

National  
Competitiveness  
Council



*National* 2001  
**Competitiveness**  
*Challenge*



# 2001

**Competitiveness**

*Challenge*

*December 2001*



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Mr Rory Ardagh	Director Hyper-Lan limited
Mr Kevin Bonner	Partner Business Insight Limited
Mr William Burgess	Managing Director & Chairman IBM Ireland Limited
Mr Donal Byrne	Managing Director & Chairman Cadbury Ireland Limited
Ms Joan Carmichael	Deputy General Secretary ICTU
Mr Bernard Collins	Vice President Boston Scientific Corporation
Mr Des Geraghty	President SIPTU
Ms Jackie Harrison	Director – Enterprise IBEC
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## Foreword by An Taoiseach



Ireland is currently facing challenges resulting from the natural slow-down of the Irish economy from historically high rates, sharpened by a down-turn in global demand and increased economic and political uncertainty worldwide. Competitiveness, the ability to win and keep business in domestic and foreign markets, has been the foundation of our recent economic success. Similarly, maintaining and improving competitiveness will be the basis on which we minimise the effects on our economy of a global slow-down and ensure that we will remain successful in the future. Accordingly, competitiveness is a key priority of Government policy.

In pursuing the tasks that the Government has mandated to it, the National Competitiveness Council undertakes its work within a broad definition of competitiveness. At its simplest, competitiveness is about the costs that enterprises face relative to their productivity. But the many factors that influence this simple equation include the skills level of the workforce, the attitude of both individuals and employers to ongoing training, the delivery of education and training, the strength of the culture of research and development, the quality of infrastructure, the regulation of markets, the efficiency and effectiveness of public administration and so on. In the current environment of global economic uncertainty and slow-down, it is essential that we focus on the full range of factors that influence competitiveness. The Government is committed to doing this, as is clear in the broad range of initiatives in the National Development Plan.

The National Competitiveness Council, which was set up in 1997 under *Partnership 2000*, plays an important role within the social partnership process. It provides a valuable input to the formation of Government policies through its work on competitiveness benchmarking, its overview of the complex range of factors that determine competitiveness, through its policy recommendations and through the follow-up it undertakes on these recommendations with Government Departments and agencies in conjunction with my Department. Through its links with business and worker representatives, with Government Departments and with the industrial development agencies, the Council is in an excellent position to communicate emerging issues for the enterprise sector and to identify obstacles to economic development as they begin to arise.

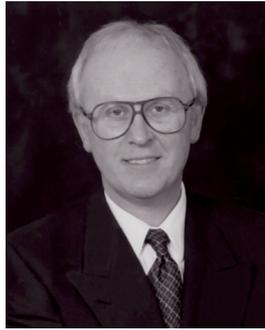
I am very pleased to introduce both *Annual Competitiveness Report 2001* and *Competitiveness Challenge 2001*. The Government will carefully consider the recommendations. I would like on my behalf and that of my colleagues in Government to thank the Council for its important work.

Mr Bertie Ahern, T.D.,  
Taoiseach

December 2001



## Preface



This year the Council is launching together its two main annual publications: *Annual Competitiveness Report 2001* and *Competitiveness Challenge 2001*.

*Annual Competitiveness Report 2001* is the fourth such report published by the Council. It compares Ireland's competitiveness with that of our main trading partners using a broad range of statistical indicators from authoritative sources such as Eurostat and the OECD. For this year's report we have expanded the breadth and depth of our coverage, replacing many of the original indicators and adding new ones. We have also put new emphasis on summary indicators – both Key Indicators and Competitiveness Scores, which capture Ireland's overall performance in particular areas in a single measure. I believe that these changes make the Report more accessible and useful to readers and facilitate the emergence of clear messages about our competitiveness from the data.

*Competitiveness Challenge 2001* is the Council's main policy statement for the year. The context for this contribution is that the economic climate has changed dramatically over the past months. The down-turn both in the global economy and in our own economy is sharper than expected, and the sense of political and economic uncertainty has been exacerbated by the terrible events of September 11th that took place in New York and Washington D.C. and their continuing repercussions.

Ireland's economy has performed remarkably well in recent years. Continued success in the difficult period ahead is by no means guaranteed. Competitiveness must once again move centre stage, particularly since we no longer have domestic control of the traditional economic tools of exchange rate and interest rate policy. The competitiveness of our traded goods and services sector provides the best instrument of security in maintaining and enhancing the living standards of our citizens. It is ultimately the basis of the jobs in which people are employed, the income levels they enjoy and the resources which underpin Government expenditure in areas such as education, healthcare, social welfare, and transport infrastructure.

