have risen sharply since December 2023 following the re-routing of trade routes as a result of attacks on merchant ships in the Red Sea.

[93] Imports | Annual Energy Data | SEAI, Sustainable Energy Authority of Ireland.

At the end of May 2024, the Shanghai Containerized Freight Index (SCFI) was at 3044.77.This represents a significant increase relative to May 2023. This also represents a 60% increase since the beginning of this year, when the Index was at 1896.65. Meanwhile, the Baltic Exchange's main sea freight index, Baltic Dry Index (BADI), which measures the cost of shipping goods worldwide *via* chartered cargo ships, rose significantly in 2021, peaking in September 2021 before falling, albeit with some volatility. The index has fallen significantly since a spike in prices in late-2023 (reaching 3,346 in December). At end-May the index was at 1815.

Elevated – and volatile – transport costs remain a threat to Ireland's international competitiveness, adding to the cost base of Irish enterprises, and undermining market certainty. The geo-political landscape remains highly uncertain, and any escalation in tensions (either in the Middle East or closer to home in Europe) could further disrupt transport and shipping routes, and supply chains more broadly.

Figure 3.2.10 Shanghai Containerized Freight Index (SCFI) and Baltic Dry Index (BADI), September 2021 – May 2024



Source: investing.com, macrovar.com

3.2.4 Legal and Insurance Costs

While there has been some progress in terms of actions that would put downward pressure on legal costs in Ireland, Irish businesses continue to be at a disadvantage compared with their competitors. A positive development was the recent Supreme Court ruling[94] that decided (by a majority) that the new Personal Injuries Guidelines[95], which became operational in April 2021, are legally binding and that any changes to them will require legislation. This will potentially affect many pending personal injury cases and many more such cases into the future.

A recent report by the Central Bank shows that the average premium for Employers' Liability, Public Liability and Commercial Property Insurance increased by 8% in 2022 alone (following a 4% increase in 2021) and has been increasing year-on-year since 2014.[96] This report also provides insight into sectoral trends in premium costs, from 2009 to 2022. Over this period, Arts, Entertainment and Recreation has experienced the largest rise in average earned premium (for package policies), increasing by 149%, followed by Manufacturing (103%). In contrast, the average earned premium has fallen during this time for Financial and Insurance Activities (by 79%).

[94] Finding that guidelines slashing personal injury awards has legal effect 'of systemic importance' - Supreme Court – The Irish Times
[95] Personal Injuries Guidelines.pdf (judicialcouncil.ie)
[96] Employers' Liability, Public Liability and Commercial Property Insurance Report 3, National Claims Information Database (NCID) (April 2024), Central Bank of Ireland.

The Council's Secretariat, in collaboration with various stakeholders, is currently scoping a project which will analyse legal and insurance costs in more detail later this year. This will require access to new data sets. The Council welcomes this planned research project and looks forward to the new insights that will emerge.

3.2.5 SME Support Package 2024

Budget 2024 included a number of measures aimed at supporting enterprises facing increased costs of doing business. These included the introduction of Increased Cost of Business Scheme, changes in VAT, increases in the R&D Tax Credit (See: Annex). On the 15th of May 2024, the Government announced a number of additional SME support measures, including an extension to the Increased Cost of Business Scheme (for another 14 days); an increase to the Employer PRSI threshold, and the introduction of an enhanced 'SME Test'. The objective of these changes has been to improve the cost competitiveness of small and medium sized businesses, following the issues raised in the *Assessment of the Cumulative Impact of Changes to Working Conditions* report, as set out earlier in the Chapter.

The Increased Cost of Business Scheme (ICOB) grant scheme – initially announced as part of the Budget 2024 package – is intended to benefit small and medium-sized businesses operating from rateable premises. The grant aims to aid businesses impacted by increases in business costs with the total allocation for the grant set at €257m. It was estimated that a total of over 120,000 properties were eligible for the scheme with over 81,000 (or 67%) properties registering for it.

Table 3.2.11 The breakdown of The Increased Cost of Business Scheme by local authority, 2024

Local Authority	Estimated number of eligible properties	Number of registered properties	Take-up
Carlow County Council	1,504	1,169	78%
Cavan County Council	2,385	1,372	58%
Clare County Council	3,474	2,463	71%
Cork County Council	9,333	6,058	65%
Cork City Council	6,404	4,418	69%
Donegal County Council	4,449	2,862	64%
Dublin City Council*	16,246	8,755	54%
Dun Laoghaire-Rathdown Co Co	4,369	2,800	64%
Fingal County Council	5,310	3,248	61%
Galway City Council	2,900	2,130	73%
Galway County Council	4,251	2,216	52%
Kerry County Council	3,880	2,820	73%
Kildare County Council	4,083	3,279	80%
Kilkenny County Council	2,521	1,704	68%
Laois County Council	1,470	1,067	73%
Leitrim County Council	991	548	55%
Limerick City And County Council	4,466	4,021	90%
Longford County Council	1,106	939	85%

Louth County Council	3,393	2,499	74%
Mayo County Council	3,372	2,793	83%
Meath County Council	3,801	2,732	72%
Monaghan County Council	1,702	1,464	86%
Offaly County Council	1,707	1,189	70%
Roscommon County Council	1,439	1,102	77%
Sligo County Council	1,656	1,147	69%
South Dublin County Council	6,210	3,714	60%
Tipperary County Council	4,683	3,121	67%
Waterford City And County Council	3,355	2,454	73%
Westmeath County Council	2,206	1,627	74%
Wexford County Council	4,417	2,962	67%
Wicklow County Council	3,448	2,449	71%
Total	**120,531**	**81,122**	**67%**

Source: Local Government Management Agency (provisional only; as at w/c 01.07.2024)

3.2.6 Regulatory Impact Assessment

This year, the Council has also decided to consider how Regulatory Impact Assessment (RIA) can be used as a tool to support businesses in Ireland. See box 3.C below for a short description of what a RIA is, and how it contributes to competitiveness. While the RIA process is carried out on an *ex-ante* basis, there is scope for undertaking these impact assessments on an *ex-poste* basis also. These assessments might feed into an overall process of post-enactment scrutiny by the Oireachtas[97] (similarly to the consideration of current RIAs as part of the pre-legislative scrutiny process).

Box 3.C Regulatory Impact Assessment (RIA)

RIA is a tool used for the structured exploration of different options to address particular policy issues. It is usually used where one or more of these options is a new regulation or a regulatory change and facilitates the active consideration of alternatives to regulation or lighter (and different) forms of regulation. RIA can contribute to economic efficiency by highlighting aspects of regulations which limit consumer choice and the level of competition in an economy. It also helps to identify potential burdens on business and ensure that they are kept to a minimum.

RIA can also identify potentially anti-competitive or protectionist regulations before these are enacted. Because it includes consultation with a wide range of stakeholders, it also provides an opportunity for those potentially affected by regulations to highlight any unforeseen consequences that may not previously have been considered. As such, it contributes to a co-design approach in policy making.

In 2012, the OECD Council adopted a Recommendation on Regulatory Policy and Governance[98]. The Recommendation sets out the measures that Governments can and should take to support the implementation and advancement of systemic regulatory reform to deliver regulations that meet public policy objectives and have a positive impact on the economy. In 2022, the OECD published a report 'Better Regulation Practices

[97] Post-enactment Scrutiny (PeS) by Parliament, December 2017, Oireachtas Library and Research Service.
[98] Recommendation of the Council on Regulatory Policy and Governance, OECD, March 2012.

across the European Union 2022'[99]. A key recommendation for Ireland was that it should consider establishing a central oversight body to perform core oversight functions, such as reviewing the quality of RIA and of other regulatory management tools in order to monitor and assess the quality of RIA implementation more effectively. This recommendation was reiterated again in May 2023 by the OECD in its report looking at the policy development process in Ireland[100].

The report found that, overall, Ireland has demonstrated significant progress in using evidence and data for policy development at the department and agency levels, and strategic foresight is being incorporated into policy analysis in a more sustained way. However, the OECD reports that, since the Better Regulation Unit in the Department of the Taoiseach was abolished a decade ago, the Irish civil service lacks a strong centre-of government body to co-ordinate the regulatory process. The OECD suggests that, as a result, there are few quality control mechanisms for RIAs, and limited stakeholder consultations or ex post reviews. Furthermore, training and guidance around RIAs is no longer coordinated, and the RIA system is missing a reporting function whereby reports are compiled of the performance of the whole RIA system over the year, setting out data on compliance rates per department and the quality of the RIAs produced.

The OECD report therefore recommends that Ireland should consider establishing a central oversight body to perform core oversight functions, such as reviewing the quality of RIAs and of other regulatory management tools. Similarly, Ireland's Law Reform Commission (LRC) recommended in 2018 that the Government should establish a Regulatory Guidance Office with membership drawn from Government Departments and regulators, to be established with a remit to provide guidance and information on regulatory matters, including national and international best practices in regulation, the content of RIAs (or comparable documents) and lessons learned from relevant case law. The LRC outlined that the functions of the Regulatory Guidance Office would facilitate the State's ability to meet, in full, relevant international standards, such as the OECD's 2012 Recommendation.

On the impact of regulation more broadly, it is also important that *Government works with the European Commission to ensure that Better Regulation*[101] principles are successfully followed in forming new EU legislation, including the consideration of the cumulative interplay of existing legislation when considering new proposals.

Section 3.2 has outlined an array of input costs for business which continue to pose competitiveness challenges. These include rising labour costs, energy costs as well as transport and shipping costs which are still elevated even post-pandemic. It has also noted the importance of regularly impact assessment in ensuring that the impact of regulatory costs on business are looked at carefully. In Section 3.3 we focus those actions that the Council considers to be important to support businesses and to tackle these higher costs of doing business.

3.3 Actions Crucial for a Thriving Business in Ireland

It is important to acknowledge the competitiveness challenges facing Irish enterprises over the last number of years. Although the rising costs in areas such as energy, transport and shipping are faced by all advanced economies, it is important to tackle them as soon as possible so that Irish businesses will not continue to be at a disadvantage compared with its competitors. This section concentrates on tackling challenges faced by the SME sector as well as more broadly on regulation and over-reliance on once-off supports to ensure that Irish enterprise can effectively compete without continual recourse to Government assistance.

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[99] Better Regulation Practices across the European Union 2022, OECD.
[100] Strengthening Policy Development in the Public Sector in Ireland, OECD, May 2023.
[101] See: Better Regulation - DETE (enterprise.gov.ie).

One of the support measures mentioned in the previous section is the enhanced SME Test which was first introduced following an action in the *Action Plan for Jobs 2017*[102]. It recommended the Department of Enterprise, Trade and Employment should *"develop an easy user-friendly SME test suitable for the Irish context to ensure policymakers 'Think Small First'."*

The SME Test is an integral part of the European Commission's Better Regulation guidelines since 2009. It is expected that each Member State will include an assessment of the burden on SMEs of relevant regulations and legislation and relevant regulation should be interpreted in a broad sense of its possible implications for SMEs. A cross-government network was established in 2022 to ensure the implementation of the SME Test across government departments. This group reports on a quarterly basis on the implementation of the SME Test. Since the introduction of reporting obligations, 11 Departments have applied the SME Test to 32 pieces of legislation. When the SME Test is fully embedded, it will ensure an enterprise perspective is present across all major Government decisions. Box 3.D explains how the SME Test process works at the present:

Box 3.D: Ireland's SME Test process

1. It is necessary for policymakers to identify affected businesses, based on size and sector.

2. Policymakers should consider if early consultation with SME representative bodies, sectoral groups or relevant agencies is required.

3. The process should establish the extent to which the proposal affects SMEs' competitiveness or the business environment in which they operate. These include consideration of compliance and administrative costs, such as fees, duties, and costs arising from any obligation to adapt a product or service to meet economic, social or environmental standards. They should also include consideration of aspects such as possible impacts on barriers to entry and impacts on innovation.

4. Following consideration of these factors, an assessment can be made as to whether measures should be introduced that make it easier for SMEs to comply with the legislation.

The SME Test is designed to invite consideration of less onerous compliance requirements for smaller companies, where appropriate and proportionate, including simplification of regulatory adherence through the use of templates, reduced regulatory thresholds for SMEs, and the use of exemptions where possible. Officials in the Department of Enterprise, Trade and Employment are currently working with the Department of the Taoiseach, and they are developing proposals for improving the impact and application of the SME Test as it is currently applied. In May 2024, the Government decided that the SME Test will be applied to all new major measures. Going forward, the SME Test will extend beyond its typical application to primary legislation and will be applied by Departments to any new policies, legislation (primary or secondary), or regulatory compliance requirements impact the competitiveness of small businesses. The following steps were agreed to give effect to this proposal:

1. Increase the frequency of the Cross-Government network meetings to provide guidance and information to other Departments on applying the SME Test.
2. Training to be rolled out internally in Department of Enterprise, Trade and Employment and expanded across Government.
3. Review the current SME Test guidance document.

[102] Action Plan for Jobs 2017, Government of Ireland.

4. The Department of Enterprise, Trade and Employment legislative handbook and internal procedures will be updated to advance the use of the SME Test.
5. Examine how the SME Test can be better embedded in the national policy making system – including the Cabinet Handbook and Departmental Legislative Handbooks.
6. Request Departments to publish their completed SME Tests on their websites.
7. Justification is required for any major new measure that has not been subject to the SME Test

In terms of Regulatory Impact Assessment (or RIA), as mentioned in the previous Section, the OECD suggests that the Irish civil service lacks a strong centre-of government body to co-ordinate the regulatory process. Therefore, the main recommendation for Ireland was that it should consider establishing a central oversight body to perform core oversight functions, such as reviewing the quality of RIA and of other regulatory management tools in order to monitor and assess the quality of RIA implementation more effectively. This recommendation was reiterated again in May 2023 by the OECD. The Council agrees with this recommendation and the importance of RIA to highlight the competitiveness challenges facing Irish enterprises.

Recommendation 3.1: In order to improve the regulatory environment, the Council recommends that:

(i) The enhanced SME test be implemented swiftly, applied on a 'Think Small First' principle, and that it be embedded in a comprehensive streamlined framework that carries out ex ante evaluations to inform decision making and ex post evaluations to draw learnings, and;
(ii) With reference to the application of the SME test, Government should publish annually a consolidated summary of forthcoming measures likely to impact the SME sector over the following 12-months.
(iii) Government Departments streamline, where practicable, existing regulations with a view to improving the business regulatory environment without compromising consumer and employee rights.
(iv) Government should consider establishing a central oversight body to perform core oversight functions, such as reviewing the quality of RIA (and of other regulatory management tools) in order to monitor and assess the quality of RIA implementation more effectively.

Responsibility: Department of Enterprise, Trade and Employment; Department of the Taoiseach; Department of Public Expenditure, NDP Delivery and Reform

The Council recognises that Government must ensure balance across improvements for workers and ensuring that minimum rates of pay are fair, while also having regard to business costs and the broader economic climate. Achieving this balance can be difficult – particularly in an inflationary environment. It also recognises that Government has provided support to business at critical moments over the past number of years including, COVID-19 and through significant energy price increases. More recently, the Government has introduced additional supports to firms in the form of a package of supports including the Increased Cost of Business Grant, aimed at supporting firms to meet increased costs. In part, this reflects costs associated with new measures introduced or progressed in relation to working conditions.

However, the Council feels that Government should reflect on the continued use of one-off grant support schemes aimed at improving viability of firms in the face of increased costs. The Government must ensure that Irish enterprise can effectively compete without continual recourse to Government assistance. The move towards an enhanced SME test, as well as the use of Regulatory Impact Assessment will help in this regard in ensuring that business impacts of Government decisions are considered adequately in the design stage. The Council believes that ongoing use of one-off supports outside of a crisis event, presents questionable value for money, particularly if it is not highly targeted. Ultimately, a certain level of business closures can be expected, and actually promotes the reallocation of resources towards more productive activities.

Recommendation 3.2: The Council recommends that the Government focus on ensuring that the necessary and fundamental conditions for firms to compete are fair and adequate, and that one-off broad supports are considered only as a last recourse in Government intervention and be phased out within a defined (and short) time.

Responsibility: Department of Enterprise; Trade and Employment; Department of Social Protection; Department of Finance

3.4 Summary

This Chapter outlines issues relating to the cost of doing business, which remains a challenge to Ireland's competitiveness. While Ireland's cost position is somewhat reflective of high incomes which in turn is facilitated by the strong level of value-added in the economy, relatively high costs are impacting on Ireland's cost competitiveness and ultimately its economic wellbeing. Excess demand in the labour market is adding to pressures. This can be seen in ongoing labour market tightness and the slow delivery of key infrastructure set leading to excess costs in housing and energy. These costs impact on Ireland's attractiveness for both large firms and SMEs.

While the Council welcomed various Government initiatives to improve working conditions, making the Irish workplace more attractive for employees, it is noted that the introduction of these measure does not come without cost to firms. While many multinational firms already offer the conditions contained in some of these policies, there are adjustment costs for the SME sector. In addition, as mentioned previously, energy, transport and shipping costs also remain elevated which continues to pose competitiveness challenges to Ireland as an open economy. The geo-political landscape remains highly uncertain, and any escalation in tensions could further disrupt transport and shipping routes, and supply chains more broadly.

Based on these cost challenges, the Council has proposed two recommendations to help businesses in Ireland to deal with these pressures. It is important that in major decisions, that an enhanced SME test is implemented to ensure that an enterprise perspective is present across all major Government decisions. The degree to which new regulations impact on firms should also be evaluated thoroughly and in a quality assured manner, prior to their introduction. While the recent Government's intervention to support SMEs was broadly welcomed, the evidence for one-off broad supports is not clear. Instead, Government should ensure that the necessary and fundamental conditions for firms to compete are fair and adequate, and that Government intervention is only considered as a last resort. This will ensure enhanced value for money in the implementation of Government enterprise policy.

Chapter 4: Building and Retaining a Skilled and Talented Labour Force

Key Messages

- The supply and quality of education and skills in an economy is vital for economic growth and for its competitiveness. A highly skilled and dynamic labour force is more productive, innovative, and adaptable to changing market demands, and is also attractive to foreign investors. Education and skills is an area which Ireland has performed well over the last decade.

- The labour market has continued to expand up to Q1 2024. However, with Ireland being essentially at full employment over the last two years, there are capacity constraints which are limiting Ireland's ability to expand output – particularly in the delivery of infrastructure – which is a key competitiveness concern.

- The key challenges facing Ireland's labour market include skills shortages in key sectors, facilitating greater participation in lifelong learning that brings us into line with international standards, and ensuring that Ireland remains an attractive place to internationally mobile workers.

4.1 Introduction

The supply and quality of education and skills in an economy is vital for economic growth and competitiveness. In the context of changing market demands, a highly skilled and dynamic labour force is more productive, innovative, adaptable, and attractive to foreign investors. Knowledge-oriented sectors are more export intensive, helping to generate additional income and grow the economy. The changes in the world of work, driven by the digital and green transformations as well as by population ageing, have been associated with greater job instability, reduced job quality and with potential costs for companies, workers and society.

The unprecedented labour and skills shortages that emerged during the recovery from the COVID-19 pandemic, alongside the evolution of new patterns of hybrid type work,[103] have further emphasized the importance of developing and retaining talent.[104] Furthermore, Ireland needs to be attractive to talent from abroad, particularly if we are going to be able to stay at the forefront of digital developments and to meet our *NDP*, *Climate Action Plan* and *Housing for all* targets. The key to being attractive is having skills to meet what is required by the new quality jobs. The Council notes that the measures to improve minimum working conditions – which are discussed in Chapter 3 – are also important in this context. The insufficient availability of labour and skills was also highlighted as an economic risk in the *National Risk Assessment 2023*[105].

The Council has focused on various labour market issues – including skills and talent – over the years. The Council has decided to return to skills and talent again this year. With respect to building and retaining a skilled labour force, this Chapter explores skills demand and supply and skills needs relating to key sectors: construction, digital and green. With respect to growing and retaining talent, the Chapter then considers migration and the employment permit system. The issue of skills mismatch will be addressed by the Council in a separate Competitiveness Bulletin to be published later this year.

4.2 Current Situation in Ireland

This section outlines the challenges facing Ireland's labour market, and the obstacles to achieving the goal of building and retaining a skilled and talented labour force. It begins with an overview of Ireland's skills demand (including transversal, digital, green and construction-related; 4.2.1), followed by an analysis of the supply of skills in Ireland (with reference to analysis by SOLAS and the OECD; 4.2.2). Finally, this section concludes with an examination of issues relating to the attraction and retention of talent (4.2.3).

4.2.1 Ireland's Skills Demand

The SOLAS *National Skills Bulletin*[106] is an annually published report which provides insight into skills demand in Ireland. The bulletin gathers information from a large number of data sources at occupational level to identify where shortages or potential shortages are arising. The data sources include Skills for Growth[107], Enterprise Ireland's Spotlight on Skills workshops, Labour Force Survey, vacancy data from OVATE[108] and DSP Jobs Ireland, DSP Jobseekers data, CSO Census, and relevant sectoral and Government reports. Overall, the SOLAS *Bulletin* highlights ongoing demand for a wide range of skills across various sectors of the Irish economy, and in 2023 identifies several areas experiencing skills shortages including in occupations in science and engineering, ICT, health and social care, construction, other craft, hospitality and transport and logistics (see Table 4.1 below).

[103] This new way of working provides greater flexibility to staff and promotes greater mobility in working practices.
[104] Retaining Talent at All Ages | en | OECD
[105] 8fef16b4-ea2c-4830-a6fc-4f6d2a393453.pdf (www.gov.ie)
[106] national-skills-bulletin-2023.pdf (solas.ie)
[107] Skills for Growth data, where employers, working directly with Regional Skills Fora managers (DFHERIS) and/or employer engagement officers (DSP) throughout 2022, identified job vacancies which in their experience were providing difficult-to-fill.
[108] The OVATE database, or the Online Vacancy Analysis Tool for Europe, is a resource developed by the European Centre for the Development of Vocational Training (Cedefop). It provides detailed information on job vacancies across Europe, including data on the skills and qualifications required by employers. See more here: Skills-OVATE | CEDEFOP (europa.eu)

Table4.2.1 Identified skills shortages in Ireland, 2023

Occupational Group	Skills shortages
Science & Engineering	Analytical, process, and medical scientists, Engineers (quality control/assurance, process, design, mechanical, electrical, automation) Maintenance/lab technicians
ICT	IT project managers, Software developers/engineers, IT analysts/engineers
Healthcare	Medical practitioners, Nurses
Social & Care	Healthcare assistants, Care workers
Construction	Civil engineers & construction project managers, Quantity surveyors, Plumbers, Carpenters
Other craft	Welders/fabricators, CNC programmers
Hospitality	Chefs
Transport & Logistics	HGV drivers, Bus & coach drivers

Source: SOLAS National Skills Bulletin 2023

Transversal skills

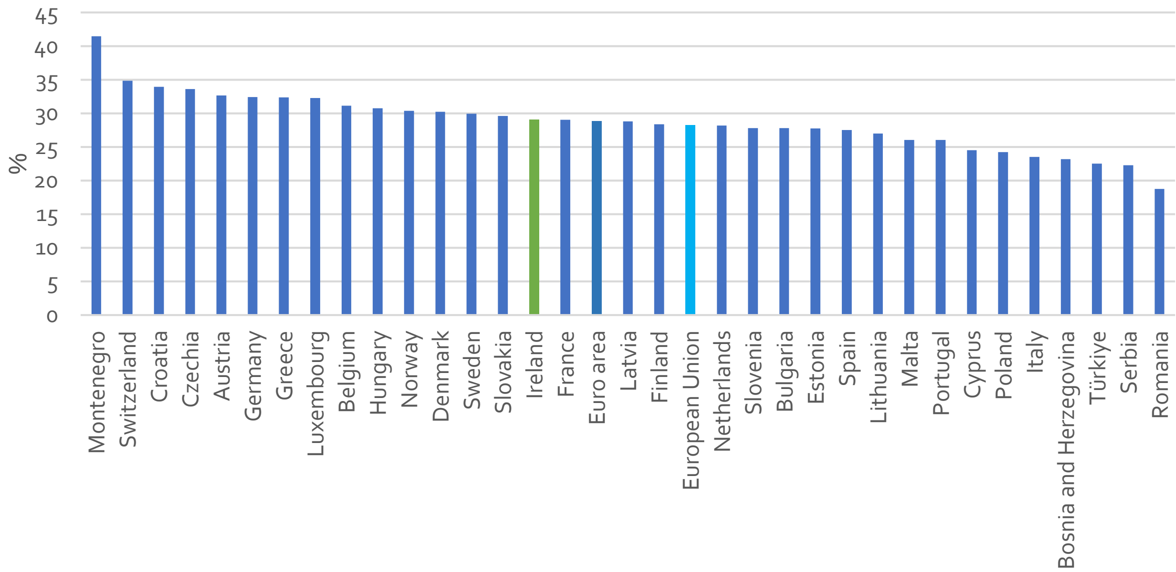
A range of transversal skills - such as problem solving, collaboration and creativity - have also become more important in recent years. For instance, according to SOLAS, between 2019 and 2021, vacancies in the finance sector more frequently ask for skills such as creativity, communication and mentoring. For jobs in the transportation sector, there is a growing demand for skills in health and safety, customer service and contact, and sales.[109] Skills related to teamwork (e.g. working with others, sharing information), various digital skills (e.g. analysing digital data) and management skills (e.g. supervising people, leading and motivating) are now among the most requested skills in online job postings[110].