In *Competitiveness Challenge 2001*, the Council calls for action in a number of areas. We are particularly concerned about the cost environment for enterprise, including rapidly rising employment costs, the delivery of necessary infrastructure in the areas of transport, telecommunications, energy and waste, improvement in market regulation, and increased effectiveness and efficiency in the public sector. Other areas of primary concern include investment in education/training and research and development, which are crucial to Ireland continuing the transition to a high value-added, high income economy.

In many cases, we already know what needs to be done, but have not yet managed effective delivery. Some of the Council's recommendations address this type of difficulty. As before, the Council strongly emphasises the potential of a dynamic Social Partnership process to support and maintain a competitive economy - albeit with a requirement to improve its effectiveness and respond to a rapidly changing environment. In the coming period, the challenge for the continuing relevance of the Social Partnership process lies in its capacity to ensure that the competitiveness of the enterprise sector is a touch-stone for social and economic progress.

Brian Patterson  
Chairman  
National Competitiveness Council

December 2001



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## Summary of Priority Issues and Recommendations

### Why Target Competitiveness?

Competitiveness can be defined as success, efficiency and maximised consumer benefit in markets, remunerating underlying investment and maintaining and improving living standards. Ultimately, competitiveness is the foundation on which our prosperity rests. It is the basis not only of employment and private incomes, but also of public expenditure in areas such as health, education and social welfare.

When the Social Partners came together in the mid-1980s to find agreed solutions to the severe problems that were facing the country at that time - in particular high unemployment, massive emigration, and huge public debt - the focus was on competitiveness. That focus worked very well for us in the period that followed. In recent years, growth rates were achieved that were three times the European average and more. Unemployment turned to employment, emigration to immigration, and debt to surplus.

Although the economy is far more robust than it was ten or fifteen years ago, we are once again at a difficult crossroads. And once again, competitiveness must become the central focus of agreed national policy.

What is required now is a practical response. Efforts must be made to control and moderate costs, to improve productivity, to invest in education, skills, research and development, to improve public infrastructure, to modernise utilities, and to enhance the functioning of markets. These are the issues – all very much linked to competitiveness – that are addressed in this report.

### Economic Outlook

The economic situation is now uncertain and the time ahead will be challenging, but it is important to recall that the economy is now far more robust than it was ten years ago.

- Employment has grown rapidly and chronic unemployment has been practically eliminated
- Interest rates are low in historical terms.
- Investment and saving have been very strong.
- Public indebtedness is proportionately much lower than it was.
- The current account balance remains healthy.
- Ireland is now a low tax economy.
- The FDI sector is greatly expanded.
- Indigenous industry has developed strongly in certain sectors.

The medium-term outlook remains positive if we manage our affairs well.

Ireland's recent economic progress has been outstanding. A downturn had been predicted, since the high growth rates were unsustainable given the many constraints appearing, especially in infrastructure and in the labour market. However, the domestic economic downturn now appears sharper than previously expected, driven by the economic difficulties in the US and the parallel downturn in European and Asian markets.

Over a short period of time, the conditions underpinning Ireland's strong economic performance have changed fundamentally. We are now operating at a juncture of much greater than normal uncertainty and volatility in a world economy that is facing the immense challenge of creating new and sustainable growth. This has come at the very time when we are attempting to grapple with the problems of our recent success – a tight labour market, rising costs and infrastructure under pressure.

The drivers of competitiveness that have brought us success in the past are not all the same as those that will bring similar success in the future. Low business costs, in terms of wages and taxation, have been an important part of the complex of factors that attracted and maintained investment in Ireland in the past. Our wage and unit costs are now rising rapidly, as are the prices of other business inputs. This growth in costs must be moderated, while at the same time we pursue strategies to move to higher value-added, knowledge-based activities. But for this to happen, skills, research capabilities and the ability to adapt and use technology in enterprise must be developed.

The public finances are already suffering from the downturn in demand. Tax revenue growth is well below expectations, while public expenditure has been growing rapidly and the demand from many sectors of society for an even faster rate of increase in public expenditure remains strong. In these circumstances, it is vital to maintain a balance between such demands and the capacity of the revenue-generating sectors of the economy to deliver revenues required without undermining their competitiveness.