Digital skills

Digital skills are crucial for the labour market as they enable individuals to adapt to technological advancements, enhance productivity, and remain competitive in an increasingly digitalized world. There is a need for both the private and public sector to be able to attract/source, retain and develop employees with digital skills to ensure Ireland's continued attractiveness as a location for high-tech industries and to ensure that the regulatory system is appropriately resourced. Some 29% of adults in Ireland have less than basic digital skills (including information and data literacy, digital content creation, etc). This has fallen slightly from 31% in 2021 but is still above than the EU average (28%) (see Figure 4.2.2).

[109] solas.ie/f/70398/x/376c4b5fb4/shifting-sands.pdf
[110] Skills in online job advertisements | CEDEFOP (europa.eu)

Figure 4.2.2 Percentage of adult population with basic overall digital skills, European Countries, 2023



Source: Eurostat

Digital skills have increasingly come to play a role in how people participate in many day-to-day activities: from online grocery shopping to booking a journey. With the expansion of online learning, digital skills have become increasingly necessary for those wishing to pursue new courses of study. It will be crucial for all adults to be able to access learning opportunities throughout life to develop the skills needed for full participation in rapidly changing societies (see more on lifelong learning in Box 4.A).

Skills for the Construction sector

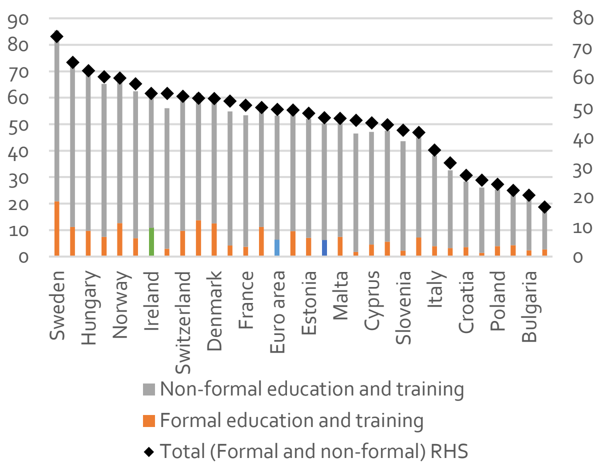
In *ICC 2022*, the Council highlighted the need for upskilling and reskilling in the construction sector and highlighted the importance of ensuring the upskilling of construction workers with the skills relating to Modern Methods of Construction (MMC) to enable the sector to meet its targets as set out under HFA, NDP and CAP (recommendation 4.1). The *Report on the Analysis of Skills for Residential Construction and Retrofitting 2023-2030*, commissioned by SOLAS and DFHERIS, quantified the additional construction skills required to deliver the Government's targets for new housing and the retrofitting of 440,000 homes over the period 2023-2030. The report estimated that 50,831 new entrants will have to be recruited in managerial, professional, skilled, and semi-skilled occupations over the period 2023-2030. These new entrants may be a combination of workers currently employed in the industry who are seeking to upskill, or jobseekers who wish to pursue a career in building or retrofitting.

The *Roadmap for increased adoption of Modern Methods of Construction (MMC) in Public Housing Delivery* was published in July 2023 and it notes that the adoption of new and emerging construction technologies requires upskilling to develop competence. The report states that ensuring proper workmanship – in order to deliver on building regulations – demands competent individuals with appropriate training, experience, and knowledge suitable for the task's complexity. With the rise of new building systems like MMC, builders and installers may need specialized skills such as material handling, assembly, and site safety. Developing updated training and auditing schemes specific to MMC systems is necessary to demonstrate competence to meet building regulations. The report also noted that further research is needed to ensure that a comprehensive Government response to delivering the MMC skills that are anticipated to be required, is in place.

Box 4.A. Lifelong Learning

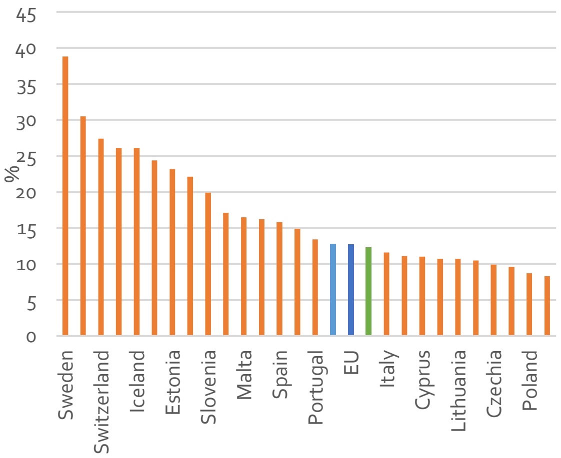
Under the European Pillar of Social Rights Action Plan, Ireland has defined our ambition of an annual participation rate in Lifelong Learning of 64.2% of all adults (aged between 25 and 64) by 2030, compared with an overall EU target of 60%. In April 2024 updated statistics on participation in Lifelong Learning in the previous 12 months were published through the Annual Education Survey (AES). Results showed that over half of adults (55%) reported participating in lifelong learning (formal and/non-formal education) in 2022 in Ireland compared with the EU and Euro area averages (47% and 29%) (see Figure 4.2.3a). However, Ireland is well behind the top performing countries (with rates of 74% in Sweden and 65% in the Netherlands). While half of all adults received some form of non-formal education (i.e., courses, workshops, private lessons, etc.), only 11% aged 25-69 participated in formal life-long learning education in 2022.

Figure 4.2.3a Adult participation rate in learning in the past 12 months weeks, European Countries, 2022



Source: Eurostat, Adult Education Survey

Figure 4.2.3b Adult participation rate in learning in the past four weeks, European Countries, 2022



Source: Eurostat, Labour Force Survey

Participation rates are relatively lower for older age cohorts and for the unemployed. Younger age groups reported higher levels of lifelong learning where more than six in ten adults (64%) aged 25-34 participated in lifelong learning compared with 35% of persons aged 55-69. In addition, employed persons aged 25-69 were much more likely to have participated in lifelong learning than those who were unemployed (62% versus 35%).

Where the AES measures participation in the previous 12 months (which indicates how close we are to the EU target of 64.2%), it is only available every 5-6 years. We therefore also examine the LFS participation rate in lifelong learning. The LFS measures participation in learning over the previous 4 weeks rather than 12 months but it is published annually. This shows that participation over the previous four weeks in Ireland was 12.3% in Q4 2023 (see Figure 4.2.3b), up from 11.8% in Q4 2022. This is below the EU and euro area averages (of 11.9% and 12.1%, respectively), and well below the top performing countries (with rates of 39% in Sweden, 31% in Denmark, and 27% in the Netherlands).

This data shows that there is significant scope for further engagement in Lifelong Learning, particularly for older age cohorts. Ireland should strive to be among the best performing countries in this regard, and consideration should be given to a potential role for the National Training Fund surplus in facilitating this.

Green skills and skills for the offshore wind industry

Ireland has committed to reaching net-zero greenhouse gas emissions by 2050, which will require a dramatic scaling up of indigenous renewable energy production. Ireland's offshore wind industry is set to undergo a major transformation, with ambitious targets to install 5 GW of offshore wind energy capacity by 2030, and at least 37 GW by 2050. To deliver these targets, Ireland will need to dramatically scale up the skilled workforce needed to service the offshore wind industry.

The recently published *Building our Potential: Ireland's Offshore Wind Skills and Talent Needs*[111] is a study commissioned by the Green Tech Skillnet (a network contributing to Ireland's decarbonisation and green transition through subsidised learning and development programmes). This study sets out a detailed skills assessment for the offshore wind industry and has found that the industry will need far more workers if it is to achieve the targets set by Government. The study identifies skills shortages across multiple areas including construction (i.e., electrical, engineering, skilled trade workers and construction management skills) (Table 4.2.4). Management and senior skills are also noted as a key shortage area for offshore wind. The Council has previously called attention to management and leadership skills as being particularly essential for the digital transition, and as a means to drive productivity of Irish firms, especially SME's.

As noted in *Competitiveness Bulletin 24-3*, the construction sector in Ireland is relatively small (compared with other sectors and the infrastructure needs of the economy) and it is important that we grow the sector whilst also striking the optimal balance between types of construction sector activity and output. In a scenario where workers – such as engineers and skilled trade workers – opt to move away from other areas in order to work in the offshore wind industry, this could have negative consequences for the delivery of other important infrastructure, such as housing (including retrofitting which will also have an impact on Ireland's climate targets).It must also be noted that these skills are not just in scarce supply in Ireland, but globally, increasing the importance of using these skills optimally.

Table 4.2.4: Areas in which there is a shortage of skills required for Ireland's Offshore Wind Strategy

Development and project management phase	Manufacturing phase	Operations, maintenance, and service phase
Management skills and senior roles	Skilled trade workers (including welders, fabricators, and electrical technicians)	Maritime training
Electrical skills (particularly within the offshore environment)	Offshore qualifications	Health and safety expertise
Engineering skills (Marine, civil, structural, geotechnical, and mechanical)	Construction management skills	Electrical skills (particularly in high voltage and direct current (DC) systems)

Source: *Building Our Potential: Ireland's Offshore Wind Skills and Talent Needs Report*

4.2.2 Ireland's Skills Supply

SOLAS publishes an annual report which monitors Ireland's skills supply to the labour market from the education and training system[112]. The most recent report (from February 2024) analyses data from 2018 – 2022. Overall, the number of awards made across the FET and higher education system in 2022 were down 1% (approximately 1,500 awards) on the previous year, however 8% higher (8,750 additional awards) than in 2018

[111] Building Our Potential – Ireland's Offshore Wind Skills and Talent Needs | Skillnet Ireland

[112] monitoring-irelands-skills-supply-2023.pdf (solas.ie)

(see Table 4.2.5).[113] The highest number of awards were made to learners who had studied programmes in the social science, business and law field, followed by the health and welfare field. When combined, these two fields accounted for almost 67,700, representing nearly one half (48%) of all awards made in 2022.

Table 4.2.5 Potential supply of skills from further and higher education in Ireland, 2022

	Number of awards	Percentage of total awards	Compared to 2018
Science	7,900	6%	+16%
ICT	10,500	7%	+33%
Engineering	11,890	8%	+24%
Construction	3,460	2%	+45%
Social Science, business and law (SSBL)	43,300	31%	+16%
Health & welfare	24,400	17%	-2%
Services	8,700	6%	-22%
Agriculture	5,400	4%	-1%
Education	8,000	6%	+12%
Arts/humanities	12,800	9%	-7%
Total	**141,000**	**100%**	**+8%**

Source: SOLAS Monitoring Ireland's Skills Supply 2023

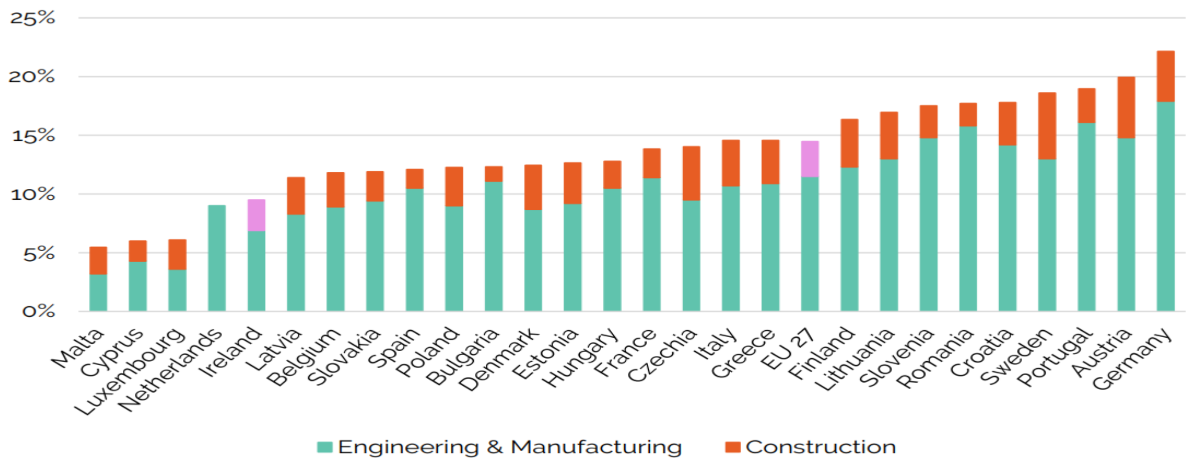
STEM subjects (i.e. science, ICT and engineering, etc.) made up more than 33,700 awards (or 24% of the total). Despite some year-on-year growth between 2018 to 2021, the number of construction awards fell by 4% (approximately 120 fewer awards) more recently between 2021 and 2022, with the largest decline occurring in levels 6/7 in higher education (-30% or almost 250 fewer awards). This is very concerning, given the major constraint on the economy arising from the need for more construction workers to deliver on Ireland's housing, other important infrastructure, and climate targets. According to the most recent Labour Force Survey, numbers employed in the construction sector increased by c.9,000 (or 5%) in the 12 months to Q1 2024.

On an international basis, the share of construction related graduates in Ireland in 2021 (3%) was almost on a par with the EU 27 average. Arguably, Ireland has greater need for construction workers than many other EU countries, having experienced faster population growth than most other EU countries. Between 2013 and 2023 Ireland had the third highest percentage increase (14.4%) in population in the European Union (EU27), after Malta (28.3%) and Luxembourg (23.0%)[114]. In part, this is due to a robust inflow of migrants during this time. Ireland is also, arguably, still in a catch-up phase given the deep retrenchment in public capital expenditure following the Global Financial Crisis in 2008.

The share of third level graduates who had studied engineering (including manufacturing) or construction related subjects in Ireland was 10%, which was well below the EU 27 average of 15% (Figure 4.2.6). This was due to lower-than-average shares for engineering and manufacturing fields (7% for Ireland, compared to 12% for the EU 27). It is, however, positive that awards in engineering have been rising in Ireland in recent years and increased by 14% (nearly 1,200 additional awards) between 2021 and 2022.

[113] Note: Not all education and training graduates will enter the labour market: some may remain in education for further studies, travel abroad, or not enter the labour market due to family commitments or other reasons. Others may already be in the workforce and therefore do not represent a new supply of skills. Also, the changes over time exclude non-QQI FET awards from the SOLAS/ETBI PLSS.
[114] Key Findings Measuring Ireland's Progress 2022 - Central Statistics Office

Figure 4.2.6 Engineering & construction graduates as a share of third level graduates, 2021



Source: Eurostat, from SOLAS Monitoring Ireland's Skills Supply 2023

Between 2021-22, the total number of ICT awards fell slightly by nearly 130 awards (or 2%) – this is the first time in the SOLAS time series that the number of ICT awards have decreased. However, Ireland still performs well when compared internationally – 8% of third level graduates in Ireland had studied ICT related subjects in 2021, twice that of the EU 27 average (4%) and the second highest share in the EU 27.

Between 2018 and 2022 the largest decrease was in the award of qualification for the services sector[115], which fell by 22%, largely driven by falls in hair/beauty, sports and tourism related awards. Between 2021 and 2022, the number of services awards declined by 32%, mainly due to a fall in level 6/7 higher education awards in customs clearance and compliance; the previous year had seen an increase in the number of customs, etc. awards, as businesses began to prepare for the implementation of Brexit related rules/regulations around trade. The number of awards also fell in Arts/Humanities (-7%), Health & welfare (-2%) and Agriculture (-1%) between 2018 and 2022.

Graduate Completion Rates and Job Readiness

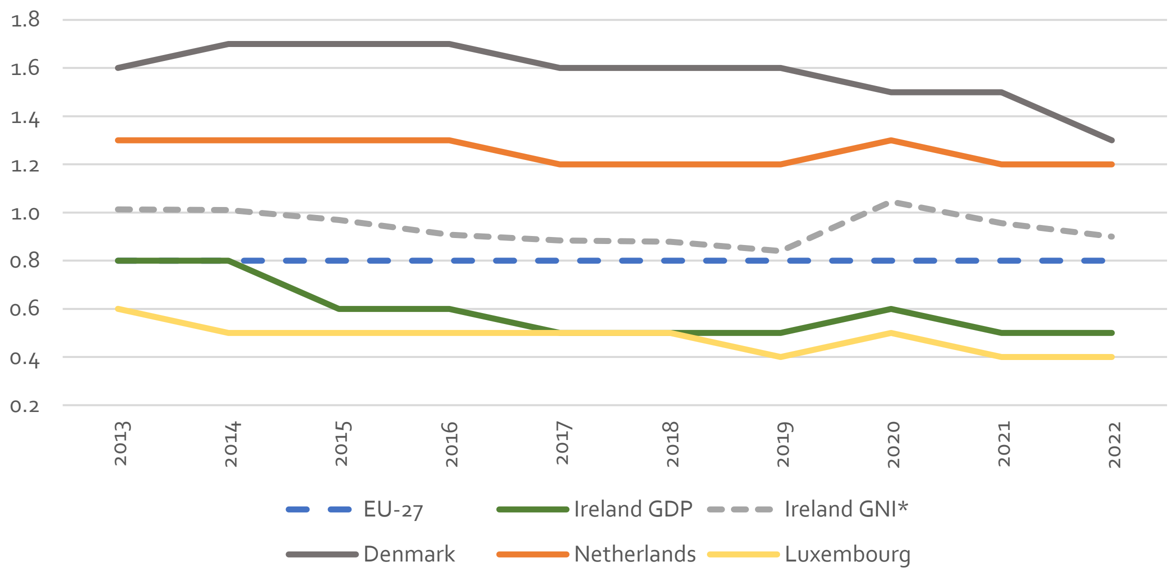
The *OECD Review of Ireland's Skills Strategy* (2023) made a number of positive findings relating to skills in Ireland, including that the share of young adults with a tertiary degree in Ireland has increased considerably in recent decades. Ireland is now significantly above the OECD average (63% of 25–34-year-olds progressed to tertiary education in 2021, compared to the OECD average of 47%), ranking 5th out of the 38 countries for which data are available. In addition, the Irish National Employer Survey from 2018 showed that employers are generally content with the skills of graduates.

However, the review also notes that challenges remain. For example, while about three out of every four undergraduate entrants to Higher Education (HE) finish their degree, completion rates vary significantly across sectors, educational institutions, fields of study and student cohorts. Colleges, mainly comprised of teaching trainees, have the highest completion rates at 93%-94%. University rates are steady at 83% across all three entrant cohorts, while rates are much lower in Institutes of Technology (65%-66% across the three cohorts), particularly at NFQ levels 6 and 7 (60%-62%).

[115] Services includes personal services (hair & beauty, hotel, rest & catering, sports, travel, tourism & leisure), transport services, security services, occupation health & safety.

When assessed in terms of GNI*, expenditure on third-level in Ireland has exceeded that for the EU-27 over the last decade. This can be seen in Figure 4.2.7, which includes a selection of small, advanced economies. Among this comparative sample of economies, Ireland outperforms Luxembourg, but has consistently fallen behind Denmark and the Netherlands.[116]

Figure 4.2.7 Expenditure on Tertiary Education, % of GDP (and GNI* for Ireland)



Source: NCPC based on data from Eurostat and CSO

The analysis of skills in this section suggests that further consideration be given to targeted interventions, including education and training programmes through active labour market policies, to address skills gaps and ensure the availability of qualified workers to support Ireland's economic growth and development. The Council believes that it is critical that the Government employs a "joined-up" approach with respect to those skills that are in demand across numerous policy areas, such as housing, infrastructure, energy, and climate, with particular consideration given to construction workers. Government should also consider how best to leverage the skills of those currently working on a part-time basis who may be seeking full-time work.

4.2.3 Talent attraction and retention

According to the most recent Difficult-to-fill-vacancies survey from SOLAS published in November 2023[117], survey respondents – gathered through selected Irish recruitment agencies - stated that companies are increasing flexibility in work locations and focusing on competitive compensation to address the issue of the rising cost of living and limited availability and cost of accommodation in Ireland compared to other countries. The next subsection analyses employment permits and inward migration, and job quality in Ireland.

Employment Permits and Inward Migration

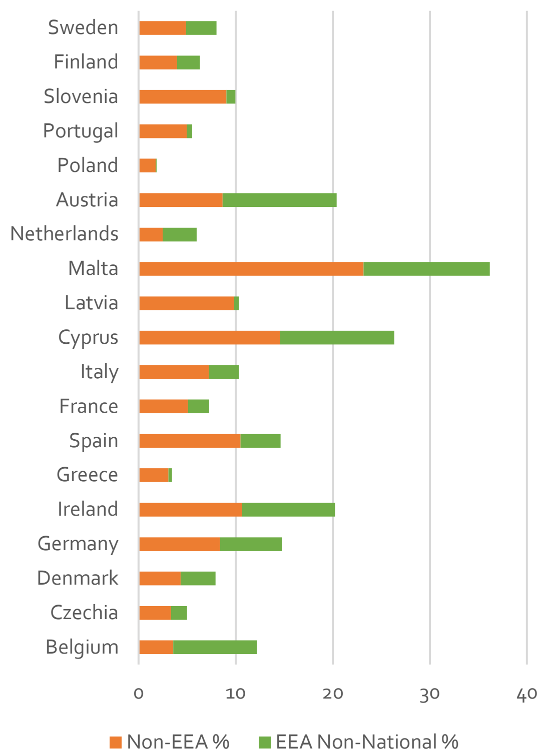
The Department of Enterprise, Trade and Employment operates Ireland's employment permits system which seeks to be responsive to areas of identified skills needs and labour shortages across the economy. The system is, by design, vacancy led and driven by the changing needs of the labour market. Demand for employment

[116] While the Eurostat data assesses Ireland in terms of GDP, when benchmarking Ireland's performance internationally the Council endeavours to use GNI* in lieu of GDP, given the distortions inherent in Irish GDP data.
[117] solas-difficult-to-fill-vacancies-survey.pdf

permits in Ireland is currently extremely high due to prevailing labour market conditions, providing another valuable stream of skilled labour for the Irish economy.

In the context of a tight labour market, Ireland has seen increased numbers of people from across the world meeting the demand for skills. Today, 20% of Ireland's workforce are non-Irish nationals, over half of whom come from other EU countries; this is much higher than the EU average (9%) and the euro area average (11%) (Figure 4.2.8a). Figure 4.2.8b indicates that the employment rate – and employment ratio – for those coming into Ireland from the EEA and beyond, is well in excess of those rates applying to Irish nationals.[118]

Figure 4.2.8a Nationals and Non-nationals as % of Total Workforce, by EU country, Q4 2023



Source: Eurostat

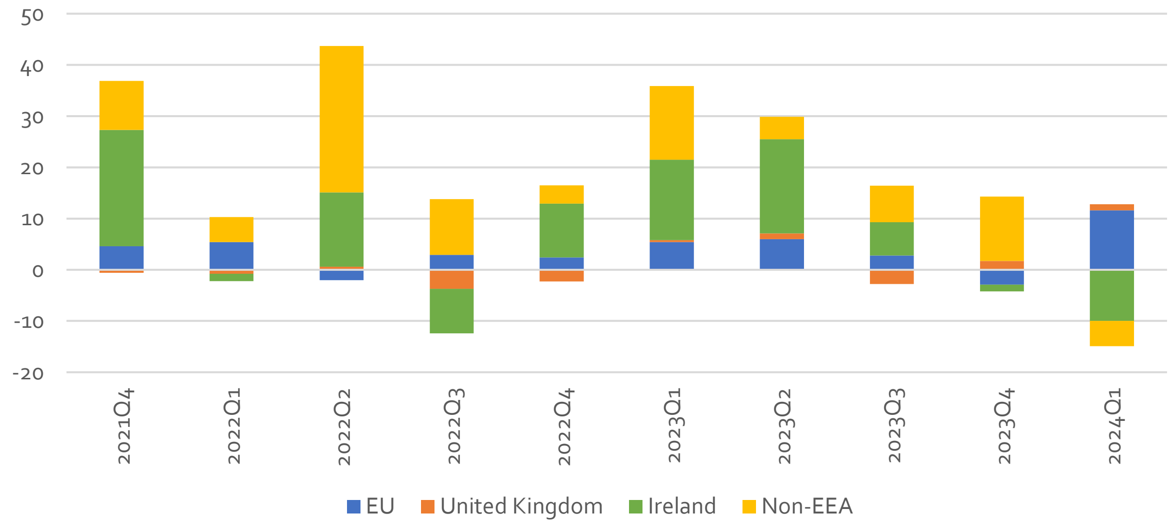
Figure 4.2.8b Employment rate and employment ratio, as %, by citizenship in Ireland, Q1 2024

Source: Census, LFS, NCPC calculations. Note: EEA figure includes Economic European Area countries while non-EEA includes All Countries excluding Ireland and EU 27.

In the last three years, over 172,000 non-Irish nationals (a third of whom are EU nationals) have found work in Ireland, accounting for almost two-thirds of total employment growth during this time (see Figure 4.2.8c). The Council notes that the measures to improve working conditions which are discussed in Chapter 3 contribute to Ireland's ability to continue to attract and retain skills and talent. Proportionately, Ireland has one of the largest international workforces in Europe, behind Luxembourg, Malta and Cyprus, which have much smaller populations.

[118] The employment rate refers to the percentage of the labour force that is in employment, while the employment ratio is the number of those in employment divided by the size of the broader population (e.g. EEA, non-EEA, Irish).

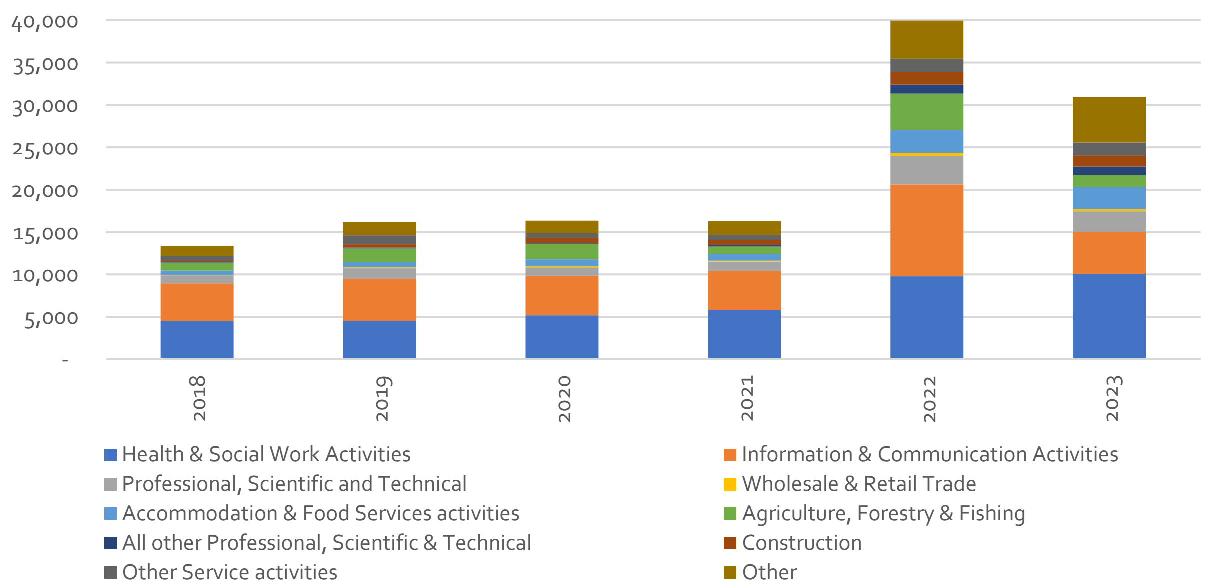
Figure 4.2.8c: Employment Growth (%) in Ireland by Citizenship, 2021Q4-2024Q1 (quarter-on-quarter)



Source: CSO

The majority of those recently in receipt of an employment permit are working in highly skilled ICT, healthcare, and finance roles (see Figure 4.2.8d). Ireland is an attractive destination for internationally mobile, highly skilled workers, because of the scale of the FDI sector and the number of global firms that are recruiting, especially in the ICT sector. There was a sharp rise in the number of permits issued in 2022, relative to preceding years, reflecting the increasing reliance on skilled migrant labour to meet skills shortages in key sectors. This increase was broad-based across sectors. Accommodation and Food, and ICT, have consistently been the two largest individual sectors in terms of the number of employment permits issued. In December 2023, the Department of Enterprise, Trade and Employment announced a major expansion of the employment permits system, with 43 changes to the job eligible for an employment permit. The changes also established a rise in salary requirements for the majority of General Employment Permit holders from €30,000 to €34,000 in January 2024. This had not changed in almost a decade.

Figure 4.2.8d: Employment Permits Issued by Sector, 2018-2023



Source: Department of Enterprise, Trade and Employment

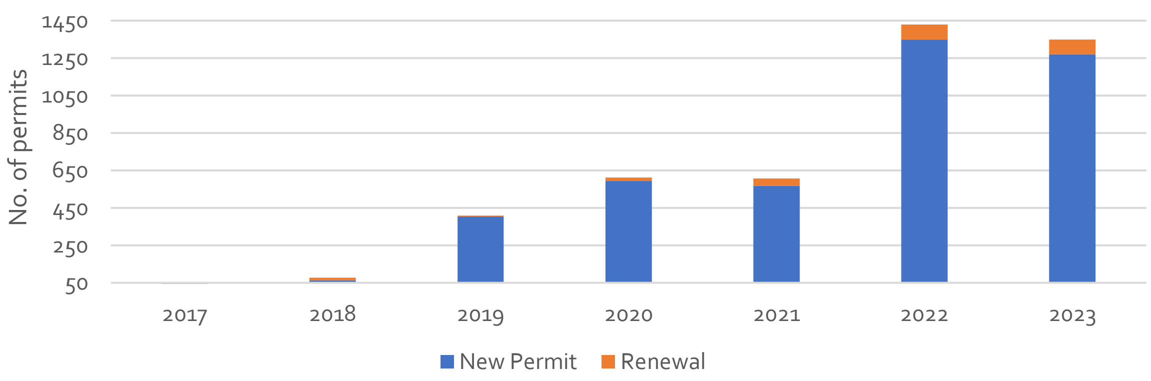
Box 4.B. Employment Permits and the Construction Sector

In December 2023, DETE announced the largest ever expansion to the employment permits system, with 43 changes to the jobs eligible for an employment permit across many roles and sectors. This included 11 roles added to the Critical Skills Occupations List and 32 roles made eligible for a General Employment Permit.

This followed on from a number of changes in October 2021, where the construction sector saw the removal of electricians, electrical engineers, electrical contractors, skilled metal, electrical and electronic trades supervisors and other construction-related occupations from the **ineligible list** (thus making them eligible for general employment permits)[119]. There has been a significant uplift in numbers since the changes came into effect. The number of permits issued for construction-specific occupations more than doubled between 2021 and 2023 (from 607 to 1,349) (see Figure 4.2.8e).

As noted in the recent *Competitiveness Bulletin 24-3*[120] ,while employment permits can play a role in increasing the supply of construction labour in the short-term, the total number of construction-related permits issued makes up only a very small proportion (0.8%) of the number of people employed in the construction sector in 2023.

Figure 4.2.8e Construction-related employment permits issued, by new and renewal, 2017 - 2023



Source: Department of Enterprise, Trade and Employment

Job Quality and the 'Gig Economy'

In our rapidly changing economy, the need for – and shortage of – people possessing the wide range of skills and abilities needed to meet the fast-growing requirements of the economy will almost certainly expand[121]. As a result, firms will need to ensure that their job offering is sufficient to attract and retain talented employees. The gig economy, characterized by temporary and flexible jobs – and often facilitated through online platforms – faces unique challenges. The absence of employment benefits or rights such as minimum wage, pension entitlements, redundancy or statutory sick pay leaves workers vulnerable, while the unpredictable nature of gig work can lead to financial instability and stress. The gig economy's focus on short-term contracts and task-based work can hinder the long-term career development of skilled professionals.

[119] Minister Damien English announces comprehensive changes to the employment permits system in Ireland - DETE (enterprise.gov.ie)
[120] bulletin 24-3 competitiveness and the housing market in ireland.pdf
[121] The quest for the best: human resource practices to attract and retain talent - ScienceDirect

In the case of Ireland, it would appear that both gig and platform economy workers are typically classified as being self-employed. This notwithstanding, a November 3023 Supreme Court ruling in Ireland will likely have long-term implications in this regard.[122] The Court found that delivery drivers for a given firm were, in fact, employees rather than contractors for the purposes of the Taxes Consolidation Act 1997. Following on from this, the Office of the Revenue Commissioners has issued new guidance to employers for determining employment status for tax purposes[123]. The Council believes that the implementation of the test established by the Supreme Court judgement is important (i.e. to determine whether a worker is an employee engaged under a contract of service or whether they are an independent contractor engaged under a contract for service), and that monitoring the balance between persons categorised as employed and self-employed across the economy is crucial in order to ensure that Ireland's job offering does not hinder the long-term career development of skilled professionals.

Efforts have been ongoing at European level for unified action and support for such workers. In March 2024 the European Commission announced a provisional agreement on its 'Platform Work Directive Deal', which aims to improve working conditions and regulate the use of algorithms by digital labour platforms.[124] The directive will make the use of algorithms in human resource management more transparent, ensuring that automated systems are monitored by qualified staff and that workers have the right to contest automated decisions. It will also help correctly determine the employment status of persons working for platforms, enabling them to benefit from any labour rights they are entitled to. After the formal steps of the adoption have been completed, member states will have two years to incorporate the provisions of the directive into their national legislation.

4.3 Actions Crucial for building and retaining a skilled and talented labour force

4.3.1 To address skills needs in Ireland's labour market

The evidence set out in Section 4.2 of this chapter illustrates that Ireland's labour force is experiencing acute pressures relating to skills availability. The Council believes that addressing these issues is crucial to build and retain a skilled and talented labour force. Active Labour Market Policies (ALMPs) help in aligning the skills of the workforce with the demands of the labour market and help reduce skills mismatches by providing training programs tailored to the needs of industries facing shortages in skilled labour. By investing in skills development through ALMPs, individuals can also improve their productivity, which in turn benefits employers and contributes to overall economic growth. Furthermore, ALMPs provide a mechanism for workers to acquire new skills or upgrade existing ones to adapt to transformations such as the digital and green twin transition. Finally, ALMPs also have a social inclusion objective delivering key community-based services. In addressing skills and labour shortages, there is also some potential to pull from those long-term unemployed, and those that are employed on a part-time basis.

Access to robust data that can underpin the design and delivery of effective ALMPs is important in this regard. A recent OECD report[125] notes that the Department of Social Protection (DSP) does not have a longitudinal dataset for analytical purposes. DSP has taken steps to achieve this objective and is currently developing the Work and Welfare Longitudinal Database (WWLD), with support from the Labour Market Advisory Council. This is an important development that would enable the analysis of ALMPs and their outcomes within one database.

[122] Judgments | The Courts Service of Ireland
[123] Revenue issues new guidance on determining employment status for tax purposes
[124] Platform workers: Council confirms agreement on new rules to improve their working conditions - Consilium (europa.eu)
[125] Impact Evaluation of Ireland's Active Labour Market Policies | OECD iLibrary (oecd-ilibrary.org)

Recommendation 4.1: To optimize skills development and mitigate mismatches between workforce capabilities and industry requirements, the Council recommends that the relevant Departments and Agencies should:

(i) Work closely with local employers, business organisations and unions to review the training content of all ALMPs, and ensure that the training provided addresses current and future skills needs (e.g. in the areas of the green and digital transitions, and emerging technologies);

(ii) Enable more effective exchange and use of existing skills data and promote systematic skills policy evaluation to support evidence-based skills policy making and ensure a balanced ALMP suite of provision in Ireland;

(iii) In support of sub-recommendation (ii), ensure that the required supports are provided to develop and leverage the Work and Welfare Longitudinal Database (WWLD).

Responsibility: Department of Social Protection; Department of Further and Higher Education, Research, Innovation and Science; Department of Education; Department of Enterprise, Trade and Employment

The '*Powering Prosperity – Ireland's Offshore Wind Industrial Strategy*[126]' states that significant further work is required to identify the full range of skills and workforce requirements for the development of offshore wind, and to establish a sustainable workforce and skills pipeline. DFHERIS is collaborating with DECC and industry through the dedicated 'Skills and Workforce Workstream 8'. Additionally, DETE will engage with the Expert Group on Future Skills Needs (EGFSN), in this regard. The *Building Our Potential: Ireland's Offshore Wind Skills and Talent Needs* report makes a range of short, medium and long-term recommendations, which DFHERIS is currently considering as it agrees actions to deliver on skills priorities for offshore wind.

The Council has also previously drawn attention to the requirement for increased skills in green, digital, and construction, most recently in *Ireland's Competitiveness Challenge 2023* and in a Competitiveness Bulletin on housing published in April 2024.[127] The Council believes that these skills are crucial to harnessing the full potential of Ireland's offshore wind industry. However, the Council is also aware that these skills are facing significant demand for the delivery of other important infrastructure and to meet targets under *Housing for All*, the NDP, and the *Climate Action Plan*. DFHERIS has established an Expert Advisory Group on offshore wind skills, with members from further and higher education, Government Departments, agencies and industry, aimed at ensuring that skills monitoring remains responsive to the emerging needs of the offshore wind sector.

In addition, the EGFSN, working with the MMC Leadership and Integration Group, have commissioned a report to determine the skills required to transform Ireland's construction sector through widespread adoption of Modern Methods of Construction (MMC). When this report is finalised, DFHERIS will work with all relevant partners to develop an Action Plan to take forward the recommendations and EGFSN structures will be used to monitor and report on implementation.

The availability of skilled and qualified workers are a key ingredient to support Ireland's economic growth and development. The Council believes that addressing shortages in key areas is crucial in order build and retain a talented and skilled labour force in Ireland.

[126] Powering Prosperity Ireland's Offshore Wind Industrial Strategy (enterprise.gov.ie)
[127] bulletin 24-3 competitiveness and the housing market in ireland.pdf

Recommendation 4.2: To address key skills shortages in key areas, the Council recommends that the Government should:

(i) Publish an action plan of the delivery of skills priorities for offshore wind, and monitor and report on its implementation;

(ii) Develop updated training and auditing schemes to ensure builders and installers possess the specialized skills required for emerging building systems like MMC, in line with building regulations;

(iii) Prepare an Action Plan to address the skills requirements for the transition to greater use of MMC, following the publication of the forthcoming EGFSN report on this matter, and, continue to monitor existing and arising skills issues in all sectors of the economy.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Education; Expert Group for Future Skills Needs

4.3.2 Lifelong Learning and the National Training Fund

In order to maximise both learner and business engagement in skills development, upskilling and reskilling in areas of identified skills needs is facilitated through either fully free (to the participating employee) or heavily subsidised programmes supported through the National Training Fund. The fund has budgeted for expenditure of €920m in 2024 and provides the basis for tens of thousands of upskilling and reskilling opportunities committed to in the Economic Recovery Plan. These are being provided through programmes such as Springboard+, the Human Capital Initiative, apprenticeships, Skillnet Ireland, as well as digital and green skills programmes within Further Education and Training. Educational Training Boards (ETBs) also offer *Skills to Advance* programmes which offer upskilling opportunities to workers in low skilled or vulnerable occupations. At regional level, the network of Regional Skills Managers and the Department of Social Protection's Employer Relations Teams are also available to enterprise to advise on addressing their skills and recruitment needs.

Lifelong learning was one of the four priority areas in the OECD's review of Ireland's Skills Strategy. As shown in Section 4.2, Ireland's performance in workforce development and lifelong learning falls significantly short of that in comparator countries. The Council believes that improving opportunities for learning is crucial for addressing skills needs in the economy, and the NTF is a key part of this. Therefore, the Council is again drawing attention to lifelong learning and the need for reform of the NTF.

Recommendation 4.3: To build and retain a skilled labour force, the Council recommends the Government should:

(i) Reform the National Training Fund (NTF) to better foster lifelong learning in workplaces in line with the recommendations outlined in the OECD's review of Ireland's National Skills Strategy; and,

(ii) Ensure that the NTF surplus is deployed to deliver training programmes that directly assist in meeting current and future skills needs, particularly in relation to the skills needed for the digital and green transitions, and for the adoption of emerging technologies (including AI).

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, NDP Delivery and Reform; Department of Enterprise, Trade and Employment

4.3.3 To enhance talent attraction/retention

As discussed in Section 4.2 Ireland has a highly responsive employment permit system to address areas of identified skills needs and labour shortages across the economy. Ireland's policy is to promote the sourcing of labour and skills needs from within its own workforce, the EU and other European Economic Area (EEA) states. Policy in relation to applications for employment permits remains focused on facilitating the recruitment from outside the EEA of highly skilled personnel, where the requisite skills cannot be met by normal recruitment or by training. Employment permit policy is part of the response to addressing skills deficits which exist and are likely to continue into the medium term, but it is not intended over the longer term to act as a substitute for meeting the challenge of up-skilling the State's resident workforce, with an emphasis on the process of lifelong learning, and on maximising the potential of EEA nationals to fill any skills deficits.

In order to ensure that the employment permits scheme is responsive to changes in economic circumstances and labour market conditions, it is necessary to conduct periodic reviews of the Lists that incorporate a public consultation phase inviting submissions from stakeholders and industry. The review process utilises research undertaken by the Expert Group on Future Skills Needs (EGFSN) and other experts in the labour market, including the Skills and Labour Market Research Unit (SLMRU) at SOLAS. It also involves input from other government departments and the Economic Migration Inter-Departmental Group. The most recent review process commenced with a public consultation which was opened from 26 June 2023 until 18 August 2023.

The Council notes that the salary thresholds for employment permits were unchanged for almost a decade, and it is important that these keep pace with inflation and economic growth, particularly given the increased competition globally for particular skills in certain areas, such as those relating to construction and the twin digital and green transitions. However, the Council also notes that these changes may lead to increased costs for businesses. On 15th May 2024 the Government stated that it will review the proposed Roadmap for Increasing Minimum Annual Remuneration Thresholds for Employment Permits[128]. The Council believes this is especially important given the cost pressures being faced by SME' s (see Chapter 3).

Recommendation 4.4: To ensure Ireland remains attractive to internationally mobile workers while at the same time not overburdening SME's, the Council recommends that the proposed Roadmap for Increasing Minimum Annual Remuneration Thresholds for Employment Permits be reviewed within six months and that the review be published on completion.

Responsibility: Department of Enterprise, Trade and Employment

4.4 Summary

The supply and quality of education and skills in an economy is vital for economic growth and competitiveness. In the context of changing market demands, a highly skilled and dynamic labour force is more productive, innovative and adaptable. Therefore, this Chapter outlines the challenges facing Ireland's labour market, and the obstacles to achieving the goal of building and retaining a skilled and talented labour force.

Ireland has performed well in developing a more skilled workforce over the last decade. However, with Ireland being essentially at full employment over the last two years, there are capacity constraints which are limiting Ireland's ability to expand output – particularly in the delivery of infrastructure – and this is a key competitiveness concern. This Chapter outlines challenges such as skills shortages in key sectors, facilitating

[128] gov - Government agrees measures to support SMEs (www.gov.ie)

greater participation in lifelong learning that brings us into line with international standards, and ensuring that Ireland remains an attractive place to internationally mobile workers.

Furthermore, a review and evaluation of existing Active Labour Market Policies, that leverages the available skills data, would help in optimising skills development and mitigating mismatches between the capabilities of our workforce and the requirements of enterprise. The Council believes that addressing shortages in key areas – including green, digital and construction – is urgently required in order build and retain a talented and skilled labour force in Ireland.

As mentioned in this Chapter, with an economy at full employment, and capacity constraints emerging on multiple fronts, inward migration will continue to be important in filling critical vacancies. Salary thresholds for employment permits were unchanged for almost a decade, and it is important in the future that these keep pace with inflation and economic growth, particularly given the increased competition globally for particular skills in certain areas. However, this must also be balanced against the cost pressures for businesses.

Chapter 5: Embracing Technological Change and Innovation

Key Messages

- Compared to large firms, there is evidence of a significant amount of R&D activity by SMEs not being captured in "allowable expenditure" under the R&D Tax Credit. This may reflect a low take-up of the measure by SMEs, or the ineligibility of this R&D activity given the terms of the Credit.
- Ireland performs well compared to the EU-27 in terms of the digital intensity of firms. However, significantly more SMEs (70%) report a low digital intensity compared to larger firms (25%). Basic enterprise digitalisation is seen as a prerequisite to the adoption of more advanced technologies.
- A greater share of Irish firms report using AI technology than in the EU-27. However, there is a significant usage gap between SMEs and large firms. AI presents both challenges and opportunities for Ireland's economic model. Ireland's labour market is marginally more exposed to AI than is the average for other advanced economies.
- The AI exposure also presents an opportunity to leverage the technology for potentially significant productivity gains. Evidence from industry sources suggests that there is a gap in the rate of adoption by firm size and region, and points to the existence of potential barriers to adoption.
- The Council welcomes the publication of the Government's *National Quantum Strategy* in November 2023. The high-level actions set-out in the Strategy align with the Council's recommendation in *Ireland's Competitiveness Challenge* 2023.
- There is evidence of a gap in the level of investment in cyber-security protection between large firms and SMEs. Fewer Irish firms in general report taking several (three to five) different security measures compared to the EU-27, with a particularly large gap between Irish SMEs (at 58%) versus those in the EU-27 (at 73%).
- Overall, the recommendations included in this chapter are focused on the role of Government in facilitating the adoption and take-up of advanced digital technologies by enterprise, and in identifying and tackling the barriers that exist for SMEs.

5.1 Introduction

In last year's *Competitiveness Challenge* report, the Council assessed Ireland's performance on research, development and innovation (RD&I) in detail, recognising RD&I as a fundamental driver of economic and social progress, and an important determinant of Ireland's international competitiveness. The Council further examined the key issues relating to enterprise digitalisation, artificial intelligence (AI), quantum computing, and cyber-security. This chapter builds on this earlier assessment by the Council.

Chapter 5 begins by setting out the current state of play on investment in RD&I. This is followed by an update on progress towards the digitalisation of Ireland's enterprise base and the adoption of AI technology by Irish firms compared to the wider EU. This chapter also presents evidence of the potential impact of AI adoption on Ireland's labour market and economy, informed by joint research undertaken by the Department of Finance and the Department of Enterprise, Trade and Employment. This is followed by an assessment of the Government's *National Quantum Strategy* (published in November 2023). The chapter then focuses on the cyber-security preparedness of Irish firms and concludes with recommended actions for Government.

Overall, the recommendations included in this chapter are focused on the role of Government in facilitating the adoption and take-up of advanced digital technologies by enterprise, and in identifying and tackling the barriers that exist for SMEs.

5.2 Current Situation in Ireland

5.2.1 The state of play on investment on research, development and innovation

In *Ireland's Competitiveness Challenge 2023*, the Council provided an assessment of trends in expenditure on research, development and innovation, using the latest available data. Historically Ireland has lagged competitor economies in terms of gross spending on R&D, and the main driver of this spending has been the business expenditure on research and development (BERD). BERD has risen significantly since 2016, and compared to the EU, Ireland's business sector has accounted for a much larger share of overall R&D spending. In terms of the distribution of BERD, foreign firms outspend domestic firms on in-house R&D at a rate of four-to-one (as of 2020). Foreign-owned multinationals appear to be the main beneficiaries of the R&D Tax Credit – the primary means by which the State supports business sector R&D activity. In terms of firm size, there is also a significant investment gap between small and large firms. The Council cautioned in 2023 that the design of the R&D Tax Credit may be relatively less accessible to smaller firms, and therefore preventing greater take-up of the measure by these firms.

Figure 5.2.1 shows, on a rolling or cumulative basis (beginning in 2013), the total expenditure by firms on R&D as captured in the CSO's BERD survey,[129] alongside the amount of allowable R&D expenditure under the terms of the R&D Tax Credit Scheme.[130] We show this information on a cumulative basis as the R&D Tax Credit can be claimed for qualifying expenditure for up to twelve months after the end of the accounting period in which the

[129] The biennial Business Expenditure on Research and Development (BERD) Survey of enterprises measures the research and development expenditure, human resources and other research and development related topics for enterprises in Ireland. The survey is designed to be a census of all enterprises that are believed to be engaged in research and development activities in all business sectors of the economy. See: Business Expenditure On Research and Development - CSO - Central Statistics Office.