### **Employment Costs, Productivity and Social Partnership**

Wages are now rising at the fastest rate in the OECD and faster than productivity. This implies a loss in competitiveness, particularly when associated with other employment costs that have increased in recent years, especially insurance and employers' PRSI<sup>1</sup> since the abolition of the ceiling on employers' contributions. This situation presents a serious problem, jeopardising both employment and incomes, particularly given the current global economic downturn and its threat to existing business, reduced growth opportunities and the tightening of margins. The possibility of adverse changes in exchange rates exacerbates these difficulties.

More moderate growth in employment costs is now required to maintain and improve competitiveness. Enhancing productivity growth is also now required. Ultimately, increased productivity is the only basis for sustained growth in per capita incomes. While many of the factors that affect productivity lie within firms, including investment, technology, skills levels, training, and management, productivity is also affected by the costs that firms must pay for different inputs and services. The level of these costs is affected by the quality of public infrastructure and the level of competition in different markets.

Given the difficulties we are now facing, a flexible, solution-oriented Social Partnership process becomes more important than ever. The Council believes that the Social Partnership process has an enormous contribution to make both in controlling employment cost growth and in promoting productivity growth. It has worked for us in the past and must work for us again.

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<sup>1</sup> Any discussion of PRSI should give due regard to the importance of maintaining the integrity and adequacy of the Social Insurance Fund.

## Recommendations

1. The Social Partners should work together to ensure a moderation relative to recent years in cost increases facing firms and organisations in both the traded and sheltered sectors of the economy, including wage increases and wage-related costs.  
[Responsibility: Social Partners]
2. The labour taxation wedge, i.e. the difference between gross payroll cost to employers and net take-home pay, which consists of income taxation and employers' and employees' social security contributions, should be set at a level that is internationally competitive.  
[Responsibility: Department of Finance; Department of Enterprise, Trade and Employment]
3. The Social Partnership process should prioritise measures required to enhance productivity growth, including investment, the development of a culture of life-long learning with associated flexibility in training and education and the promotion of in-company training.  
[Responsibility: Social Partners]
4. The Social Partners should encourage the take-up of competitiveness-enhancing gain-sharing mechanisms at enterprise level to improve productivity and to promote pay flexibility.  
[Responsibility: Social Partners]
5. In order to tackle escalating insurance costs, priority should be given to ensuring that the Personal Injuries Assessment Board is operational as planned by early 2002.  
[Responsibility: Department of Justice, Equality and Law Reform; Department of Enterprise, Trade and Employment]

## Education

For individuals, education and skills are the most important determinants of employment opportunities and income. Similarly for any society overall, the skills and entrepreneurship of the human resources available to that society are the single most important factor in determining its economic output, growth and standards of living.

Ireland's performance in the area of education relative to that of other countries is not as strong as we tend to believe. The fall off in the study of scientific and technical subjects at second and third level is particularly problematic to sustaining the competitiveness of Ireland's economy. This is of major concern since Ireland's transition to a high value-added, high income economy is dependent on a strong supply of scientifically-trained technicians and graduates to work in research and development and in sectors of the economy.

## Recommendations

6. The decline in the number of students taking science and technology subjects must be quickly halted through the revision of curricula, review of examination systems, provision of finance for laboratories and equipment in schools, and measures to attract more scientific and technical graduates into the teaching profession. The Task Force on the Physical Sciences, established by the Minister for Education and Science to address these issues, must report as planned early next year with an integrated strategy involving these different elements. The Task Force's recommendations must, if accepted, be implemented as quickly as possible, with effect from the start of the academic year 2002/2003.  
[Responsibility: Department of Education and Science]

7. In order to continue the important work that has already been undertaken to begin tackling the 'digital divide', additional funding should be provided to the 'Community Application of Information Technology' programme, to be disbursed through the Social Partners and local groups on a structured competitive-tendering basis.

[Responsibility: Department of Public Enterprise]

## **Infrastructure: Roads and Public Transport**

The Council has already pointed out in previous publications the linkage between competitiveness and infrastructure, pointing out how present inadequacies both in the road system and in the provision of public transport are undermining competitiveness in costs, decreased labour market mobility and house-price inflation. Moreover, infrastructure improvements are crucial for balanced spatial development. The medium-term growth of the economy is dependent on the delivery of the general programme of capital expenditure set out in the National Development Plan, particularly national roads and public transport.

### **Recommendations**

8. Even in the context of the lower levels of Government revenue envisaged over the next few years relative to earlier projections, the highest priority should be given to the implementation, and acceleration where possible, of Government's capital development programme, which is indispensable to the medium-term growth of the economy – affecting costs, business responsiveness, regional development and labour market flexibility. The Council particularly emphasises the importance of on-schedule delivery of transport infrastructure - especially the major national routes and urban transport projects - and telecommunications.

[Responsibility: Department of Finance; Department of the Environment and Local Government; Department of the Taoiseach]

9. The Council recommends continuing review of the National Development Plan, as well as other infrastructural projects formally outside the Plan, with the objectives of prioritising from the point of view of competitiveness, re-examining budgeting and scheduling, establishing comparative cost-benefit ratios and integrating into the Plan the specific components of the emerging National Spatial Strategy.

[Responsibility: Department of the Taoiseach; Department of Finance; Department of the Environment and Local Government]

## **Telecommunications**

Although Ireland has aspirations to be a hub for e-business, the reality is that our telecommunications infrastructure is well below what is available in many OECD countries. Small users currently have extremely limited options for broadband access, and there is considerable disparity in costs between regions for larger users. Since the market is not delivering adequate broadband access, renewed public intervention may be necessary. The regulatory regime also needs improvement through the enactment of the long over-due Communications (Regulation) Bill.

### **Recommendations**

10. The Department of Public Enterprise should publish a strategy by end March 2002 to accelerate an expansion of the telecommunications broadband infrastructure and to make it available on a low-cost, open-access basis.

[Responsibility: Department of Public Enterprise]

11. **Publication of the forthcoming Communications (Regulation) Bill should be given the highest priority and should be presented to the Oireachtas in the first session of 2002 at the latest.**

[Responsibility: Department of Public Enterprise]

## Energy

Ireland's electricity infrastructure is under severe strain and urgently requires significant upgrading. This applies to generation capacity and to the quality of the transmission and distribution systems. Addressing these difficulties, which are hindering industrial development in certain parts of the country, has been complicated by the fact that the sector is now in a process of market liberalisation. Although significant progress has been made tackling short-term problems, including the leasing of additional generation capacity and the liberalisation of the market for combined heat and power, the challenges for the medium term are considerable.

## Recommendations

12. **The planning and development of an all-island energy market for gas and electricity should be accelerated in order to exploit opportunities for reduced investment cost and economies of scale.**

[Responsibility: Department of Public Enterprise]

13. **Eirgrid's ability to function effectively as independent operator of the transmission network within the existing institutional and asset-ownership structures should be monitored on an on-going basis.**

[Responsibility: Department of Public Enterprise]

14. **A study should be undertaken and completed by May 2002 on the ownership options for the gas transmission network and its component parts.**

[Responsibility: Department of Public Enterprise]

## Science and Technology

A strong culture of science and technology is essential for the economy's future growth: to develop the skills and knowledge base, to allow Ireland's exports to continue to compete on world markets, to attract increasingly science-based international investment, and to encourage successful entrepreneurship and innovation.

Investment in research and development in Ireland remains low relative to other developed countries. This applies to the business, government and higher education sectors. The planned expenditure under the National Development Plan, including the recent establishment of Science Foundation Ireland and the expansion of the Programme of Research in Third Level Institutes, will go some way towards addressing weakness in the government and higher education sectors. New incentives are required to stimulate research and development expenditure in the private sector.

## Recommendations

15. **The R&D allocations under the NDP should be accorded the highest priority for implementation and should not be used as a public expenditure buffer to balance public expenditure and revenue.**

[Responsibility: Department of Enterprise, Trade and Employment; Department of Education and Science; Department of Finance]

**16. A study on the introduction of R&D tax credits as part of an integrated strategy to increase business R&D should be completed by September 2002.**

[Responsibility: Department of Enterprise, Trade and Employment; Department of Finance]

## **Environment**

Ireland has abundant and relatively unspoiled environmental resources by international standards. These resources are, however, coming under increasing pressures from economic growth and social change. The key immediate challenges are in the areas of waste management and the control of greenhouse gas emissions.

Waste is now a critical competitiveness issue. Ireland is well behind competing countries in using an integrated waste management approach including prevention and minimisation, recycling and thermal treatment, as well as landfill. This is leading to increased costs at national and company level. The rate of waste generation is continuing to increase and existing waste disposal sites are reaching the end of their useful lifetime. The current institutional structures appear unable to deliver solutions to these problems.