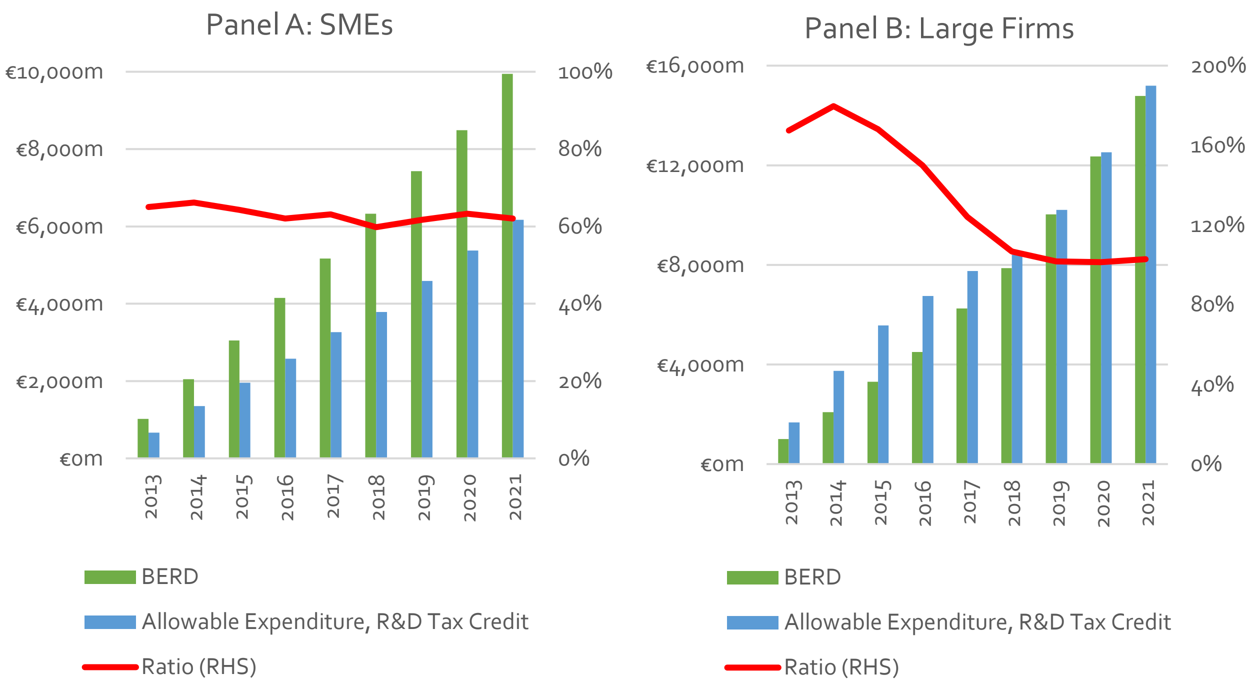
[130] The Council will assess the latest R&D Tax Credit statistics as they are released later this year. At the time of writing, these data had not yet been published.

expenditure occurred (this makes the assignment to a specific year more difficult).[131] The BERD survey is aligned with the R&D Tax Credit, in the sense that R&D is classified within the terms of the Frascati Manual[132] in both cases.

As shown for SMEs, allowable R&D expenditure over the last nine years has amounted to 62% of total R&D expenditure for this cohort. For large firms, this amounts to 103%, implying that for larger firms, allowable expenditure submitted under the R&D Tax Credit has actually exceeded total R&D expenditure as measured by the BERD survey.[133] There are two key takeaways from this data: firstly, a greater share of R&D expenditure by large firms is classified as allowable expenditure for the purposes of the R&D Tax Credit. Secondly, a discrepancy exists between the amount of R&D expenditure carried out by SMEs, and the amount for which a valid claim has been made under the R&D Tax Credit.

This may reflect differences in the take-up of the measure between SMEs and larger firms, where SMEs are not availing of the R&D Tax Credit for projects for which there may be a valid claim; this could reflect uncertainty by SMEs regarding project eligibility. It may also be the case that a greater share of R&D expenditure by SMEs is actually ineligible for the measure, whether due to a failure to meet the Science Test, or for some other reason.

Figure 5.2.1: BERD and Allowable Expenditure under the R&D Tax Credit, cumulative basis, 2013-2021



Source: CSO BERD Survey, and Revenue Commissioners.

In last year's *Competitiveness Challenge* report, the Council assessed trends in innovation spending to 2020, using the Innovation in Irish Enterprises survey.[134] The latest release of this survey (June 2024) covers the period to 2022 and shows a continuation of past trends. Overall spending on innovation has increased across all firm classes (i.e. domestic/foreign, large/small), however, spending by foreign and large firms has increased at a

[131] Research and Development (R&D) Corporation Tax Credit, July 2023, Revenue Commissioners.
[132] More information on the Frascati Manual can be accessed here.
[133] This implies a degree of under-counting of R&D activity in the BERD survey.
[134] As addressed in *Ireland's Competitiveness Challenge 2023*, unlike the BERD survey, the Innovation in Irish Enterprises Survey captures innovation spending in line with the Oslo manual (as opposed to the Frascati manual).

faster rate than that for domestic and small firms. For 2022, in terms of total innovation spending, foreign firms outspent domestic firms by a ratio of 3.5 (compared to 2.7 in 2020). For large firms relative to small firms, the ratio has risen slightly, to 2.8 from 2.7. Despite the overall rise in innovation spending in 2022 (relative to 2020), the number of firms engaging in innovation spending has actually fallen (from 58% to 31%) – and this holds for all firm types. The Council will assess this data release in more detail in the form of an NCPC Bulletin later this year.

As outlined in *Ireland's Competitiveness Challenge 2023*, the Council expressed a concern that the R&D Tax Credit could be relatively less accessible to SMEs compared to larger firms, and called for the introduction of a pre-approval mechanism, as well as a broadening of the measure to account for innovation in line with definitions set-out in the Oslo manual.[135] The Council's view was that these changes could facilitate enhanced take-up of the measure by smaller firms, supporting greater R&D investment and productivity growth. The Council notes the Government's response to this recommendation as published on 28th November 2023.[136] However, the Council reiterates the need for a detailed assessment of the range of potential issues faced by SMEs in accessing the R&D Tax Credit, particularly in light of the trends observed in Figure 5.2.1.

Current limitations on the outsourcing of expenditure could be a barrier to companies seeking to access the Credit. Under the terms of the Credit, claims for outsourced expenditure are restricted to the higher of 15% of qualifying expenditure on Higher Education Institutes and 15% of expenditure on Third Party Contractors (both subject to matching internal expenditure requirements). These restrictions may disproportionately affect SMEs without the in-house expertise required to carry out qualifying R&D, or for whom it may not be commercially feasible to invest in large teams of experts. An increase in the limits on outsourcing may further incentivise co-operation between firms and Higher Education Institutions.

An adjustment in the maximum limit allowable under the Science Test – the criteria used by Revenue to determine if a firm's costs are eligible for the Credit – could further encourage SME engagement with the measure. Revenue does not challenge the Science Test as part of any validation checks on a Credit claim made by an SME that has already been approved for an EI, Horizon 2020, or IDA grant for the R&D project in question. However, this is provided that the claim for the Credit does not exceed €50,000. Revenue issued the guidance around the Science Test in 2017. There is merit in revisiting the €50,000 limit, which has not been adjusted to account for inflation.

In addition, the Council considers that there is merit in exploring the introduction of a credit (akin to the R&D Tax Credit) to specifically target innovation, promoting innovative investments by smaller firms, particularly in respect of enterprise digitalisation and the adoption of advanced technologies. Such a measure would be particularly timely at this current juncture, as firms grapple with the emergence of AI technology (as will be discussed in more detail later in this chapter). In particular, while the development of new AI systems by firms would seem to satisfy criteria set out in the Science Test for the R&D Tax Credit, the adoption of existing AI systems that have been developed by a third-party firm would not seem to qualify. Instead, this activity could be supported by a measure that focuses on incentivising innovation at the firm level.

On 15 May 2024, the Government announced a package of supports aimed at reducing business costs for SMEs. Included among the measures was a doubling of the maximum amount that could be claimed under the Innovation Voucher scheme under Enterprise Ireland (from €5,000 to €10,000). This scheme allows SMEs to

[135] See Recommendation 6.1, Ireland's Competitiveness Challenge 2023, NCPC, September 2023.
[136] Government Response to Ireland's Competitiveness Challenge 2023, Government of Ireland, 28th November 2023.

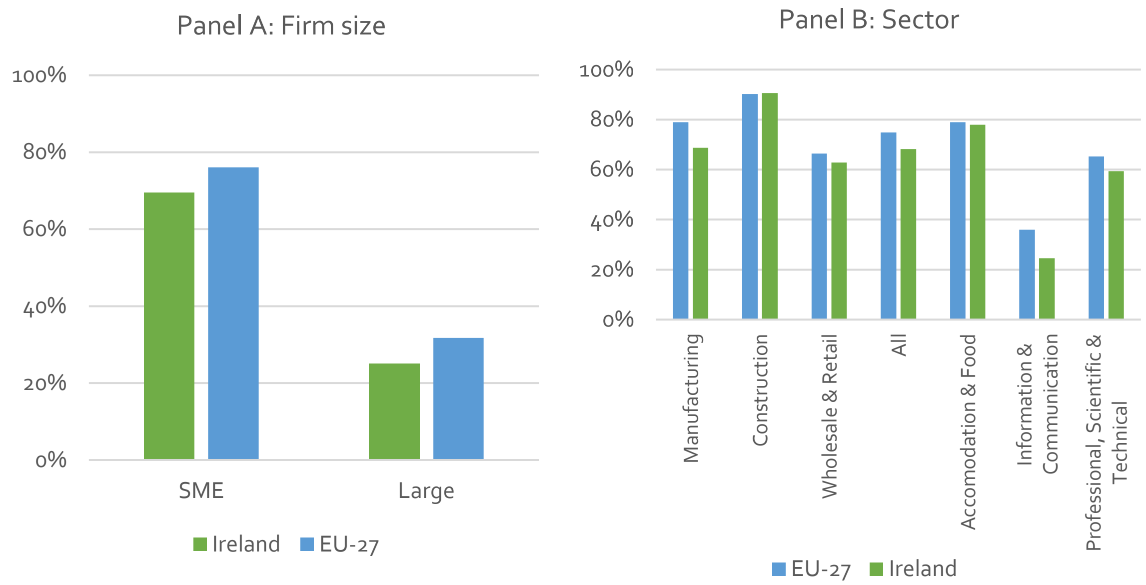
draw on the expertise of third-level researchers on specific innovation projects. Although on a significantly smaller scale than the R&D Tax Credit, this is a welcome measure, targeting SME investment in innovation. Over the ten years from 2013 to 2022, approximately €22 million has been claimed under this scheme, with a further €1.4 million in co-funded initiatives. Separately, the launch of "Call 7" under the Disruptive Technologies Innovation Fund (DTIF) was launched on 7 May 2024 on a 'rolling' basis and will close on 30 April 2025. The DTIF has committed €317 million of a total fund of €500 million to 104 innovation projects since its inception in 2018.

In *Competitiveness Bulletin* 24-1,[137] the Council published its most recent assessment of Ireland's innovation performance – as measured by the Global Innovation Index (GII) – accounting for the impact of globalisation on Irish GDP data. This required a re-estimation of the GII using GNI* as a substitute for Ireland's GDP data. Using this appropriate measure, Ireland's overall ranking rises from 22nd to 12th – with an increase of six places for inputs (to 20th), and four places for outputs (to 14th).

5.2.2 Progress on Enterprise Digitalisation

Ireland performs well compared to the EU-27 in terms of the digital intensity of firms. Figure 5.2.2 shows the percentage of firms reporting either "low" or "very low" digital intensity in 2023, by firm size and sector. Fewer firms – across both size classes – report a low or very low digital intensity in Ireland. However, there is a significant gap between Irish SMEs and larger firms – almost 70% of Irish SMEs report low or very low digital intensity, compared with 25% of large firms. The results by sector show that Ireland outperforms the EU-27 in every sector, while among Irish firms, those in the construction sector report the highest share of low or very low digital intensity.

Figure 5.2.2: Enterprises reporting "low" or "very low" digital intensity, Ireland and EU-27, 2023



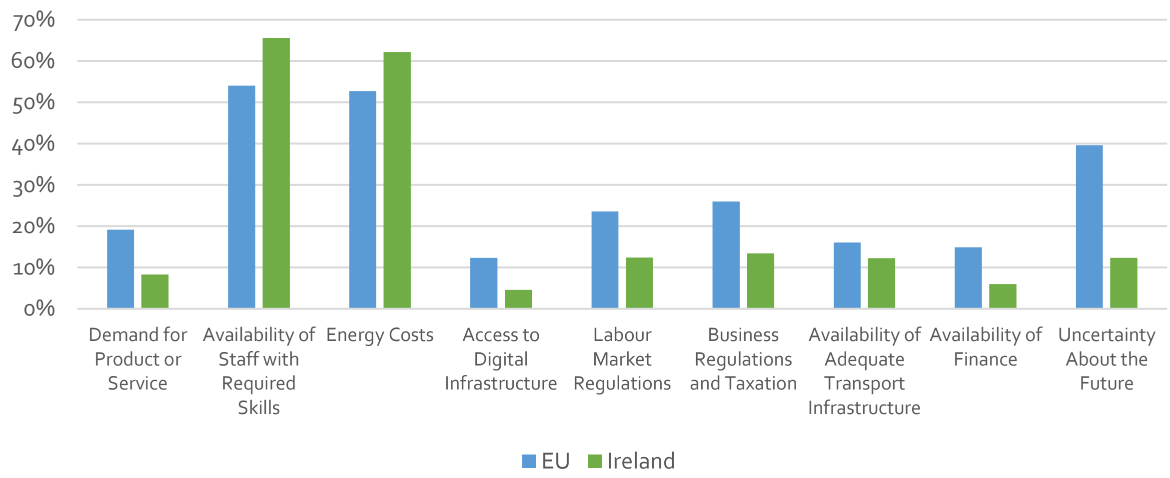
Source: Eurostat ICT Usage Survey

Enterprise digitalisation is seen as a prerequisite to the adoption of more advanced technologies. Those firms that are relatively more digitalised will face fewer barriers to the adoption of AI technology. If heterogenous patterns of enterprise digitalisation persist, and also hold for the adoption of AI technology, this could

[137] Re-estimating Ireland's Innovation Performance, NCPC Bulletin 24-1, April 2024.

exacerbate the productivity gap between small and large firms, between foreign-owned and domestic-owned firms, and between firms operating in different sectors. Figure 5.2.3 presents the issues reported by firms in Ireland and the EU as being a "major obstacle" to investment. While this data is not specific to digital investment, as a component of overall investment, the issues raised are likely to also impact on enterprise digitalisation. As shown, access to suitably skilled staff and energy costs are the most reported issues by Irish firms (reported by 66% and 62% of firms, respectively). Irish firms are significantly less likely than their EU counterparts to report the availability of finance, uncertainty, business regulations, or access to the broader digital infrastructure as major obstacles.

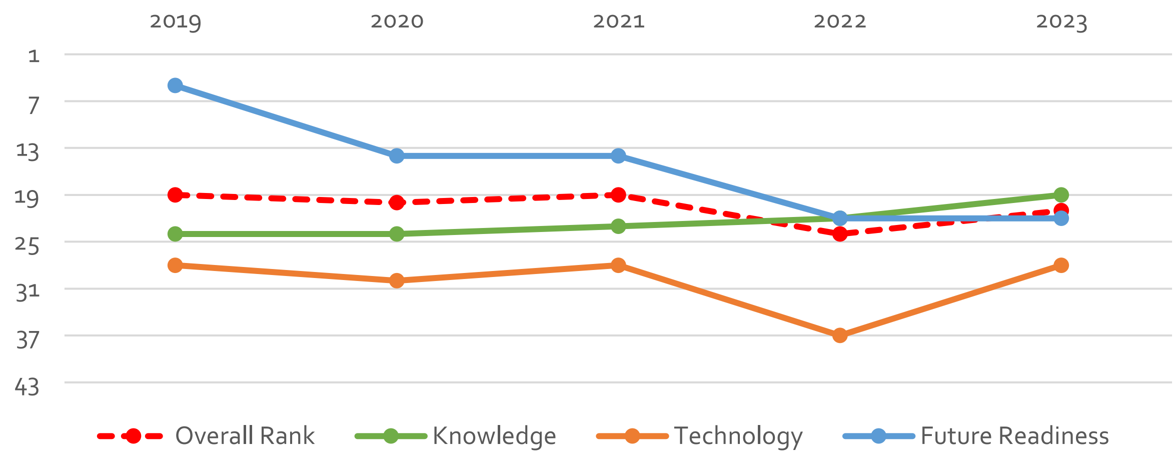
Figure 5.2.3: Obstacles to investment facing firms, Ireland and EU, 2023



Source: European Investment Bank Investment Survey (EIBIS)[138]

Ireland was ranked 21st in the IMD's World Digital Competitiveness Ranking for 2023. This is an improvement of three places relative to 2022. As shown in Figure 5.4, this result was driven by relative improvements in the Knowledge (from 22nd to 19th) and Technology (from 37th to 28th) sub-categories. Ireland's relative performance under the Future Readiness sub-category has deteriorated consistently in recent years, with Ireland placing 22nd in 2023 (down from 5th in 2019).

Figure 5.2.4: IMD World Digital Competitiveness Ranking, Ireland, 2019-2023



Source: IMD

[138] The EIBIS covers approximately 12,000 firms across the EU-27 and 800 firms in the US, and provides firm-level data regarding investment decisions and investment financing. For more information, see: EIB Investment Survey (EIBIS).

5.2.3 Progress on the adoption of AI technology

In *Ireland's Competitiveness Challenge 2023*, the Council outlined how the adoption of AI technology by enterprise could bring productivity benefits for firms operating in a broad range of sectors. While AI represents a significant disruptor for Ireland's current economic model, it also presents major opportunities, and it is vital that Ireland positions itself to be among the earliest adopters of this technology.

AI seems likely to disrupt at a speed unseen in previous waves of technological innovation, as it leverages existing investments in digital infrastructure, processes and systems. However, as noted above, the development and adoption of AI technologies requires a significant level of digital investment. For example, the development of foundational Generative AI models requires substantial computing power, high-speed internet connectivity, and data storage infrastructure. Advanced cyber-security systems are also key, while putting AI models to productive use will require staff with the relevant digital skills. It stands to reason then, that the relatively more digitalised firms will be better equipped to reap the benefits of early adoption. As assessed in Eurostat's ICT Usage survey, less than 1% of Irish firms with a low digital intensity report using any AI technology. Access to data is another key requirement, particularly for those firms that are unable to generate or manipulate large amounts of data (a crucial input to AI).[139]

Eurostat examines the take-up of AI technology under two broad categories:

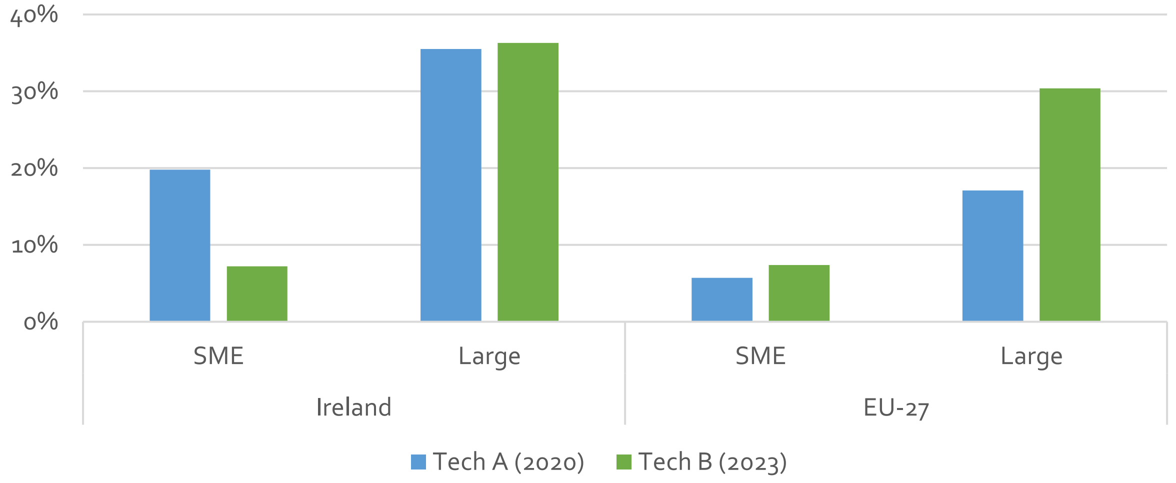
- The first (we term "Tech A") refers to the analysis of big data using machine learning, natural language processing, natural language generation, or speech recognition, as well as the use of service robots, chat bots or virtual agents.
- The second (we term "Tech B") refers to the use of AI to analyse written language (text mining), convert spoken language into machine-readable format (speech recognition), generate written or spoken language (natural language generation), identify objects or persons based on images (image recognition, image processing), automate different workflows, assist in decision-making, or enable physical movement of machines via autonomous decisions based on the observation of surroundings (autonomous robots or drones, self-driving vehicles).

The proportion of SMEs and large firms that report using at least one of the technologies included in "Tech A" and "Tech B" is shown in Figure 5.2.5, for both Ireland and the EU-27. As shown, a greater share of Irish firms report using these technologies than in the EU-27, regardless of firm size. However, there is a significant usage gap between SMEs and large firms, across both technology groups. Figure 5.2.6 examines usage by sector and shows a greater share of Irish firms reporting the use of "Tech A" compared to the EU-27 (for every sector). For "Tech B", Irish firms perform broadly in line with the EU-27.[140]

As shown in Figure 5.2.5, a greater share of SMEs report using "Tech A" than "Tech B" technologies (approximately 20% versus 7%), while this difference is more modest for large firms. This could relate to the generality of some of the technologies included in the "Tech A" group – for example, AI chatbots – that allows for more widespread use across different sectors. This might also reflect the fact that advancements in the "Tech B" group – for example, in respect of generative AI models – have come relatively more recently, implying that we are at an earlier point on the adoption curve for these technologies.

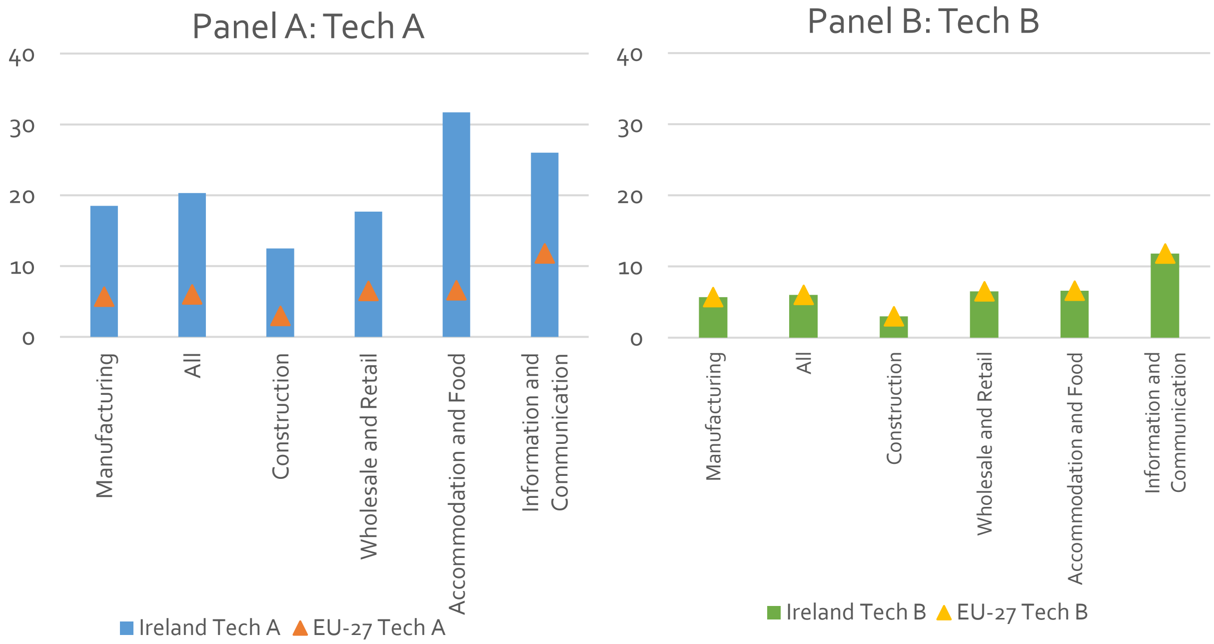
[139] This was addressed in an OECD Legal Instrument OECD/Legal/0449.
[140] It is important to note that these figures are based on the self-reported use of these technologies by respondent firms.

Figure 5.2.5: Percentage of enterprises in Ireland and EU-27 reporting usage of "Tech A" (2020) and "Tech B" (2023) technologies, by firm size



Source: Eurostat ICT Usage Survey

Figure 5.2.6: Percentage of enterprises in Ireland and EU-27 reporting usage of "Tech A" (2020) and "Tech B" (2023) technologies, by sector



Source: Eurostat ICT Usage Survey

The scale and speed of AI adoption will depend in part on any restrictions imposed by capacity constraints and bottlenecks. While it is not possible to be certain if and where these constraints will arise, access to finance, enterprise digitalisation, regulatory frameworks, energy security and access to raw materials, are all likely to be significant determinants of the trajectory of AI adoption. Taking full advantage of the benefits of AI technology will also require access to AI-relevant skillsets, and education, training and life-long learning systems that are equipped to address AI related skills shortages. Eurostat's ICT Usage Survey shows that approximately 10% of Irish firms attempted to recruit ICT specialists in 2022, while 6% reported having "hard to fill" vacancies requiring specialist skillsets (these figures are broadly in line with the EU-27).

Box 5.A: AI adoption, evidence from industry

Global AI Adoption Index (IBM), November 2023

IBM's Global AI Adoption Index (November 2023) tracks the use of AI by firms globally. The data is sourced from a survey of more than 2,000 IT professionals from firms across 20 countries, including both advanced and emerging markets. Half of the respondents are from firms with more than 5,000 employees, while the other half are from firms with between 1,000 and 5,000 employees. The data suggests that 42% of firms are using AI with a further 40% actively exploring the technology. Although we are at an early stage of adoption, there is evidence that gaps are emerging, by firm size, sector and geography. The data also indicates that smaller firms are less likely to be adopting AI, with a six-percentage point gap versus larger firms (40% versus 46% respectively). A greater share of smaller firms also report that they are not currently using, or exploring, AI at all (25% versus 15% for larger firms). At a sectoral level, firms operating in the financial services sector are more likely to be deploying AI than firms in other sectors (49%), followed by industrials (42%). In contrast, the public sector is the most likely to report no use, or exploration of use (24%). A quarter of those using or exploring AI, say that labour and skills shortages are helping to drive AI adoption at their firms. Barriers have been identified in the form of limited (in house) AI skills and expertise (33%), data complexity (25%) and ethical concerns (23%).

Generative AI in Ireland 2024 – Trends and Insights (Microsoft Ireland and Trinity College Dublin)

A report by Microsoft Ireland and Trinity College Dublin (Generative AI in Ireland 2024 – Trends and Insights) presents data on the adoption of generative AI in Irish enterprises, derived from a survey of 400 senior leaders from a range of sectors. Almost half (49%) of organisations report using generative AI in some form, while 37% have AI adoption plans in place for over the next 18 months. However, there is evidence of an adoption gap between indigenous and foreign firms, with multinationals leveraging 30% more generative AI. The survey finds that the perception of generative AI among senior leaders is positive. Of those surveyed, 47% believe that generative AI will improve productivity, while only 17% hold the opposite view. Also evident from the survey results, is the emergence of what is termed a "Shadow AI Culture" in organisations. This refers to the use by employees, including senior leaders, of publicly available generative AI tools, rather than "enterprise-grade" alternatives. Specifically, 27% of senior leaders claim to be using these tools, while 25% believe that their employees are doing so (despite this, 23% of organisations have forbidden employees from using generative AI software that is freely available). This highlights that employees are seeing the merits of generative AI tools and are eager to integrate these tools into their work, even without any formal policy or guidance at an organisational level. However, these tools may not have the required privacy, security, or data protection controls, in line with organisational policy, and so their use could represent a key risk for employers. This report concludes that those organisations that have been among the earliest adopters of generative AI tools, see greater benefits and productivity increases compared to firms that prohibit the use of these tools (71% versus 42%).

Overall, these reports provide a valuable insight into the use of AI by organisations, and the challenges faced in adopting and implementing AI technology. There is evidence of divergent rates of AI adoption, by region, firm size and sector, and there are barriers preventing the further take-up and integration of AI systems. In an Irish context, multinational firms are making greater use of generative AI, and while the perception of generative AI is positive, there is evidence of the emergence of a "Shadow AI Culture" with employees using AI tools that may contravene organisational policy. The evidence gathered here is welcome and provides an interesting insight into early trends in AI adoption, it should be interpreted with caution, given the market positions of those responsible for the administration of these surveys.

5.2.4 Potential impact of AI adoption on Ireland's labour market

In *Ireland's Competitiveness Challenge 2023*, the Council outlined how the adoption of artificial intelligence (AI) could have a significant and positive impact on productivity in a broad range of sectors. As with any transformative technology, while AI represents a risk to Ireland's economic model with significant disruptive potential, it also presents major opportunities. Over a relatively short period of time, technological advances have improved the ability of AI to complete non-routine tasks, extending the potential scope of automation beyond what was previously considered to be possible. Consequently, high-skilled professions that often require the accumulation of years of formal education and experience, are among the most exposed. However, it remains unclear what the net impact of AI on employment will be. The displacement of labour may arise where AI powered automation renders the labour input to work tasks redundant; however, AI adoption may also raise the demand for labour by delivering productivity gains and raising the demand for AI relevant skillsets. In this way, the speed of adoption and the effects of AI adoption will depend on the capacity of the labour market to meet emerging skills needs.

In May 2024, the Department of Finance and the Department of Enterprise, Trade and Employment, published a preliminary assessment of the potential impact of AI adoption on Ireland's labour market.[141] This work examines the exposure to AI technology at the individual task level – where occupations are assessed as bundles of tasks – and estimates the extent to which AI could act as a substitute, or a complement, for labour in different occupations. The paper examines Ireland's overall labour market exposure to AI, and how this compares internationally, before examining the characteristics of persons (in terms of sex, age, educational attainment, citizenship, income, and county) in highly exposed occupations. These findings are summarised in Box 5.B. There are important caveats with this analysis. Firstly, the measures of exposure and complementarity used are both relative measures, describing which occupations are comparatively more exposed or complementary than others. Furthermore, the measure of AI exposure used in the study focuses on 10 specific AI applications, all of which can be considered to be "narrow" AI. They do not capture the latest advancements in AI technology, such as document summarisation or LLM-based searching. Importantly, the AI exposure measures also do not capture exposure to robot technologies.

[141] These reports can be accessed here.

Box 5.B: Overview of key results from AI impact study

Overall, this study estimates that Ireland's labour market is marginally more exposed to AI than the advanced economy average (63% vs 60%). Some of the key results are outlined below:

- Urban regions are assessed to have the highest share of the labour force who are highly exposed to AI, with a significant share of people in occupations that are classified as "High exposure, Low Complementarity" with AI technologies.
- Preliminary analysis shows that there is a positive correlation between AI exposure and earnings, suggesting that higher earners stand to benefit most from increased AI adoption.
- People working in the 'Financial and Insurance' and 'Information and Communication' sectors are most exposed to AI, while the Agricultural, Forestry and Fishing sector is least 'at risk' from AI adoption.
- Occupations such as 'Managers, Directors and Senior Officials', and 'Professionals' could benefit most from high levels of complementarity with AI technology, while occupations in the 'Administrative and Secretarial' and 'Sales and Customer Service' categories are considered to be relatively most 'at risk'.

5.2.5 Assessment of Ireland's National Quantum Strategy

The development and successful deployment of quantum computing could impact on a range of sectors that are significant to Ireland's economic model, including R&D intensive industries, such as the manufacture of chemicals and pharmaceutical products, and the agri-food sector. The potential of this disruptive technology was outlined in *Ireland's Competitiveness Challenge 2023*, in which the Council warned of the need for Ireland to develop and implement a quantum-focused industrial strategy, in order to be best placed to reap the benefits of early adoption. The Council's view is that, given the significant disruptive potential of quantum, and the productivity implications of this technology for firms operating in sectors that are key to Irish economic development, Government should take the necessary steps to support the development and growth of the quantum ecosystem in Ireland.

The Council welcomes the publication of the Government's National Quantum Strategy in November 2023.[142] The Strategy sets out a vision that, by 2030, Ireland will be an internationally competitive hub in quantum technology, at the forefront of scientific and engineering advances, through research, talent, collaboration and innovation. The Council welcomes the synergies between the National Quantum Strategy, and other relevant national strategies, namely: *Impact 2030 – Ireland's Research and Innovation Strategy*, *Harnessing Digital – The Digital Ireland Framework*, *Technology Skills 2022 – Ireland's Third ICT Skills Action Plan*, and the *Economic Recovery Plan 2021*.

The high-level actions set out in the Strategy align with the Council's recommendation in *Ireland's Competitiveness Challenge 2023*.[143] The Council would welcome the early publication of a detailed implementation plan, setting out timelines and key milestones in the delivery of the National Quantum Strategy. In addition, the Council considers that the establishment of the implementation group (early 2024) will be an important factor in facilitating the effective oversight of the Strategy, and in ensuring the timely delivery of actions.

[142] Quantum 2030 – A National Quantum Technologies Strategy for Ireland, Government of Ireland, November 2023.
[143] See Recommendation 6.5, Ireland's Competitiveness Challenge 2023, NCPC, September 2023.

5.2.6 Cyber-security

Robust cyber-security systems are fundamental to the widespread use of digital technologies by households and businesses. The rapid pace of developments in emerging disruptive technologies, including artificial intelligence and quantum computing, could further challenge existing security systems. In addition, the costs of cyber-attacks and cyber-security are also likely to become a larger share of the overall cost base for firms, as the frequency and complexity of attacks rises, with the emergence of more advanced technologies and growing rates of digitalisation. Enhancing cyber-security systems will be a necessary step in improving Ireland's digital competitiveness, and the Council considers that the early implementation of the National Cyber Security Strategy will be key to achieving this.

Figure 5.2.7a shows the percentage of enterprises that report using cyber-security mitigation measures in Ireland and the EU-27 by firm size. As shown, there is evidence of a gap in the level of cyber-security protection between large firms and SMEs. In terms of the most basic level of cyber-security protection (i.e., the use of any security protections), Irish firms perform in line with the EU-27. In Ireland, 98% of large firms report using at least one cyber-security protection measure, compared to 91% of SMEs (99% and 92% respectively, for the EU-27). However, fewer Irish firms report taking three to five different security measures compared to the EU-27, with a particularly large gap between Irish SMEs (at 58%) versus those in the EU-27 (at 73%). For large firms, a greater proportion of those in Ireland report using all of the listed cyber-security measures than in the EU-27 (21% versus 17% respectively).

There is also a significant gap between large firms and SMEs in how regularly security policies are reviewed (Figure 5.2.7b). In Ireland, 77% of large firms reported having defined or reviewed their security policy in the last twelve months, compared to 34% of SMEs. Ireland performs comparatively well in this regard, with corresponding figures for the EU-27 of 58% and 23%, for large firms and SMEs respectively. This could reflect the relatively large proportion of ICT firms operating in Ireland, particularly in the multinational sector.

Figure 5.2.7a: Use of cyber-security protections, 2022

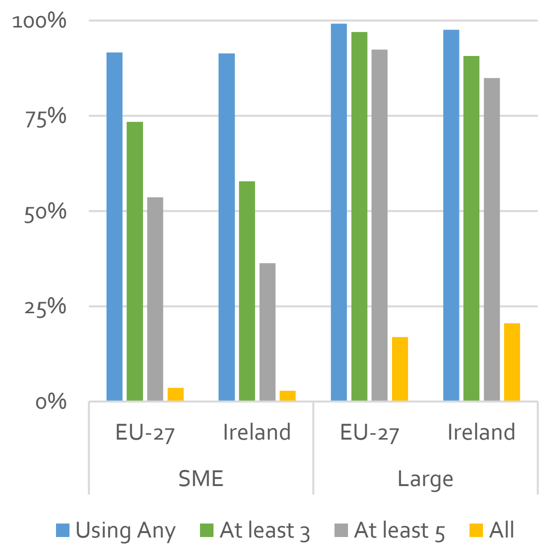
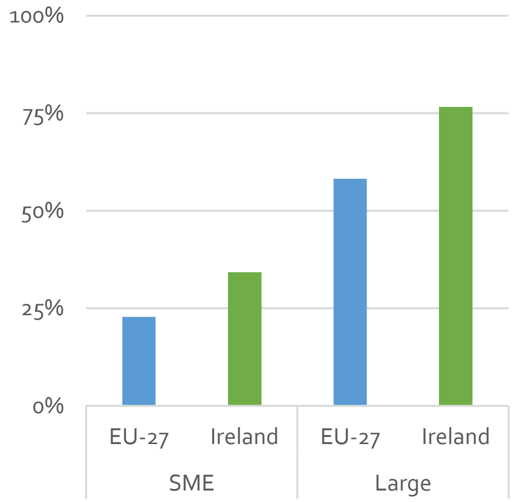


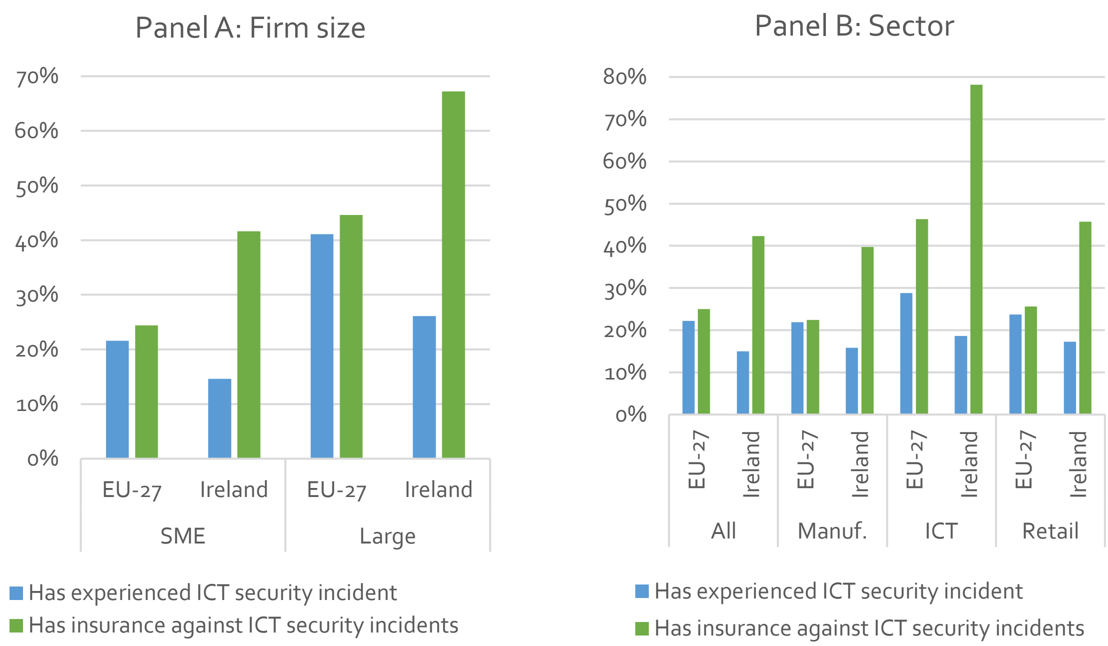
Figure 5.2.7b: Policy defined/reviewed in last 12 months



Source: Eurostat. Notes: These measures include strong password authentication; keeping software up-to-date; user identification and authentication *via* biometric methods; encryption techniques for data, documents or e-mails; data backup to a separate location (including backup to the cloud); network access control; VPN; periodic risk assessment; and ICT security tests.

Overall, SMEs are less likely to have experienced a cyber-security incident than large firms, and fewer Irish firms have experienced cyber-security incidents than firms in the EU-27 (Figure 5.2.8). In addition, significantly more Irish firms report having ICT security insurance compared to those in the EU-27, although, there is a sizeable gap in insurance coverage between Irish SMEs and larger firms (42% versus 67%, respectively). In terms of sector, insurance coverage appears to be significantly higher in the ICT sector, than in manufacturing and retail, although there is a greater level of coverage among Irish firms than in the EU-27 across all three sectors.

Figure 5.2.8 Cyber security – incidents and insurance



Source: Eurostat

According to the Hiscox Cyber Readiness Report (published in October 2023),[144] Ireland is among the most vulnerable countries, when it comes to preparedness for cyber-attacks. In 2023, 71% of Irish firms were targeted (a significant increase on 2022 and 2021, when 49% and 39% of firms were targeted, respectively). Of those firms that were subjected to a ransomware attack, a significant proportion of firms reported paying their attackers (at 77%, behind only Belgium, and representing a seven-percentage point increase on 2022). However, despite this, the median cost[145] of attacks in Ireland was the lowest among the group of eight countries examined in the report (approximately €8,860, compared to €15,103 in 2022). In addition, half of Irish firms report that the annual cost of cyber-attacks was below €10,000 (an improvement on the 35% reporting this in 2022).[146] Finally, the Hiscox report also registers a rise in the proportion of small firms that report being targeted, with fewer SMEs feeling confident in their cyber-security readiness compared to larger firms (at 61% versus 71%).

It is important to note that the emergence and adoption of advanced technologies by enterprise will have an impact on energy demands. The implications of AI for data centres in Ireland is explored in Box 5.C.

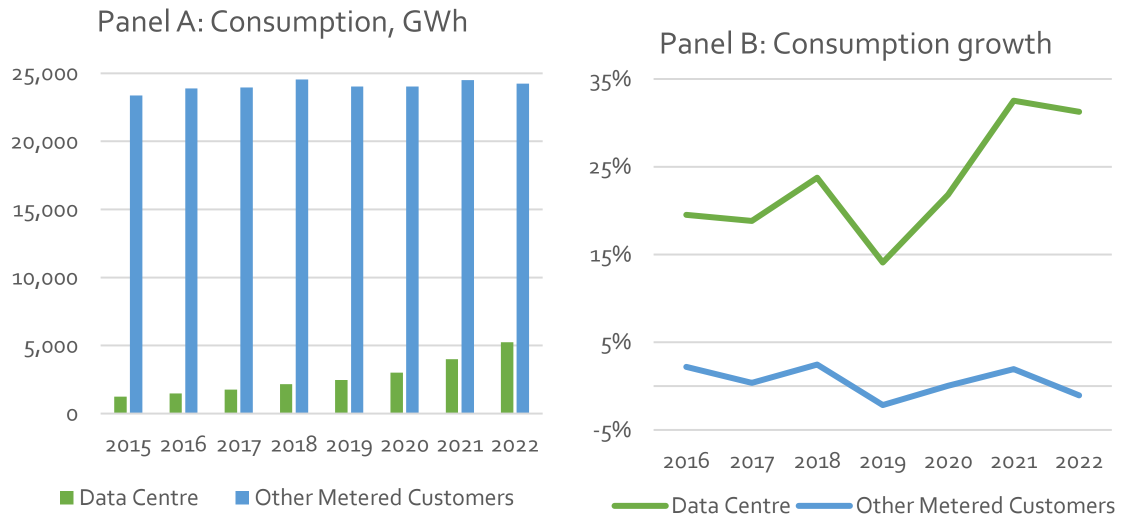
[144] Cyber Readiness Report 2023 | Hiscox Ireland. Hiscox is a specialist insurer (including cyber insurance), that insures more than 20,000 SMEs across different sectors.
[145] These costs can include the fees paid to third-party IT firms for assistance, the disruptions to business, and the costs associated with notifying customers that an attack has occurred.
[146] This includes Belgium, France, Germany, Ireland, the Netherlands, Spain, the UK, and the US.

Box 5.C: The implications of AI for Ireland's data centre policy

Data centres play a fundamental role in our economy and society. As a core part of Ireland's digital infrastructure, data centres provide the foundation for almost all online aspects of our lives, including video calling, messaging, banking, retail and travel, media, and public service delivery. In this way, data centres make an important contribution to Ireland's productivity and competitiveness. In effect, data centres provide a physical location for the housing of computing equipment and infrastructure, including servers, storage systems, network equipment and crucially, cooling facilities to prevent the overheating of hardware components.

The need for this infrastructure is rising, with the growing rates of adoption of AI technology and digitalisation more broadly, and Government should account for the increased energy requirements and increased demands on the national grid associated with the development of the data centre sector. Over the last five years, electricity consumption by data centres has risen by approximately 200%, compared to a 1% rise in consumption for other metered users over the same period. In 2022, metered consumption of electricity by data centres accounted for 18% of total consumption (equivalent to the share consumed by urban dwellings), compared to 14% in 2021 (see Figure 5.10). EirGrid forecast that, by 2032, 30% of all electricity demand in Ireland will come from data centres and other new large energy users. A more extreme estimate by the IEA suggests that this threshold could be reached as early as 2026.

Figure 5.2.9 Electricity consumption in Ireland, 2015-2022



Source: CSO

There is evidence that data centres equipped to support AI servers are significantly more energy intensive (De Vries, 2023), potentially consuming tenfold more energy than standard data centres. A report by Goldman Sachs (GS) estimates that data centres will drive an overall increase in power consumption of 13% in the next decade, owing in part to the emergence or more energy intensive data centres. In a simplified example, the GS report highlights that a ChatGPT search consumes around 6x-10x the power as a traditional Google search. The IEA forecast that electricity consumption from data centres in the EU will be 30% higher in 2026 than in 2023, as new facilities are commissioned amid increases in digitalisation and AI computations. There is also significant potential to leverage AI to drive efficiencies in data centre performance. For example, predictive analytics can be used to develop improvements in data centre cooling systems, cooling hardware more efficiently. AI technology has been used in this way to facilitate a 40% reduction in cooling costs at Google (Google DeepMind, 2016).

In the *Government Statement on the Role of Data Centres in Ireland's Enterprise Strategy* (July 2022), Government acknowledges that current capacity constraints associated with our electricity system along with binding carbon budgets means that not all existing demand for data centre development can be accommodated in the short term (the issues associated with our energy infrastructure are addressed in more detail in Chapter 6). The Council considers that Government should keep under constant review the potential demand for energy and the energy infrastructure requirements arising from AI technology, in the context of Government policy on data centre development and our overall climate goals.

5.3 Actions Crucial for Boosting Productivity and Innovation

Based on the evidence presented in the preceding section, this section makes several recommendations relating to areas that may require Government action. As outlined in *Ireland's Competitiveness Challenge 2023*, the Council expressed a concern that the R&D Tax Credit was relatively less accessible to SMEs compared to larger firms, and called for the introduction of a pre-approval mechanism, as well as a broadening of the measure to account for innovation in line with definitions set-out in the Oslo manual.[147] The Council's view was that these changes could facilitate enhanced take-up of the measure by smaller firms, and help to develop the national innovation eco-system.

Compared to large firms, there is evidence of a significant amount of R&D activity by SMEs that is not captured in "allowable expenditure" under the R&D tax credit. This may reflect differences in the take-up of the measure, between SMEs and larger firms, where SMEs are not availing of the R&D Tax Credit for projects for which there may be a valid claim – this could reflect uncertainty by SMEs regarding project eligibility. It may also be the case that a greater share of R&D expenditure by SMEs is actually ineligible for the measure, whether due to a failure to meet the Science Test, or for some other reason.

In addition to changes to the R&D Tax Credit, the Council considers that there is merit in exploring the introduction of a credit (akin to the R&D tax credit) specifically targeting innovation (as defined in line with the Oslo manual), promoting innovative investments by smaller firms, particularly in respect of enterprise digitalisation and the adoption of advanced technologies. Such a measure is particularly timely at this current juncture, as firms grapple with the emergence of AI technology.

[147] See Recommendation 6.1, Ireland's Competitiveness Challenge 2023, NCPC, September 2023.

Recommendation 5.1: The Council recommends that ambitious action be undertaken to support the take-up of advanced technologies – including AI – by enterprise, particularly by SMEs. This should include:

(i) The introduction of an investment incentive, particularly for SMEs, to operate alongside the R&D Tax Credit, that could be availed of to support advancement in the form of new-to-firm investments, including those related to digitalisation and the take-up of advanced technologies.

(ii) Amendments to the outsourcing limits, and the maximum limit allowable under the Science Test, in order to incentivise collaboration and drive take-up of the R&D Tax Credit, by SMEs in particular;

(iii) The introduction of a pre-approval mechanism for SMEs when engaging with the R&D Tax Credit, to minimise uncertainty – particularly regarding the eligibility of projects involving emerging technologies – and to streamline the application process; and,

Responsibility: Department of Finance; Department of Further and Higher Education, Research, Innovation and Science; Department of Enterprise, Trade and Employment

There is a significant gap between SMEs and large firms in terms of digital intensity. This has implications for the take-up of advanced digital technologies, including AI, by enterprise. While a larger share of Irish firms report using AI technology than in the EU-27, there is a significant usage gap between Irish SMEs and large firms. Furthermore, evidence from industry surveys on adoption and take-up suggests that there are divergences in the rate of AI adoption, by region, firm size and sector, and suggest the existence of barriers to adoption.

Recommendation 5.2: The Council recommends that further analysis be undertaken to identify current and potential future barriers to the adoption of advanced technologies – including AI – by enterprise, to inform an action plan that would seek to address these barriers. This analysis should cover:

(i) An assessment of the capabilities and return on investment of advanced technologies when deployed across a range of sectors, and a consideration of the incentives that might improve take-up in each case.

(ii) A detailed risk-based examination of current and potential future barriers to AI adoption by enterprise, and an assessment of how these barriers might be addressed, including a consideration of issues relating to the resourcing of relevant regulatory authorities;

(iii) A mapping of the existing supports for the adoption of advanced technologies by enterprise – both direct and indirect – linked to a measure of the scale of public funding provided, and availed of, as part of these supports; and,

(iv) A review of the existing data sources that can be used to track AI adoption by enterprise, and where data gaps are identified, the implementation of a plan to address these gaps, including by leveraging existing surveys in a way that does not add significantly to the reporting burden for firms.