With regard to greenhouse-gas emissions, Ireland exceeds internationally agreed emission limits and is now required to bring its emissions into line. The costs will be significant. A combination of four policy instruments will be required to meet our international commitments: (i) taxation to encourage reduction in emissions; (ii) negotiated agreements with enterprise sectors and companies to agree targets; (iii) emissions trading with other countries willing to sell emissions credits and; (iv) overseas investments in projects that will reduce global emissions.

## **Recommendations**

**17. A National Waste Management Agency should be established with step-in-powers where delays are occurring in putting key waste infrastructure projects in place.**

[Responsibility: Department of the Environment and Local Government]

**18. Any greenhouse gas tax proposals should be signalled well in advance and linked to the prior implementation of negotiated agreements on emissions reductions between the State and industry sectors.**

[Responsibility: Department of Enterprise, Trade and Employment; Department of the Environment and Local Government; Department of Finance; Department of Public Enterprise]

## **Public Sector Effectiveness and Efficiency**

The public sector has made an enormous contribution to Ireland's economic transformation in recent years. It is important that this contribution is recognised. Nevertheless, the scope to improve public sector efficiency and effectiveness remains significant. Where it occurs, public sector ineffectiveness hampers competitiveness. Inefficiency in the use of public resources imposes an additional taxation burden or the opportunity cost of services foregone. Given the enormous role that the state plays in the economic and social development of the country, the importance of having in place the highest international standards for the formulation, implementation and review of policy in a range of areas is also critical.

The Council welcomes the evaluation of the Strategic Management Initiative (SMI) that is currently underway. SMI was first introduced in 1994. Since then, the country has undergone enormous social, economic and technological change. It is, therefore, appropriate that a new vision for public sector reform be developed, and that renewed energy and commitment be devoted to the on-going task of modernisation.

## Recommendations

19. A new programme of public service reform and modernisation should urgently be established. The programme should include the following elements:

- examination of the role and function of Government, including focus on the optimal contribution of private and voluntary sectors to the delivery of public services;
- further development of human resource, financial, information and project management;
- comprehensive review of public expenditure programmes, going beyond the current Budget process, through the application of rigorous evaluation techniques and zero-based budgeting;
- urgent delivery of the programme of modernisation for the Civil Service and for the education, health and local government sectors, as set out under the Programme for Prosperity and Fairness.

[Responsibility: All Government Departments]

20. The public pay benchmarking process agreed as part of the Programme for Prosperity and Fairness should be completed as planned. The process should not be allowed to revert under pressure to the discredited system of internal public sector relativities that has operated in the past.

[Responsibility: Department of Finance]

## Competition and Regulation

Competitor countries continue to place huge emphasis on facilitating competition and improving the efficiency of their domestic economies through the reformation of their regulatory framework. Ireland must do likewise, particularly given that the traditional instruments used by government (exchange rate policy, interest rate policy etc.) are no longer available in the context of European integration and other international agreements.

### Recommendation

21. Continued regulatory reform is needed, including implementation of the recommendations of the OECD review *Regulatory Reform in Ireland* (2001) and of the NCC's *Statement on Regulatory Reform* (2000). The Council recommends particular focus on the following:

- continued emphasis on the primacy of the needs of consumers (including businesses as customers) especially through improvements in the consultative process;
- a general programme of reform to improve regulation of self-regulating sectors, including removal of barriers to entry;
- a review of the operations of the legal system, examining in particular whether the processes and institutions themselves could be restructured towards the objective of reducing costs.

[Responsibility: Department of the Taoiseach; Department of Enterprise, Trade and Employment; Department of Justice, Equality and Law Reform]



## Economic Outlook

The economic situation is now uncertain and the time ahead will be challenging, but it is important to recall that the economy is now far more robust than it was ten years ago.

- Employment has grown rapidly and chronic unemployment has been practically eliminated
- Interest rates are low in historical terms.
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- Public indebtedness is proportionately much lower than it was.
- The current account balance remains healthy.
- Ireland is now a low tax economy.
- The FDI sector is greatly expanded.
- Indigenous industry has developed strongly in certain sectors.

The medium-term outlook remains positive if we manage our affairs well.

Ireland's recent economic progress has been outstanding. Growth rates have been achieved that were three times the European average and more. A downturn had been predicted, since such high growth rates were unsustainable given the many constraints appearing, especially in infrastructure and in the labour market. However, the domestic economic downturn now appears sharper than previously expected, driven by the economic difficulties in the US and the parallel downturn in European and Asian markets.