Responsibility: Department of Enterprise, Trade and Employment

In November 2023, the Government published the *National Quantum Strategy*[148]. This followed a recommendation in *Ireland's Competitiveness Challenge* 2023 that a strategy was required to ensure that Ireland was best positioned to reap the benefits of early adoption for this emerging technology. The Council welcomes the synergies between the *National Quantum Strategy*, and other relevant national strategies, namely: *Impact 2030 – Ireland's Research and Innovation Strategy*, *Harnessing Digital – The Digital Ireland Framework*, *Technology Skills 2022 – Ireland's Third ICT Skills Action Plan*, and the *Economic Recovery Plan 2021*.

Further, the high-level actions set out in the *National Quantum Strategy* align with the Council's recommendation in *Ireland's Competitiveness Challenge 2023*.[149]

The Council would welcome the early publication of a detailed implementation plan, setting out timelines and key milestones in the delivery of the *National Quantum Strategy*. In addition, the Council considers that the establishment of the implementation group (early 2024) will be an important factor in facilitating the effective oversight of the Strategy, and in ensuring the timely delivery of actions.

Recommendation 5.3: The Council recommends the publication of a detailed implementation plan, setting out key timelines and milestones in the delivery of the National Quantum Strategy.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

As outlined in last year's *Ireland's Competitiveness Challenge* report, the AI landscape is rapidly evolving, and a robust regulatory framework is required, however, this must be carefully balanced in a way that avoids stifling experimental design and innovation while meeting our regulatory obligations under the AI Act. More generally, Ireland must be an active and vocal participant in the development of an open and ambitious EU digital trade agenda, and this will require close cooperation with likeminded partners.

Recommendation 5.4: It is vital that Ireland is an active participant in the development of an open and ambitious EU digital trade agenda. The Council recommends that the Government:

(i) Promote and shape an open and ambitious EU digital trade agenda, and work with likeminded partners at multilateral, bilateral and local levels in order to achieve this;

(ii) Encourage indigenous capacities while remaining open to co-operation and trade with likeminded international partners; and,

(iii) Ensure governance and regulation supports further digital trade and facilitates data flows.

Responsibility: Department of Foreign Affairs; Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science

[148] Quantum 2030 – A National Quantum Technologies Strategy for Ireland, Government of Ireland, November 2023.
[149] See Recommendation 6.5, Ireland's Competitiveness Challenge 2023, NCPC, September 2023.

5.4 Summary

This chapter has examined issues relating to RD&I, including enterprise digitalisation and the adoption of advanced technologies, and makes several key findings that inform recommendations for Government. Compared to large firms, there is evidence of a significant amount of R&D activity by SMEs that is not captured in "allowable expenditure" under the R&D Tax Credit. This may be due to a low take-up of the measure by SMEs, or the ineligibility of this R&D activity (under the terms of the credit).

Ireland performs well compared to the EU-27 in terms of the digital intensity of firms – fewer firms irrespective of size class report a low or very low digital intensity in Ireland. However, a significantly greater share of SMEs (70%) report a low digital intensity compared to larger firms (25%). This has implications for the take-up of AI by enterprise, as basic enterprise digitalisation is seen as a prerequisite to the adoption of more advanced technologies. On AI, a greater share of Irish firms report using this technology than in the EU-27 (regardless of firm size). However, again, there is a significant usage gap between SMEs and large firms. Evidence from industry also suggests that there are divergent rates of AI adoption, by region, firm size and sector, with barriers preventing the further take-up and integration of AI systems. AI presents both challenges and opportunities for Ireland's economic model. Recent work by the Department of Finance and the Department of Enterprise, Trade and Employment has found that, overall, Ireland's labour market is marginally more exposed to AI than the advanced economy average, but with that exposure, there is also an opportunity to leverage the technology for potentially significant productivity gains.

The Council welcomes the publication of the Government's *National Quantum Strategy* in November 2023. The high-level actions set out in the Strategy align with the Council's recommendation in *Ireland's Competitiveness Challenge* 2023. Robust cyber-security systems are fundamental to the widespread use of digital technologies by households and businesses, and cyber-security will likely represent a growing component of the enterprise cost base over time, with the rising sophistication of attacks. There is evidence of a gap in the level of cyber-security protection between large firms and SMEs, and fewer Irish firms in general report taking three to five different security measures compared to the EU-27. For large firms, a greater proportion of those in Ireland report using all of the listed cyber-security measures than in the EU-27 (21% versus 17% respectively).

Chapter 6: Planning and Delivering Sustainable Infrastructure

Key Messages

- Infrastructure is a fundamental component of our competitiveness, and a vital part of both our support for SMEs and our FDI offering. Infrastructural deficits act as a drag on competitiveness, and Ireland must make progress in order to keep pace with international competitors.
- Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprises will outstrip supply, with ramifications for SMEs and the investment decisions of internationally mobile foreign-owned firms. This represents a significant reputational risk for Ireland.
- Although not the sole impediment to progress, planning has persisted as an on-going area of considerable concern in relation to infrastructure delivery. The time taken to receive planning permission remains a constraint. The direct costs of delays to delivery, in terms of additional finance risk, legal costs, and increased cost of delivery due to rising input costs, are borne by those delivering infrastructure, while indirect costs are experienced by enterprises and the wider population who do not benefit from earlier provision of this infrastructure.
- While progress on the delivery of infrastructure is required on multiple fronts – and must be accompanied by the reforms to planning and regulation which are currently underway – careful consideration must also be given to the strategic sequencing of investments, particularly given the current context of an economy that is operating at full capacity, with a tight labour market.

6.1 Introduction

This Chapter considers the role of sustainable infrastructure in Ireland, with a particular focus on issues relating to the planning and delivery of infrastructure in the areas of energy, water, waste-water, and housing. It is essential that Ireland's infrastructure be upgraded on a continuous basis to ensure that the country can achieve sustainable long-term growth and enhanced productivity. Furthermore, the need to ensure that both new and existing infrastructure is sustainable from an environmental perspective is a key consideration that has been given increased recognition in recent years.

Accurate projections of the population are fundamental to the planning and delivery of sustainable infrastructure. Recent projections, however, have underestimated the scale at which the population has been expanding. For instance, the Pensions Commission (2021) had previously used population projections of c. 5.4m (by 2030) as part of its work[150] but it would appear that we are getting close to that number already. For instance, Census 2022 estimated a population in 2022 of close to 5.2 million (representing a 9% increase since the time of Census 2016) and more recent estimates have put that number substantially higher. These latest estimates – based on administrative sources – suggest that the population in 2022 was actually in excess of 5.3 million.[151] Recent CSO data also shows that the population rose by almost 98,000 persons in the 12-months to April 2023 (the largest year-on-year increase since 2008).

The rapid pace of growth in Ireland's population has meant that these previous projections have underestimated population growth in the short-term, implying that the demands on infrastructure – including public utilities and housing – will be greater than previously expected. A core element of the existing National Planning Framework (2018)[152] is a population projection of 5.7 million by 2040. The latest ESRI population projections indicate that the population will potentially expand by almost 1m persons between 2022 and 2040. This would put the population at 5.7m by 2030 and 6.1m by 2040 (under a baseline scenario). This work, however, took a population of 5.2m in 2022 as its starting point. By contrast, the Housing Commission used population estimates under a number of scenarios ranging from 6.25m up to 7.25m persons by 2050 in its recent report. The forthcoming National Planning Framework (2024) – currently underway – should re-visit population projections based on recent estimates of the current population and inward migration.

The delivery of current infrastructural commitments is vital, and the timely delivery of capital projects relies on an efficiently functioning planning and delivery system. This is particularly true at a time when there are considerable pressures in meeting the challenges of increasing infrastructure for a growing population, while enhancing the environmental sustainability of new and existing infrastructure in order to meet our climate ambitions and goals set out in the *Climate Action Plan*.

This Chapter begins with a discussion of how Ireland's infrastructural deficits are hindering our competitiveness performance. The remainder of the Chapter sets out the current situation in Ireland regarding the issues of Planning and Regulation (6.2.1), Delivery of Infrastructure (6.2.2) and Renewable Energy (6.2.3). The Chapter concludes with some actions that the Council considers to be crucial for the planning, development and delivery of infrastructure.

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[150] See: Population and Labour Force Projections, Technical Sub-Committee – Working Paper 1, The Pensions Commission, July 2021. The Commission relied on population estimates from the CSO, the Irish Fiscal Advisory Council, and the Department of Finance, which were broadly consistent out to 2030 (at approximately 5.4-5.5 million)
[151] See: Key Findings Irish Population Estimates from Administrative Data Sources, 2022 - Central Statistics Office.
[152] See: National Planning Framework (2018).

6.2 Current Situation in Ireland

6.2.1 Infrastructural deficits undermine competitiveness

Infrastructural deficits act as a drag on competitiveness, and Ireland must make progress in order to keep pace with international competitors. Ireland was ranked 4th in the IMD World Competitiveness Rankings for 2024 (down from 2nd in 2023). While our ranking under the infrastructure sub-pillar has improved by two places since last year, at 17th, this remains our area of weakest performance under the four sub-pillars that comprise the IMD ranking,[153] and continues to drag on our overall performance.[154]

Infrastructure is a fundamental component of our competitiveness, and key to the success of Ireland's existing enterprise base – both multinational firms and domestic SMEs – and a vital part of our FDI offering. As a small and open economy, Ireland is particularly exposed to global developments outside of our control, and at a time of heightened global uncertainty progress should be made on those issues that are within the scope of domestic policy. This will require significant investment in the fundamental systems that comprise our public infrastructure, including water, waste-water, and energy, as well as in the areas of housing and renewables. However, an effective regulatory and planning system is a prerequisite for the success of these investments. The Council has previously called for improvements to Ireland's planning system and is pleased to note that the Planning and Development Bill is currently in third stage before Seanad Éireann. Careful consideration must also be given to the strategic sequencing and prioritisation of these investments, particularly in the context of an economy – and labour market – that is operating at full capacity.

Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprise users will outstrip supply, with ramifications for domestic SMEs as well as the investment decisions of internationally mobile foreign-owned firms. This represents a significant reputational risk for Ireland. A key example of these deficits is evident in the pressures on the electricity system. The SONI-EirGrid Ten-Year Generation Capacity Statement 2023-2032[155] (January 2024) examines the balance between electricity demand and supply out to 2032, with capacity deficits identified throughout the next ten years. In response to continued challenges for Ireland's "adequacy position", the Commission for Regulation of Utilities (CRU) outlined a programme of work[156] to address the forecasted increase in demand for new generation capacity. These measures include securing capacity through market measures, improving the demand side response, and keeping units open or delivering generation on a temporary basis as we transition from older plants to new capacity. This work is intended to provide additional stability and resilience to the electricity system.

As outlined in the Winter Outlook 2023/24,[157] while EirGrid's forced outage statistics improved slightly in 2022 relative to 2021, this was still the second worst year on record (see Figure 6.2.1). The forced outage rate[158] has increased significantly in the last five years. For the first half of 2023, the outage rate stood at 19%, with the system entering the "Alert" state at one point during the summer period. This has also impacted the ability of the system to accommodate generator and transmission planned outages.

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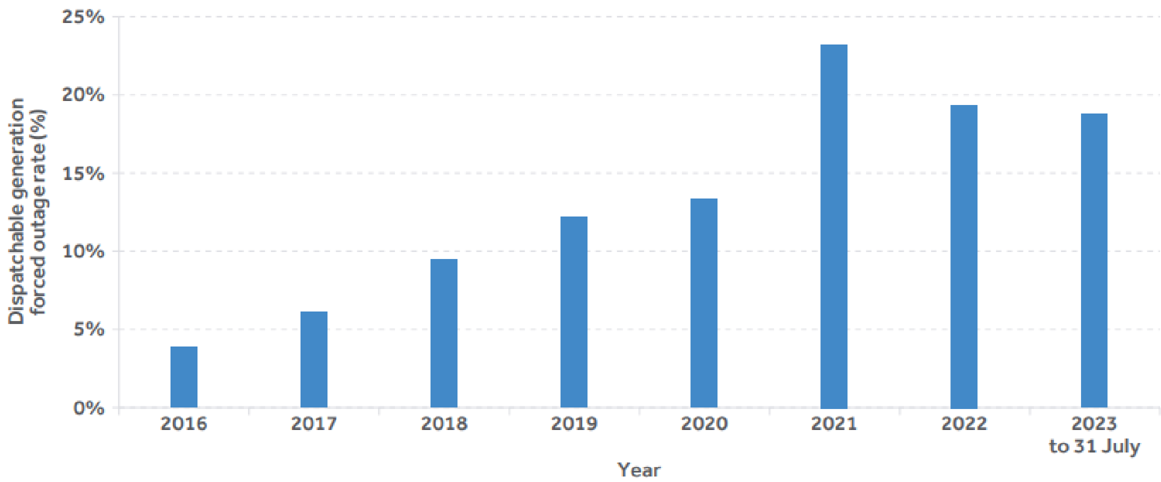
[153] The four sub-pillars of the IMD World Competitiveness Rankings are Economic Performance, Government Efficiency, Business Efficiency, and Infrastructure.
[154] See NCPC Bulletin 24-3.
[155] See: SONI-EirGrid Ten-Year Generation Capacity Statement 2023-2032.
[156] See: CRU Information Paper Security of Electricity Supply – Programme of Actions (February 2023).
[157] See: Winter Outlook 2023/24 (eirgrid.ie)
[158] The forced outrage rate is the proportion of time that a generation unit is expected to be unavailable for electricity production due to unforeseen/unplanned outages.

Figure 6.2.1: Ireland historical dispatchable generation annual forced outage rates



Source: EirGrid Winter Outlook 2023/24

While the 2023/24 Winter Outlook stated that there was no risk of a system-wide 'blackout' solely due to insufficient generation, this assessment was underpinned by the assumption that there would be uninterrupted reserves of natural gas, from both the Moffat terminal and the Corrib gas field, with no shortage issues. However, the gas network is subject to considerable volatility. As outlined in Gas Network Ireland's (GNI) Winter Outlook 2023/24,[159] the gas network is subject to significant operational challenges, including the volatility in gas prices and the implications of this for gas demand levels, as well as wider energy market uncertainty, and progress on upgrade works at compressor stations in Scotland (incremental increases in capacity are planned for winter 2024/25, 2025/26 and 2026/27).

Enhancing the capacity of the national grid will play a key role in facilitating the decarbonisation of the enterprise base but will come at significant cost – an analysis by EY and Eurelectric suggests that €1.1 billion will be required to be invested each year in the national grid over 2025-2025.[160] The funding of this investment could see an increase in energy costs for firms and households. In the meantime, the underinvestment in our electricity capacity also risks imposing additional costs through less competitive wholesale markets and the Temporary Generation Programme.

Increased electricity demand towards the end of this decade is expected to primarily be driven by data centres and new technology loads, alongside the increased electrification of heat and transport. In particular, the digitalisation of enterprise, particularly the adoption of advanced digital technologies can be expected to place additional pressures on the energy system. The implications of AI technology for Ireland's data centre policy are explored in more detail in Box 5.3 of Chapter 5.

Apart from energy, a new set of water and waste-water charges for firms is due to come into effect in October 2024. This will further add to the enterprise cost base.[161] The CRU notes that there are 188,625 non-domestic users and sets out the impact of the tariff changes (with bill capping) as follows:

[159] See: GNI-Winter-Outlook-2023-24.pdf (gasnetworks.ie)
[160] See: Grids for Speed, EY and Eurelectric.
[161] See: Business charges | Business | Uisce Éireann (formerly Irish Water).

- 86.4% (162,905 connections) would see annual bill increases of less than €250.
- 5.4% (10,167 connections) would see annual bill increases of between €250 and €500.
- 7.4% (13,943 connections) would see annual bill increases of between €500 and €5,000.
- 0.9% (1,610 connections) would see annual bill increases of €5,000 or greater.

The remainder of this section sets out the current situation in Ireland regarding the issues of Planning and Regulation (6.2.1), Delivery of Infrastructure (6.2.2) and Renewable Energy (6.2.3).

6.2.2 Planning and Regulation

Planning Issues

Although not the sole cause of delays to the delivery of infrastructure, planning is an on-going area of concern, particularly for the delivery of new housing. The length of time taken to receive a grant of planning permission remains a constraint. The direct costs of delays to infrastructure delivery, in terms of additional finance risk and increased cost of delivery due to rising input costs, are borne by those delivering infrastructure, but indirect costs are also experienced by enterprises and the wider population who do not benefit from earlier provision of this infrastructure.

Analysis undertaken by the Department of Finance in April 2024 highlights the average time between the granting of planning permission and the issuance of a commencement notice. The analysis matches planning permission data available on the National Planning Application Database (NPAD) with commencement data stored on the Building Control and Management System (BCMS). Limitations in the data sources mean that matching the planning permission and commencement data from both sources is challenging. The analysis concludes that the data sets have been matched over the period 2017-2023 with a satisfactory match rate, allowing for effective analysis.[162] The average permission-commencement gap for a housing development was 14 months, and for apartments was just under 18 months. Regionally, the average of 21 months in Dublin is notable, where a greater proportion of apartments were being built. The analysis also indicates that the lag has increased more recently, with the share of sites moving to construction within six months falling by 5 per cent in 2023, compared with 2022. This points to the importance of the new Planning Bill.

The analysis concludes that this trend is likely the result of, *inter alia*, an increase in the number of apartment applications; a preponderance of planning appeals; judicial reviews; decreased viability; and problems accessing equity funding. This work by the Department of Finance found that better data, in particular through the BCMS, would allow for deeper analysis and enhance policy makers ability to identify potential bottlenecks and improve housing supply forecasts. It is noted that there is currently an ongoing action under *Housing for All* to improve the quality of data available on the BCMS. More recent analysis by Conefrey et al. (2024) shows that longer delays in planning and in the delivery of public infrastructure reduces the benefit of this expenditure, and, in respect of permissions granted for residential construction, the post-pandemic period has seen a significant increase in the number of units for which permission has been granted but have not commenced construction. The Society of Chartered Surveyors Ireland (SCSI) has outlined delays in connecting new homes to the National Grid, as well as to water and waste-water infrastructure as an obstacle to the timely delivery of new homes, outlining the need for additional resources for Irish Water and the local authorities.[163]

[162] A match rate is calculated as the percentage of total unique, identifiable records that can be matched to both data, with a higher match rate and greater observations allowing more robust statistical analysis. Mean times in excess of 5 years were excluded due to their outsized effects.
[163] Delays must be tackled urgently, says Society of Chartered Surveyors Ireland vice president Kevin Hollingsworth | Irish Independent

In *Ireland's Competitiveness Challenge* 2023, the Council recommended the establishment of a specialist conveyancer profession, in the context of digital reforms of conveyancing that will enhance efficiency and competition in related legal services. This followed a previous recommendation by the Council in 2016, and is a view shared by the CCPC.[164] As outlined in the CCPC's submission to the Legal Services Regulatory Authority (LSRA) on the creation of a conveyancer profession, previous studies have found that the cost of conveyancing in Ireland is significantly higher than in other countries with similar legal systems. The report by the LSRA[165] did not ultimately recommend the introduction of a new conveyancing profession. This role – which exists in other common law jurisdictions – could drive competition and improve the efficiency and cost-effectiveness of conveyancing services.

In September 2021, the Government approved the undertaking of a comprehensive review of Irish planning legislation, acknowledging that planning legislation has become overly complicated and difficult to navigate, contributing to significant delays and additional costs in the delivery of infrastructure and housing in particular. This review was initially intended to be completed by September 2022, later delayed to December 2022. The product of this 15-month review is the Draft Planning and Development Bill 2022, published in January 2023[166]. The draft Bill underwent months of Oireachtas scrutiny and stakeholder engagement before the Planning and Development Bill 2023 was published in November 2023.[167] The legislation is currently proceeding through the Oireachtas, and the Council is pleased to note that the bill is currently in third stage before the Seanad. The implementation of the bill, once enacted, must be prioritised and adequately resourced. Key Reforms of the bill include:

- Improved consistency and alignment throughout all tiers of planning;
- Significant restructuring and resourcing of An Bord Pleanála, which will be renamed An Coimisiún Pleanála;
- Increased certainty across the planning system through the introduction of statutory timelines for decision-making, including for the first time, for An Coimisiún Pleanála;
- New strategic ten-year Development Plans for Local Authorities;
- Reform of planning Judicial Review, including the introduction of a Scale of Fees and Environmental Legal Cost Financial Assistance Mechanism; improving access to justice whilst regulating excessive legal costs; and,
- New provisions for Urban Development Zones, underpinning key growth areas.

The Report of the Housing Commission was published in May 2024. The Housing Commission was tasked with examining issues such as tenure, standards, sustainability and quality-of-life in the provision of housing and the report provides specific recommendations with regards to the planning system, including Provisions in relation to the Office of the Planning Regulator in the Planning and Development Bill 2022. There were five recommendations from the Housing Commission Report specifically related to planning matters, and these are outlined in Box 6.A. The Council welcomes these recommendations as targeted actions that will ultimately improve Ireland's national competitiveness, in particular, the recognition of the need to align housing provision with economic development in the National Planning Framework, and the need to make economic sustainability a core tenet of policy objectives for housing delivery.

[164] See: Submission to the Legal Services Regulatory Authority on the Creation of New Profession of Conveyancer, CCPC, 6 January 2022.
[165] See: Consideration of a New Profession of Conveyancer (November 2023), Legal Services Regulatory Authority (LSRA).
[166] See: gov.ie - Draft Planning and Development Bill 2022 (www.gov.ie)
[167] See: Planning and Development Bill 2023 – No. 81 of 2023 – Houses of the Oireachtas

Box 6.A: Planning Recommendations from the Housing Commission Report (May 2024)

Of the 83 recommendations included in the report by the Housing Commission (published in May 2024), there are five recommendations that make specific mention of planning matters. These are outlined below.

#3. Align housing provision and economic development in the National Planning Framework to ensure sufficient housing supply to meet the needs of the population in all parts of the country, including the Dublin region.

#12. Promote earlier and more effective participation by the public in the plan-making process, that is, in the formulation and inception stages of planning policy, including land-use zoning, and drafting of guidance and policy documents.

#16. Make economic sustainability a core tenet of policy objectives for delivering public and private sector housing, including:

a. economic policy development to support viability of environmentally and socially sustainable housing development, with appropriately measured Land Value Capture tools.
b. consideration of viability at a local level during the planning process, in particular during the land zoning process.

#60. Fully realise the commitment to develop sustainable rural communities by strengthening the design of towns and villages, facilitating housing in nodes and clusters, and revising planning and regulatory mechanisms for sustainable one-off housing in appropriate locations.

#78. Publish housing guidelines that address and cross-reference the Climate Action Plan with reference to the NPF and the Town Centre First policy, and link to identified targets and actions.

Building Regulations

In addition to planning matters, the current suite of Building Regulations are another area of concern. The Housing Commission also made a series of recommendations in relation to these regulations, including:

- Recommendation #22: The State must support the collaborative development of standard house and apartment types to drive efficiency, reduce costs and support viability.
- Recommendation #77: Meet emission reduction targets for the new residential construction sector.

The actions recommended in the report by the Housing Commission include:

- Update on a regular basis the Technical Guidance Documents that accompany the Building Regulations to facilitate alternative construction methods.
- Introduce whole-of-life carbon targets to the design of all new housing through the building regulations and planning processes.

The report identifies that timber-frame construction is "not encouraged" by the existing building regulations Guidance Documents. It is noted that such construction is effectively prohibited in medium-rise construction (i.e. four storeys and more) and that this is the case despite the proven safety, durability, and dependability of timber-frame housing. The report highlights the potential for such timber-frame construction to reduce emissions in Ireland and notes the importance of ensuring that building standards do not act as a barrier to the use of cost-effective, emission-reduction building techniques. It is further noted that the Irish Green Building Council has recommended that a review of the Technical Guidance be undertaken to address the limit placed on timber construction above three storeys. [168]

[168] IGBC, Building Zero Carbon Ireland Roadmap 2022 Annual Review

Similar recommendations have been made by the Climate Change Advisory Council (CCAC), which has noted the importance of timber-frame construction in supporting Climate Action Plan commitments. CCAC have recommended that the Department of Housing, Local Government and Heritage should '*clarify the building regulations, amend where necessary and provide guidance to Councils on alternative building materials and their appropriate use in construction*.'[169]

Update on the Office of the Planning Regulator (OPR) Review

In 2022, the Office of the Planning Regulator (OPR) authored a Review of Systems and Procedures used by An Bord Pleanála.[170] The review made 34 recommendations aimed at strengthening procedures, restoring public confidence and ensuring the effectiveness of the national planning system. In February 2024, the OPR noted significant positive progress in the implementation of these recommendations, with many of these already implemented. The OPR has noted that it has been engaging closely with An Bord Pleanála throughout 2023, continuing into 2024, in relation to the implementation of the review's recommendations.

Ongoing challenges were also noted, such as the continued backlog in planning cases. While it was noted that these were reduced by a third from a high of 3,600 to 2,400, it was also stressed that the elimination of the backlog and avoidance of a similar build up in future is critical for public confidence. The OPR noted that they will continue to work with An Bord Pleanála and the Department of Housing, Local Government and Heritage to ensure that the issues identified through the review process are addressed and that a culture of continuous improvement is embedded within An Bord Pleanála. This will require a robust base of professional knowledge and skills, so that the challenges can be adequately addressed.[171]

Box 6.B: Areas of progress identified in the OPR review in relation to the Planning Board

- Restored capacity at board level to deal with the ongoing caseload, with membership increased from five to fifteen;
- Permanent removal of mechanism allowing for board meetings with a quorum of two members;
- A new Code of Conduct introduced in September 2023;
- Appointment of a dedicated ethics officer;
- Establishment of a new in-house legal unit;
- The recommendation to restructure the organisation and to separate day-to-day operations from the quasi-judicial planning decision-making function, is being progress through the Oireachtas, through the Planning and Development Bill 2023;
- Continued progress concerning internal decision-making procedures to ensure processes are robust, transparent and fair, with clearly established guidance and protocols;
- Renewed focus on staff development and performance, with a focus on internal communications and increased emphasis on external communications and engagement with stakeholders; and,
- Significant progress on staff recruitment with 100 additional posts sanctioned since the review was initiated, and staffing levels expected to reach an overall complement exceeding 300 in 2024.

169 CCAC, '2022 Annual Review'
170 Update on Implementation of Recommendations from An Bord Pleanála Review - The Office of the Planning Regulator (opr.ie)
171 The Council has previously assessed the importance of the availability of relevant skillsets in the delivery of infrastructure. See: NCPC Bulletin 24-3 Competitiveness and the Housing Market in Ireland.

The Impact of Judicial Reviews

There are very limited statistics available from the Court Services related to the number of Planning and Environment related cases. Pre-2021, these cases were classified under Judicial Review (Other) and cannot be extrapolated from other cases classified under this category.[172] Post-2021, these were classified under the category *Judicial Review (Strategic Infrastructure/Development)*. It is further intended that detailed statistics be published in tandem with the establishment of the new Planning and Environment Court (further details in Box 6.2).[173] This greater access to statistics will help inform policy makers as to how to assess the effectiveness of the new Court and address concerns in this area going forward.

While there is only very limited available data, the trend from 2021 to 2022 suggests that there is a fall in incoming cases from 72 to 63, and an increase in final orders granted from 22 to 28. Nonetheless, it is clear that the number of cases where final orders have been granted is not near sufficient to clear either the incoming cases or the backlog of existing cases. Therefore, there is a need to ensure that this issue is addressed by the new Planning and Environment Court, and the Council emphasises that there is a need for sufficient data to be made available for policymakers to continue to examine and monitor this. The Council considers that the availability of this data is fundamental to inform evidence-based policy-making, and to review the effectiveness of the changes made.

The length of time taken to resolve planning issues undermines Ireland's competitiveness on multiple fronts. These delays can impose costs on affected parties, and risk damaging Ireland's reputation as a place to do business, while also preventing the timely delivery of infrastructure projects. The Council welcomes the provisions included in the Planning and Development Bill 2023 (which is in third stage before the Seanad) that aim to streamline the judicial review process. Among the provisions included in the bill, is the introduction of a mechanism to ensure that the costs to applicants taking a judicial review will not be prohibitively expensive.[174]

Table 6.2.2 Judicial Reviews (Strategic Infrastructure/Development)

Judicial Review (Strategic Infrastructure/Development)	2021	2022
Incoming	72	63
Orders made:		
Liberty to apply for judicial review granted	27	35
Liberty to apply for judicial review refused	0	0
Interim orders	180	113
Final orders – relief granted	13	20
Final orders – relief refused	1	4
Final orders – struck out	8	4
Total	**229**	**176**

Source: Court Services

[172] Information provided by The Courts Services identifies that the 'other' category includes Judicial Reviews in all other areas of work where people want to overturn a decision, force a decision or action, injunct a decision or action; such as reviewing decisions of any state body, state employer, various boards such as the medical council, and other professional regulatory authorities etc.
[173] New Planning and Environment Court division of the High Court formally launched today | The Courts Service of Ireland
[174] These measures are explained in detail at: Guide to the Planning and Development Bill 2023.

Box 6.C: Judicial Reviews related to Planning and Environment

In December 2023, a new Planning and Environment Court, a division of the high court, was formally launched. Prior to 2018, all planning judicial reviews were dealt with in the regular judicial review list. The Strategic Infrastructure Development List was established in February 2018 and the establishment of the new Court (list) was a commitment in the June 2020 programme for government.

As a first step, the Commercial Planning and Strategic Infrastructure Development (CP&SID) List was created with effect from October 2020. This was further expanded upon with developments in 2022, which transferred gatekeeping functions for entry to the list from the Commercial Court directly to the CP&SID List, and in 2023 which incorporated cases under the Access to Information on the Environment Regulations.

It is intended that "new procedures, dedicated judges, technology and a build of expertise in this area will allow for more efficient and clearer case management and throughput of cases." The media release accompanying the announcement noted that existing efforts towards the establishment of the court had already resulted in a 50% increase in case numbers processed in the court. The court will operate with three full time judges.

The court will give priority to environmental litigation as well as in resolving challenges to major infrastructural and other projects. Additionally, specialist judges will entail advocacy will be more efficient as there will no need to traverse the regulatory background for such judges.

Among the noted notable features of the new court are:

- Priority will be given to Environmental litigation and resolving challenges to major infrastructural and other projects;
- A target to produce judgements within 2 months if possible and increased transparency, with lists of reserved judgements published every week;
- Hearings to be confined to 3 days (pre-2020 this could have been up to 2-3 weeks);
- Vast majority of cases to get a date for hearing in the next list;
- A move to paperless hearings and remote Monday listings;
- A System of clearing pleading requirements, including a need for core grounds of challenge. This will allow for simplification of the process of identifying the issues in dispute; and,
- Systematic resolution of legal questions in this area will lead to simpler more effective law, thereby supporting planning and environmental decision-making and investment.

6.2.3 Delivery of Infrastructure

While progress on the delivery of infrastructure is required on multiple fronts – and must be accompanied and supported by reforms to planning and regulation – careful consideration must also be given to the strategic sequencing of investments, particularly given the current context of an economy that is operating at full capacity, and with a tight labour market.

The ESRI (2024)[175] estimates that around 24,000 new construction workers would be needed to meet Ireland's renewable energy targets set out in the Climate Action Plan, in addition to over 26,000 new workers needed to meet the housing targets outlined in the National Development Plan. Our current infrastructural challenges are

[175] The National Development Plan in 2023: Priorities and capacity A report submitted to the Department of Public Expenditure, (esri.ie)

set against a backdrop of a rising population, which will add to further infrastructure pressures over time. The required level of annual housing completions has proven to be a moving target, with recent estimates by the ESRI[176] placing the annual requirement at between 35,000 and 53,000 new dwellings per year to meet structural demand alone (and without reference to dealing with the current backlog in housing demand). Analysis by Davy suggests that up to 85,000 new homes may be required.[177]

According to analysis carried out by the Central Bank of Ireland,[178] reaching Ireland's climate objectives by 2050 will require an additional investment of over €50 billion over the period up to 2050, with around 70 per cent of this required over the next decade (as required investments in the energy grid, transport infrastructure and the residential sector). This additional investment is likely to lead to a significant increase in the demand for construction workers, which, the analysis notes, could lead to overheating pressures arising from that sector.

As assessed by the Fiscal Advisory Council,[179] Ireland does not have a large domestic stock of untapped labour supply – apprenticeship numbers and the numbers of CAO applicants in relevant fields remain relatively small.[180] In addition, the attractiveness of Ireland as a destination for intra-EU migration has waned over the last several decades. As such, the availability of skilled labour may prove to be a significant obstacle to delivery and could prove to be a future source of inflation.

6.2.4 Renewable Energy

Climate Infrastructure

Estimates from the Environmental Protection Agency (EPA) indicate that Ireland will miss both our domestic and EU targets for emissions reductions by 2030. Domestic targets, set in the Climate Action Plan, are for a 51% reduction in GHG emissions by 2030 (based on 2018 levels). The latest emissions estimates from the EPA, published in *Ireland's Provisional Greenhouse Gas Emissions 1990 – 2023* report[181] (July 2024), measures emissions in 2023 at 7.8% below 2018 levels. This is significantly below the 51% GHG emissions reduction target by 2030 set out in the Climate Action Plan. These domestic targets are focused on economy wide emissions, while EU targets are divided into Effort Sharing Regulation (ESR) emissions, Trading System (ETS) emissions, and non-ETS emissions. The EU ETS works on a 'cap and trade' principle, meaning that GHG emissions allowances are treated as a commodity which can be traded on the EU carbon market.[182] The ETS covers around 45% of the EU's greenhouse gas emissions and includes installations in the energy and manufacturing sectors. Non-ETS emissions account for the remainder and included the transport and agriculture sectors, among others. Non-ETS emissions are determined at the level of the EU Member State, with binding targets set at an EU level. Ireland's binding target is for a 42% reduction in non-ETS emissions by 2030, compared to 2005 levels.

The EPA has produced estimates of emissions by 2030, based on two scenarios. The first scenario is referred to as a 'with existing measures' (WEM) scenario, which looks at measures already introduced to date. The second scenario is referred to as a 'with additional measures' (WAM) scenario, which looks at measures which are

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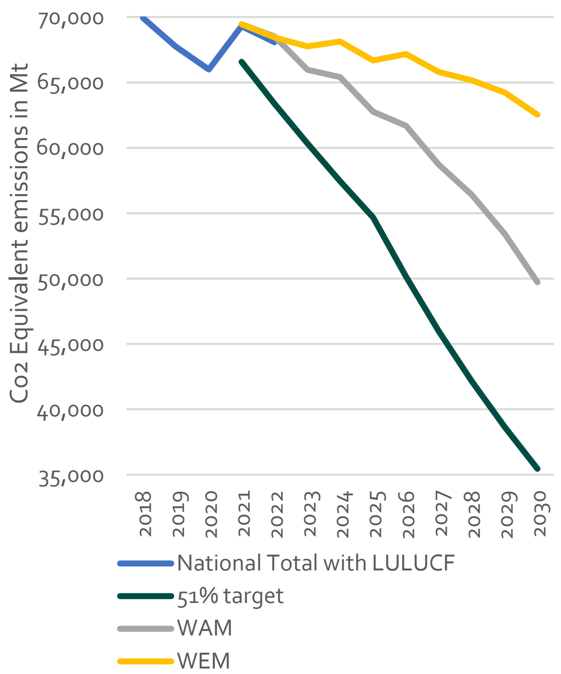
[176] See: Population projections, the flow of new households and structural housing demand | ESRI.
[177] Based on estimates prepared by the Housing Commission, and analysis by Davy Stockbrokers. See: Report of the Housing Commission (May 2024), and media coverage of Davy analysis.
[178] Quarterly Bulletin Q2 2024 (centralbank.ie)
[179] Box-A-Where-will-the-additional-workers-come-from.pdf (fiscalcouncil.ie)
[180] As examined in *Ireland's Competitiveness Challenge 2023*, the OECD have recommended that Ireland should 'promote and strengthen pathways from schools into further education and training and apprenticeships to develop a well-balanced tertiary system and diversified supply of skills'. Among the issues identified by the OECD are the 'financial obstacles for employers'. See: OECD Skills Strategy Ireland: Assessment and Recommendations, OECD, May 2023.
[181] Ireland's Provisional Greenhouse Gas Emissions 1990 – 2023
[182] EU Emissions Trading System | Environmental Protection Agency (epa.ie)

proposed to be introduced, e.g. a WEM scenario would assume a Carbon Tax rate of €56 per tonne in 2030, whereas a WAM scenario would assume a rate of €100 per tonne in 2030.

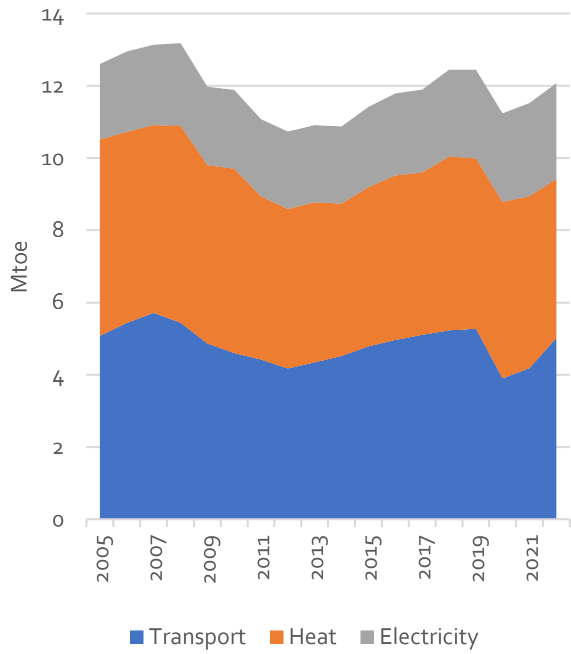
When compared to domestic targets, the latest EPA projections (June 2023) indicate a WEM scenario of an 11% reduction in overall emissions (relative to 2018 levels) by 2030, whereas a WAM scenario would provide for a 29% reduction in emissions. Both of these fall far short of the 51% target. When compared to EU targets, the latest projections from the EPA (June 2023) indicate a WEM scenario of a 10% reduction in non-ETS emissions (relative to 2005 levels) by 2030, whereas a WAM scenario would indicate a 30% reduction in non-ETS emissions by 2030, both significantly short of the 42% EU requirement.[183]

Figure 6.2.3a Estimated Changes in overall Co2 Emissions Targets and Estimations to 2030 (Co2 Equivalent emissions in Mt) [184]



Source: EPA

Figure 6.2.3b: Energy Demand by mode, Mtoe 2005 – 2022



Source: SEAI

Analysis undertaken by the ESRI – through a Joint Research Programme working with DECC and DFIN – analysed the impact of both the uptake of electric vehicles and heat pump installation on the Irish economy, using the i3e model.[185] This research concluded that there would be a 21.6% reduction in emissions from the combined impacts of these measures and that the impact of the carbon tax alone on reducing emissions was substantially higher than even the combined impacts of EVs and heat pumps. Overall, this analysis highlights that the objectives in the *Climate Action Plan*, including the infrastructural objectives incorporated into the plan, will not be enough for Ireland to reach emissions reductions targets.[186]

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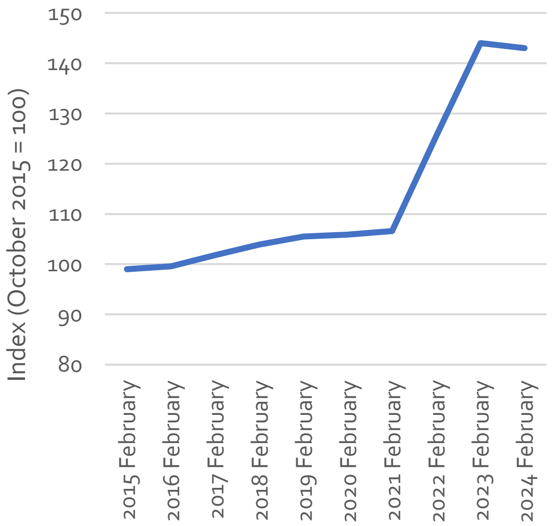
[183] Latest emissions data | Environmental Protection Agency (epa.ie)
[184] https://www.epa.ie/publications/monitoring--assessment/climate-change/air-emissions/irelands-greenhouse-gas-emissions-projections-2022-2040.php
Total emissions include LULUCF emissions.
[185] ESRI working paper on the impacts of Electric Vehicles and Heat Pumps
Information on the The I3E Model | ESRI
[186] As addressed by the Council in previous *Competitiveness Challenge* reports, investment in – and maintenance of – an effective energy storage and distribution system will be fundamental.

Rising Prices as a Constraint on Infrastructure Delivery

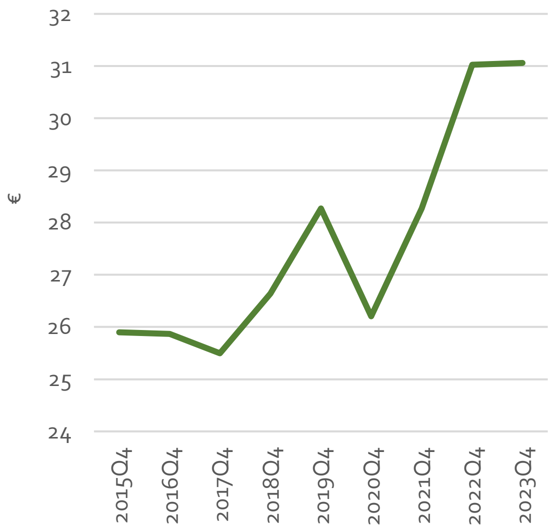
Elevated inflation levels have had an impact on the delivery of infrastructure in Ireland. Figures 6.2.4a and 6.2.4b highlight rising material and labour costs, respectively, over the period 2015 to 2024 (particularly from early-2021 through 2023). These show a 40 per cent increase in the cost of building and construction materials and a 23 per cent increase in labour costs. However, the trend in 2023 points a stabilisation of both material and labour costs, which if continued may aid the delivery of infrastructure. Nonetheless, this remains an ongoing concern for the construction sector, and further rising material costs may also follow through to tender prices. Analysis commissioned by the National Transport Authority in 2024 also indicates strong tender price inflation for transport projects, which increased by an average of between 26 and 35 percentage points from 2021 to 2023[187].

Figure 6.2.4a: Wholesale Price Index for Building and Construction Materials, February 2015 – February 2024



Source: CSO

Figure 6.2.4b: Average Hourly Total Labour Costs, Construction Sector, Q4 2015 – Q4 2023



Source: CSO

Furthermore, analysis by the ESRI on '*Contrasting Housing supply in Ireland, Northern Ireland and the rest of the UK*,' has identified more stringent environmental factors in Ireland as among the factors adding to the cost of constructing housing (albeit identifying that the UK and others were likely to enhance environmental regulations in this area to meet the levels set in Ireland).[188] While there are construction sector labour shortages in both the UK and Ireland, for the UK, this shortage has been exacerbated by the UK's withdrawal from the EU, which has made net immigration into the UK more difficult. This report highlights the use of Modern Methods of Construction, and training and education schemes, as important factors in enhancing the productivity (and energy efficiency) of housing construction. It is vital to ensure that the requirements of planning and delivery of sustainable infrastructure are achieved whilst not unduly hindering Ireland's overall productivity.

[187] https://www.nationaltransport.ie/wp-content/uploads/2024/02/2024-NTA-Inflation-Full-Report.pdf
[188] https://www.esri.ie/system/files/publications/RS175.pdf

Ireland's EV infrastructure capacity

Figure 6.2.5 shows the number of recharging points and recharging power output (measured in KW) across select European countries as of Q1 2024[189]. Analysis undertaken by European Alternative Fuels Observatory (EAFO) shows that Western European countries dominate infrastructural capacity. The Netherlands stands out in particular, with c. 154,000 charging points[190]. Ireland has among the lowest number of charging points across Europe, with approximately 3,000. Denmark, a similar sized country for comparison[191], has nearly 26,000 charging points. While it is important to consider recharging power output also, this was nearly eight times higher in Denmark (892,000 KW) than in Ireland (108,00 KW). While this data set does not take account of population density, or other factors which may impact upon EV infrastructure capacity, it is important to note that countries such as Norway and Finland, which have similar population numbers but a lower population density, have substantially higher power output and numbers of charging points. Furthermore, Iceland, a lower density country with less than 10% of Ireland's population, has more than half the number of charging points and more than half of Ireland's storage capacity.

The European Alternative Fuels Observatory listed Ireland among the 'Underdeveloped Countries' analysed, along with Malta and Cyprus. It was noted that Ireland had significant potential but its infrastructure was currently underdeveloped, having low recharging power per vehicle. It was further noted that there is a pressing need for accelerated investment and development to support future EV adoption. This demonstrates the need for significant investment in Ireland's EV infrastructure capacity. The Government, through Zero Emission Vehicles Ireland[192] (ZEVI) is investing €100 million between 2023-2025 in EV infrastructure to accelerate the delivery of EV charging across our national road network and local and regional networks. The EV Charging Infrastructure Strategy 2022-2025[193] sets out the Government's ambition regarding the delivery of a public EV charging network to support up to 195,000 electric cars and vans by the middle of the decade.

Assuming Ireland will meet its CAP target of 195,000 light-duty EVs by 2025, a total of approximately 214,000 KW of charging power will be required across the country by the end of 2025. As of end -June 2024, Ireland has a stock of over 131,392 EVs of all types and as of Q1 2024, Ireland has 108,410 KW of power. While there has been a significant increase in the number of charging point and power output, up from 1,723 and 67,237 KW respectively since September 2022, they remain significantly below the end-2025 target. [194] In May 2024, the Department of Transport published the National Road Network EV Charging Plan 2024 – 2030.[195] This further reflects the EU agreed Alternative Fuels Infrastructure Regulation (AFIR), which applies from April 2024. In May 2024, the Department also launched the public consultation (until July 2024) on the Draft Regional and Local EV Charging Network Plan, with the revised plan to be published in late 2024.[196] Additionally, as recognised by the Department of Transport, it will be important to encourage and enhance private sector participation to ensure the development of a competitive market for en-route EV charging.

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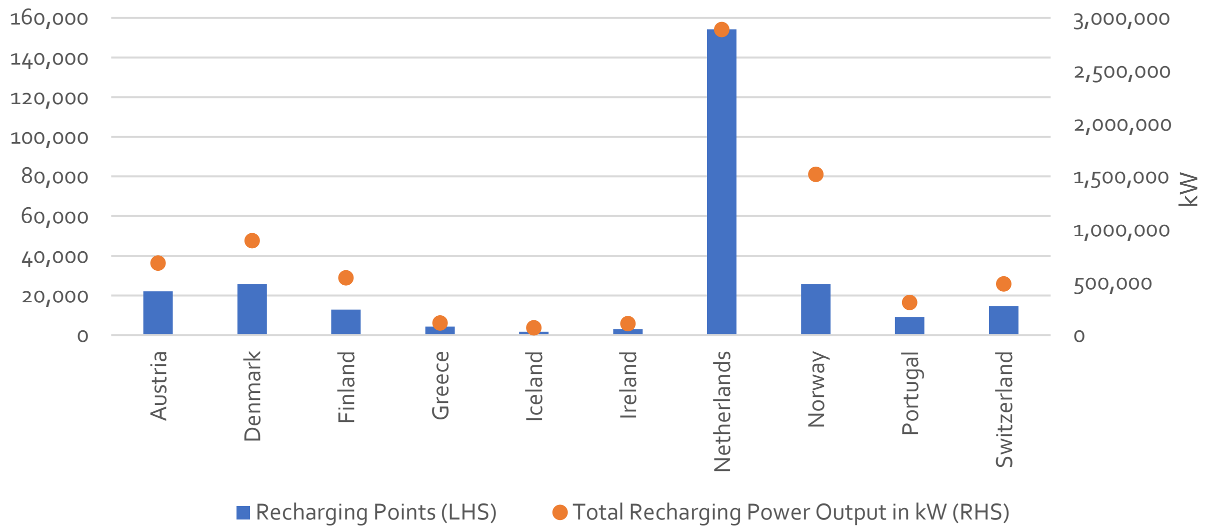
[189] EAFO Analysis: Trends in EV Charging Infrastructure Across Europe | European Alternative Fuels Observatory (europa.eu).
[190] Charging points are classified according to AFIR classification and count all publicly accessible recharging infrastructure – see here for more
[191] By population - As of April 2023 Ireland had just under 5.3m – see dataset PEA04 on cso.ie. As of June 2024, Denmark has just over 5.9m – see here
[192] See: gov - Zero Emission Vehicles Ireland (www.gov.ie).
[193] Electric Vehicle Charging Infrastructure Strategy 2022-2025, Department of Transport.
[194] Electric Vehicle Charging Infrastructure Strategy: 2022 - 2025
[195] National Road Network EV Charging Plan 2024 - 2030
[196] Regional and Local EV Charging Network Plan 2024-2030, Department of Transport, May 2024.

Figure 6.2.5 Recharging Points and Recharging Power Output in KW, in select European Countries, as of Q1 2024



Source: European Commission

For charging light-duty electric vehicles including passenger EVs, the regulation requires a total power capacity to be provided based on the size of the registered fleet in each Member State. The Department of Transport have estimated that the AFIR national fleet target will require 214,000 KW of output by 2025 and 712,395 kw by 2030, further highlighting the need for increased infrastructure.

EU Directives

In addition to the overall EU requirements to reduce Ireland's share of emissions, two EU Directives have recently been negotiated that place specific new legal obligations in Ireland in relation to public sector buildings. The Energy Efficiency Directive (recast) was formally adopted in October 2023 and it sets a specific obligation to achieve an absolute annual energy consumption reduction of 1.9% each year in buildings owned or leased by the public sector (the baseline is 2021). This will be particularly onerous to achieve if public services grow in line with population increases. In addition to the absolute energy reduction targets, Ireland will be required to renovate each year at least 3% of the total floor area of buildings owned by public bodies. These targets will provide considerable challenges for the Irish public sector.

The Energy Performance of Buildings Directive (recast) was formally adopted in April 2024. For non-residential buildings, the revised rules require renovating the 16% worst-performing buildings by 2030. Member States will have the possibility to exempt certain categories of residential and non-residential buildings from these obligations, including historical buildings. Ireland will be required to establish a National Building Renovation Plan which must set out the national strategy to decarbonise the building stock and how to address remaining barriers, such as financing, training and attracting more skilled workers. The recast Energy Performance of Buildings Directive will also make zero-emission buildings the standard for new buildings. Under the agreement all new residential and non-residential buildings must have zero on-site emissions from fossil fuels, as of 1 January 2028 for publicly owned buildings and as of 1 January 2030 for all other new buildings, with a possibility for specific exemptions.

Ireland will also have to ensure that new buildings are solar-ready, meaning that they have to be fit to host rooftop photovoltaic or solar thermal installations. Installing solar energy installations will become the norm for new buildings. For existing public and non-residential buildings solar will need to be gradually installed, starting from 2027, where this is technically, economically and functionally feasible. Such provisions will come into force at different points in time depending on the building type and size.

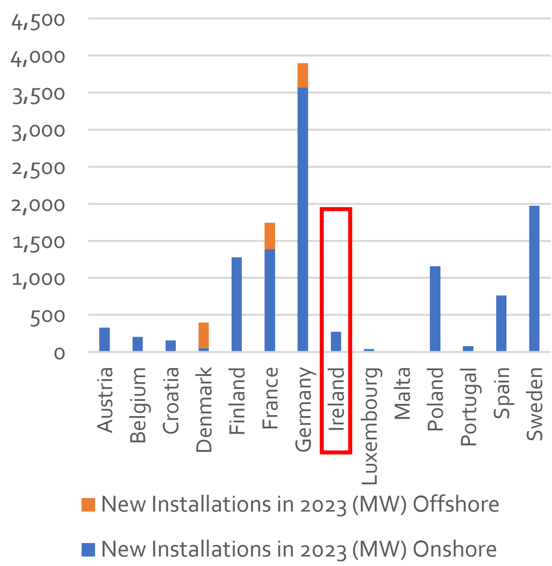
Overall responsibility for the Energy Performance of Buildings Directive in Ireland rests with the Department of Housing, Local Government and Heritage, with the Sustainable Energy Authority of Ireland (SEAI) leading on implementation of the Directive.[197]

Onshore and Offshore Wind sites

Analysis from Wind Europe – with input from Wind Energy Ireland (WEI) – identifies Ireland as having the second highest proportion of electricity demand covered by wind power in 2022 at 36%, with almost all of this coming from onshore wind. In contrast, Denmark in first place (56%) has a much more even combination of onshore and offshore wind.[198] Furthermore, Ireland ranked 12th for wind power installed capacity in 2022, while ranking 14th overall in the EU for total installed capacity. While Ireland is currently in a strong position overall, the very small proportion of wind power identified as coming from offshore wind in Ireland suggests that there may be significant capacity to further expand Ireland's wind power capacity through offshore wind.

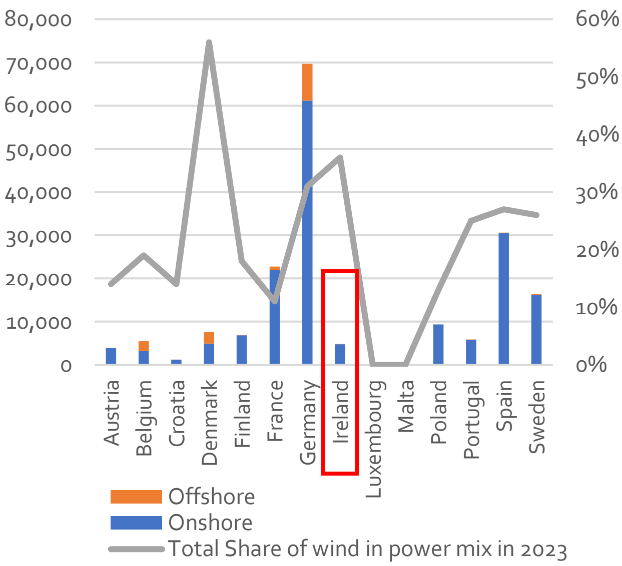
As outlined in the Global Wind Report 2024[199] (by the Global Wind Energy Council), Europe and North America are the only two regions where new installations fell from 2022 to 2023 – new onshore wind capacity added in North America and Europe dropped in 2023, by 15.6% (1.5 GW) and 13.4% (2.2 GW), respectively. This compares to a global increase of 50.3%.

Figure 6.2.6a New Onshore and Offshore Wind Capacity in EU-27, 2023



Source: WindEurope

Figure 6.2.6b Cumulative Offshore/Onshore Wind Capacity (MW) & Share of Wind in Power Mix, EU-27, 2023



Source: WindEurope

The Offshore Renewable Electricity Support Scheme has a vital role to play in enhancing Ireland's offshore wind capacity. It is a pivotal component of the Government's Climate Action Plan 2023 and represents a significant step forward in the delivery of offshore wind and towards achieving a target of at least 80% renewable electricity by 2030, and net zero emissions by no later than 2050. Due to the specific scale and nature of offshore

[197] See: Joint Committee on Housing, Local Government and Heritage debate - Thursday, 28 Apr 2022 (oireachtas.ie).
[198] See: WindEurope - Wind energy in Europe - 2023.pdf
[199] See: GWR-2024_digital-version_final-2.pdf (gwec.net)

wind farms, dedicated auctions will be initially required to support the development of this technology in Ireland. Through the Offshore Renewable Electricity Support Scheme (due to be replaced in 2026), it is intended that there be at least three auctions this decade. However, due to the timeline required to develop offshore wind projections, only two of these auctions are likely to contribute to Ireland's 2030 5GW installed capacity target. Further projects will aim to ensure that Ireland can achieve targets of 20GW by 2040 and at least 37GW by 2050.

ORESS 1 was the first of these auctions, with the final decision made on successful projects in June 2023.[200] While Phase 1 was developer led, a plan led regime will apply moving forward. Table 6.2.7a provides a timeline for these projects, which are all expected to be operational by 2030, at which time they will provide approx. 3GW installed capacity, providing the majority share of the 5GW commitment.

Table 6.2.7a ORESS 1 successful projects timeline

ORESS 1 Project Name	Wattage Offer	Construction Start Date	Commercial Operation Date
North Irish Sea Array[201]	500MW	2026	2029
Dublin Array[202]	824MW	2026	2028
Codling Wind Park[203]	1,300MW	2027	2029/2030
Sceirde Rocks Windfarm [204]	450MW	2026	2030

Sources: Listed in Footnotes. Notes: There are additional two projects that are still in development (Oriel and Arklow Bank 2).

Ireland's second offshore wind energy auction, ORESS 2.1, will be the first auction to take place in the second phase and will procure up to 900 MW of capacity from a State-selected provisional designated area known as a Designated Maritime Area Plan (DMAP) off Ireland's south coast. The DMAP proposal for offshore renewable development will determine the broad area where offshore renewable energy projects can be developed.[205]

The first such DMAP, known as the South Coast (SC) DMAP, was published on 3 May 2024 and included locations concentrated off the coastline of Waterford, Wexford, and close to the East Cork coastline.[206] This area represents the first sub-national, forward maritime spatial plan for offshore renewable energy proposed by the State. It will provide for the sustainable development of offshore wind through consideration of environmental protection and existing marine users and activities. This process was subject to public consultation until 14 June 2024, with consultation events to be held at locations in Cork, Waterford, and Wexford in the weeks before. As noted in Table 6.2.7b, the additional 900MW which will be contributed via ORESS 2.1 will occur in Maritime Area A, known as Tonn Nua. It is proposed that further auctions in the coming years will aim to address the gap to the 5GW by 2030.

[200] ORESS-1-Final-Auction-Results-(OR1FAR).pdf (eirgrid.ie)
[201] Timeline - NISA | North Irish Sea Array - Offshore Wind Farm
[202] Timeline - Dublin Array
[203] Development - Codling Wind Park
[204] Project info | Sceirde Rocks Windfarm
[205] gov - Designated Maritime Area Plan (DMAP) Proposal for Offshore Renewable Energy (www.gov.ie)
[206] gov - Public Consultation on the Draft South Coast Designated Maritime Area Plan for Offshore Renewable Energy (SC-DMAP) (www.gov.ie)

Table 6.2.7b SC-DMAP Maritime Areas[207]

Maritime Area	Marine Area	Proposed Wattage Offer	Proposed Auction Date	Aimed for Deployment Date
A – Tonn Nua (Waterford)	312.6km²	900MW (ORESS 2.1)	Late 2024/2025	2030 (or as soon as feasible thereafter)
B – Lí Bann (Waterford)	486km²	1,400 – 2,000 MW	Unspecified	Unspecified
C – Manannán (Wexford)	342km²	1,000 – 1,400 MW	Unspecified	Unspecified
D – Danu (Wexford)	304km²	900 – 1,300 MW	Unspecified	Unspecified

Source: Draft South Coast Designated Maritime Area Plan for Offshore Renewable Energy

6.3 Actions Crucial for Infrastructure – Planning, Development and Delivery

6.3.1 Addressing infrastructural deficits

Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprise users will outstrip supply, with adverse implications for Ireland's existing enterprise base – both SMEs and MNCs – as well as for the investment decisions of internationally mobile foreign-owned firms. This is a significant reputational risk for Ireland. As outlined in the Winter Outlook 2023/24,[208] while EirGrid's forced outage statistics improved slightly in 2022 relative to 2021, this was still the second worst year on record. Gas Network Ireland's (GNI) Winter Outlook 2023/24,[209] outlines significant operational challenges, including the volatility in gas prices, as well as wider energy market uncertainty, and progress on upgrade works at compressor stations in Scotland.

Accurate projections of the population will be fundamental to the planning and delivery of sustainable infrastructure. Census 2022 estimates a population in 2022 of approximately 5.15 million. More recent estimates based on administrative sources suggest that the population in 2022 was approximately 5.33 million. A core element of the National Planning Framework (2018)[210] is a population projection of 5.7 million by 2040 – this projection will likely need to be revisited in light of recent estimates of the current population, from both Census 2022 and administrative sources. The Council recognises the critical importance of planning for how we will house an expanding population over the coming years, but it is also important that we think in terms of the totality of needs that will arise as our population expands.

[207] Draft South Coast Designated Maritime Area Plan for Offshore Renewable Energy
[208] See: Winter Outlook 2023/24 (eirgrid.ie)
[209] See: GNI-Winter-Outlook-2023-24.pdf (gasnetworks.ie)
[210] See: National Planning Framework (2018).

Recommendation 6.1: The Council recommends that action is taken to address the inadequacies in the infrastructure that underpins our public utilities, to ensure the stability of supply for current and future users. As part of this action, the Council recommends:

(i) That the medium-term ambition for Ireland as a green-powered, digitally-enabled economy in the 21st century, must be matched by a similar level of ambition in the supply and competitive provision of public utilities;
(ii) A careful review of the management of Ireland's energy supply against the backdrop of increasing demand and required infrastructural works, together with ensuring that incidence of risks and warnings are brought back within CRU energy security standards; and,
(iii) The forthcoming National Planning Framework (2024) – currently underway – should reflect the most recently available data on population projections. In planning for the future, it is also important that we plan how these additional persons will be accommodated within the labour market.

Responsibility: Department of Environment, Climate and Communications; Department of Enterprise, Trade and Employment; Department of Housing, Local Government and Heritage

6.3.2 Planning

Delays to the delivery of infrastructure pose a serious risk to the achievement of the State's targets across housing and energy, and to create uncertainties for enterprises operating in Ireland. The Council has previously made recommendations on the resourcing of planning authorities (Recommendations 3.1 in *ICC 2023*, 4.2 in *ICC 2022* and 4.3 in *ICC 2021*); however, this area warrants continued attention as it continues to contribute to delays in the delivery of infrastructure.

Housing for All committed to a comprehensive review and consolidation of planning legislation. As set out in section 6.2.2 the Planning and Development Bill 2023 is currently proceeding through the Oireachtas as of July 2024, and when enacted, will bring comprehensive changes to the planning system in Ireland, if the system is appropriately resourced. The Council is cognisant that this Bill does not offer a whole solution, given existing legal complexities which also exist, but the changes will enable appropriate developments to be planned and executed with a degree of confidence and certainty about how and when a planning consent decision will be made.

The Council also recognises the progress that has been made by An Bord Pleanála, on the implementation of the Office of the Planning Regulator (OPR) 2022 review, whilst also recognising that continued efforts are needed to ensure that the backlog in cases, which has fallen from a high of 3,600 to 2,400, is eliminated in full.

Recommendation 6.2: The Council considers that reforms to the planning system are fundamental to address issues relating to the delivery of infrastructure. As part of these reforms, the Council recommends:

(i) That the Planning and Development Bill 2023, once enacted, is speedily implemented;
(ii) That priority is given to addressing the exceptional data deficiencies in the planning permission data and housing commencement data, such as through the action proposed in *Housing for All* to improve the quality of Building Control and Management System (BCMS) data; and,
(iii) That the work of the new Planning and Environment division of the High Court is kept under constant review to ensure that sufficient resources have been allocated to address the backlog of existing cases and clear incoming cases within a defined period, and that relevant training is provided. It is further recommended that a strong data collection system is put in place from the outset, in the context of overall improvement in data systems related to legal and justice issues so that policymakers can continue to monitor progress.

Responsibility: Department of Housing, Local Government and Heritage, Court Services

The Council has previously recommended the establishment of a conveyancing profession in Ireland. The Council notes that the recent report by the LSRA did not include a recommendation that a conveyancing profession be established and acknowledges the analysis therein. As outlined in the CCPC's submission to the LSRA on the creation of a conveyancer profession, previous studies have found that the cost of conveyancing in Ireland is significantly higher than in other countries with similar legal systems which provide for such a profession.[211]

Recommendation 6.3: The Council considers that action must be taken to address legal costs in Ireland, including both financial costs and time costs. As part of this action, the Council recommends:

(i) That recommendations included in the LSRA report regarding the digitalisation of conveyancing services, and measures to enhance price transparency, are implemented as a priority; and,
(ii) That a specialist conveyancing profession be introduced and implemented, in order to drive competition and efficiencies in the provision of conveyancing services.

Responsibility: Department of Justice

6.3.3 Mapping of Current Infrastructure and Offshore Wind

The timely mapping of potential offshore wind sites is vital to ensuring that Ireland's target of a 5GW installed capacity target for wind energy by 2030 can bet met. The ORESS (Offshore Renewable Electricity Support Scheme) is pivotal to this and is a vital component of the Climate Action Plan 2023. ORESS 1 was the first of these auctions. These projects are all expected to be operational by 2030, at which time they will provide approximately 3GW installed capacity. While this will provide the majority share of the 5GW target, it demonstrates the need for timely action on ORESS 2.1 to ensure that the additional 900 MW proposed through that auction, and to ensure that further auctions can take place so that the remainder of the 2030 target (c. 1.1 GW) can be met.

[211] See: Submission to the Legal Services Regulatory Authority on the Creation of New Profession of Conveyancer, CCPC, 6 January 2022.

Recommendation 6.4: Meeting the targets set out in the Climate Action Plan will require investment in green infrastructure and the prioritisation of renewable energy projects. The Council recommends:

(i) That renewable projects are prioritised (via measures such as the recent establishment of the Planning and Environment division of the High Court) to ensure that Climate Action Plan Targets for 2030 and 2050 can be achieved;
(ii) That continued progress is made to ensure that the ORESS 2.1. auction can occur in a timely manner; and,
(iii) The timely implementation of the South Coast DMA, in particular to ensure that the remaining 1.1 GW target (5 GW by 2030 overall) can be reached, and the development of other DMAPs.

Responsibility: Department of Environment, Climate and Communications

6.4 Summary

Infrastructure is a fundamental component of our competitiveness. Infrastructural deficits act as a drag on competitiveness, and Ireland must make progress in order to keep pace with international competitors. Therefore, this Chapter examines the challenges facing Ireland's capacity to plan and to deliver infrastructure, and to address the significant infrastructural deficits that have emerged over the last several decades. These deficits undermine Irish competitiveness, impact on the existing enterprise base, and damage Ireland's reputation as a place to do business and to invest. Addressing these deficits will require, not only significant levels of investment, but fundamental reforms to the planning system and the strategic sequencing and prioritisation of projects – particularly in an economy that is operating at (or above) capacity.

While progress on the delivery of infrastructure is required on multiple fronts – and must be accompanied by the reforms to planning and regulation which are currently underway – careful consideration must also be given to the strategic sequencing of investments, particularly given the current context of an economy operating at full capacity, with a tight labour market. Despite some improvements, the time taken to receive planning permission remains a constraint.

Steps must be taken to ensure that supply is not outstripped by the demand for our public utilities in the coming years, and it is vital that the new *National Planning Framework* take full account of the challenges posed by our rapidly growing population. The Council welcomes the progress of the Planning and Development Bill through the Houses of the Oireachtas. This legislation will go some way to addressing the shortfalls of our planning system, and – once enacted – must be implemented as a priority.

Previous studies have also found that the cost of conveyancing in Ireland is significantly higher than in other countries with similar legal systems, and the establishment of a specialist conveyancing profession would help drive competition and efficiencies in the provision of conveyancing services. Finally, the achievement of targets set out in the *Climate Action Plan* and ensuring the sustainability of supply into the future, will require the prioritisation of renewable energy projects.

Conclusion

Ireland's Competitiveness Challenge 2024 identifies 20 tangible, actionable policy recommendations that address both immediate competitiveness issues, and more medium- and long-term challenges that require urgent action, aimed at enhancing Ireland's competitiveness and productivity performance. These recommendations – targeted at Government – are intended to lay the foundations for sustainable growth, in order to secure an improvement in the standard of living for all of society.

The decision by the Council to bring forward the publication of the 2024 report means that these recommendations, and supporting analyses, should make a valuable contribution to the evidence base on which Budget 2025 will be formed. This year's report is also structured in line with the Council's new Competitiveness and Productivity Framework, which sets out six core areas which determine Ireland's overall competitiveness and productivity performance.

The global backdrop to this year's *Competitiveness Challenge* report is uncertain, although global growth remains steady. The Irish labour market continues to perform strongly with a record number of people at work, and inflation which is decreasing and is expected to decline further throughout 2024. The falling rate of inflation in Ireland over the past year has mirrored the broader pattern observed across the euro area. Ireland also continues to score highly on international competitiveness rankings in recent years – the Institute for Management Development (IMD)'s World Competitiveness Yearbook 2024 ranks Ireland as the most competitive country in the euro area – driven by strong economic growth, our highly skilled workforce, and our success in attracting inward investment in high value-added economic sectors.

Despite this, long-standing issues continue to weigh on our economic performance. Ireland's high cost and price position, and our low levels of unemployment also point to an economy operating at capacity. In the context of such concerns, and given the concentration of corporation (and income) tax returns arising from a small number of large multi-nationals, a prudent approach to fiscal policy is advised, with a **focus on productivity-enhancing capital investment** ahead of a pro-cyclical expansion in current expenditure. In the short-term, the **focus must be on actions which mitigate rather than exacerbate capacity constraints**.

In addition, there remain significant legacy challenges to securing Ireland's competitiveness into the medium to long-term, many of which have been called out by the Council in our previous reports. Government needs to do more to address these challenges and in this year's *Competitiveness Challenge* report, further actions are identified that must be progressed if Ireland is to achieve sustainable growth. This reflects the nature of competitiveness, which requires persistent action over a number of years, with the impacts of this action becoming evident in the medium to long-term. Looking ahead, there are several areas requiring action by Government to safeguard and improve our competitiveness performance into the future. The international trading environment has faced challenges in recent years with concerns in relation to regionalisation taking hold. Open trade has significantly benefited Ireland in the past number of decades, and there is a scope to more fully **utilise the potential of the European Single Market** to enhance the growth and scaling opportunities for Irish firms.

A longstanding challenge to Ireland's competitiveness is **the cost of doing business**, with implications for both large firms and SMEs. A variety of factors are influential here. In particular, the mismatch between aggregate demand and aggregate supply is adding to costs – this can be seen in ongoing labour market tightness and is reflected in the slow delivery of key infrastructure projects. Infrastructural deficits are acting as a drag on our competitiveness, and we must take action to **tackle the obstacles to the planning and delivery of sustainable infrastructure.** Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprises will outstrip supply, with ramifications for SMEs and the investment decisions of internationally mobile foreign-owned firms – this is a significant reputational risk for Ireland.

Ireland also faces challenges in the supply of education and skills, which is vital for economic growth and competitiveness. In the context of changing market demands, a highly skilled and dynamic labour force is more productive, innovative and adaptable. For this reason, it is fundamental that we **take action towards building and retaining a skilled and talented labour force** in Ireland. With Ireland being essentially at full employment over the last two years, there are capacity constraints which are limiting Ireland's ability to expand output. Skills mismatches are also recognised as an issue for the Irish labour market, and the National Training Fund could play a role here.

Finally, we must also stand ready to **embrace the opportunities afforded by technological change and innovation,** recognising this as a fundamental driver of economic progress and an important determinant of international competitiveness. Investment in research and development (R&D) is key for Irish enterprises to innovate, allowing them to compete and thrive in competitive domestic and international markets. Large firms in Ireland continue to outpace SMEs on R&D activity, their degree of digitalisation, and their use of advanced technologies. Evidence from industry suggests that there are divergent rates of AI adoption, by firm size and sector, with barriers preventing the further take-up and integration of AI systems.

It is imperative that progress is made on the recommendations set out in this report, by the relevant Government Departments and State agencies over the coming year, so that Ireland can remains internationally competitive. Last year the Council welcomed the publication of the Government's fourth formal response to the recommendations in *Competitiveness Challenge 2023* and looks forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy.

ANNEX

Figure A. Government business supports in Budget 2024 and recently announced SME support Package

Budget 2024	SME Support Package
• The 9% VAT reduction for gas and electricity were being extended for an additional 12 months, until 31st October 2024; • The temporary excise rate reductions applying to auto diesel, petrol and marked gas oil which were due to expire on 31st October 2023 were extended until 31st March 2024; • An increase in the limit on the amount that an investor can claim relief on under the Employment and Investment Incentive Scheme, to €500,000; • An increase in VAT registration thresholds for SMEs to €40,000 for services and €80,000 for goods; • Reduced Capital Gains Tax rate of 16% for Angel Investors in innovative SMEs, on gains of up to €3 million; • An increase in the R&D tax credit from 25% to 30%, as well as increasing the first-year upfront payment from €25,000 to €50,000 • The commencement of a range of amendments to the Key Employee Engagement Programme for the attraction and retention of staff; • Introduction of the Increased Cost of Business Scheme, which will provide a once-off grant to benefit up to 130,000 small and medium businesses at a cost of €250 million.	• Ensuring that the employer PRSI threshold is explicitly considered as part of the Low Pay Commission deliberations and is reviewed on each occasion that the minimum wage is increased. • Increasing the employer PRSI threshold from €441 to €496 with effect from 1 October 2024 • Reopening the Increased Cost of Business Scheme for another 14 days and launching a second phase of the Scheme targeted at businesses in the retail and hospitality sectors; • Doubling the Innovation Grant Scheme from €5,000 to €10,000; • Increasing the maximum amount available under the Energy Efficiency Grant Scheme to €10,000 and reducing the business contribution rate from 50% to 25%; • Widening the eligibility for the Trading Online Voucher and doubling the grant to €5,000; • Increasing the lending limit for Microfinance Ireland loans to €50,000 from €25,000; • Widening the eligibility for the Digital for Business Consultancy Scheme; • Launching a new 'Ireland's Best Entrepreneur Programme' to encourage entrepreneurship; • Launching the new online National Enterprise Hub for SMEs to access information on the wide range of Government business supports; • Implementing an enhanced 'SME Test' by the Department of Enterprise, Trade and Employment in conjunction with the Department of the Taoiseach; • Reviewing forthcoming ESRI research on the impact of Statutory Sick Leave before deciding on any further increases; • Reviewing the proposed Roadmap for Increasing Minimum Annual Remuneration Thresholds for Employment Permits.

National Competitiveness and Productivity Council
c/o Department of Enterprise, Trade and Employment
23 Kildare Street,
Dublin 2, D02 TD30
Tel: 01 6312121
Email: info@competitiveness.ie
Web: www.competitiveness.ie