Over a short period of time, the conditions underpinning Ireland's strong economic performance have changed fundamentally. We are now operating at a juncture of much greater than normal uncertainty and volatility in a world economy that is facing the immense challenge of creating new and sustainable growth. This has come at the very time when we are attempting to grapple with the problems of our recent success – a tight labour market, rising costs and infrastructure under pressure.

The drivers of competitiveness that have brought us success in the past are not all the same as those that will bring similar success in the future. Low business costs, in terms of wages and taxation, have been an important part of the complex of factors that attracted and maintained investment in Ireland in the past. Our wage and unit costs are now rising rapidly, as are the prices of other business inputs. This growth in costs must be moderated, while at the same time we pursue strategies to move to higher value-added, knowledge-based activities. But for this to happen, skills, research capabilities and ability to adapt and use technology in enterprise must be developed.

The recent tragic events in New York and Washington have injected considerable further uncertainty into the world economic situation. While it is too soon to predict the outcome, it is clear that there will be immediate consequences in terms of further losses in business and consumer confidence. No sector will be insulated from these difficulties. But areas of particular concern to Ireland include the ICT, tourist and aviation sectors. Expectations for growth in 2002 have been lowered to around 3.5 per cent by different commentators. However, it should be borne in mind that the economy is more robust than it was ten years ago. The medium-term outlook remains positive provided we manage our affairs well.

The difficulties of the ICT sector are especially acute in Ireland. Foreign direct investment in the ICT sector has been one of the primary drivers of growth. While this sector has in the past grown more rapidly than others in developed economies, it is the one most sensitive to a downturn, dependent as it is on products with short life-cycles and on major investment commitments to the next wave of technology. In a time of uncertainty, investment decisions, whether by the producer or the consumer, are likely to be postponed, involving as they do significant expenditures and reorganisation of activity. Examples include the next generation of PCs, 3G mobile phones, and broadband networks.

The downturn creates knock-on difficulties for support industries and services and ultimately for non-traded services. A number of Irish-owned industries have grown up as suppliers to multinationals and are heavily dependent upon them for their continued progress. With the downturn, these industries will suffer and there is evidence that this is already happening inside sectors such as printing, advertising, and logistics. In addition, a number of domestic services have initiated or expanded production and employment in response to increased consumer spending. These services, such as retailing, restaurants, and personal services, are often dependent on discretionary expenditure and are, therefore, equally vulnerable to any change in consumer confidence. Tourism will be particularly affected by domestic and international uncertainties.

Ireland is one of the most open economies in the world: with its exports and imports together totalling more than 170 per cent of GDP, and the economy is necessarily very sensitive to any change in the international economic environment. In particular our dependence on foreign direct investment for a significant proportion of total foreign earnings and employment (both direct and indirect) means that any change in either the world market or the market from which this investment stems will have significant consequences for the economy as a whole. A further difficulty is that our exports and imports are not distributed evenly in geographical terms: there are significant exports to the UK and to the United States. Exports to the UK are very sensitive to the value of sterling with respect to the euro, and, similarly, any weakness in the US dollar with respect to the euro will mean that a significant proportion of exports is highly vulnerable.

Wage inflation may slow down temporarily as a result of a general slowdown in economic activity. However, structural problems in the labour market remain a deeper underlying threat to competitiveness. The problems include the lack of suitable training systems that widen and deepen the skills of those employed and the flexibility of the workforce, the lack of childcare facilities to facilitate entry and re-entry into the workforce, and the inadequacies of public transport, traffic congestion and housing, all of which militate against labour market flexibility.

The public finances are already suffering from the downturn in demand. Tax revenue growth is well below expectations, while public expenditure has been growing rapidly and the demand from many sectors of society for an even faster rate of increase in public expenditure remains strong. In these circumstances, it is vital to maintain a balance between such demands and the capacity of the revenue-generating sectors of the economy to deliver revenues required without undermining their competitiveness.

**The Council emphasises the importance of sound public finances in order to secure a platform for future economic and social progress and as an essential support for overall national competitiveness.**



# Employment Costs, Productivity and Social Partnership

## Why is this important?

### *Employment Costs*

Wages in Ireland are now rising rapidly. Growth in nominal compensation per employee in 2001 was estimated at 7.3 per cent earlier this year, which was the highest rate in the OECD. Moreover, the latest national data suggest that wages may be growing at a faster rate than this. Unit labour costs are forecast to grow by 5.5 per cent in 2001, which is the 4th highest in the OECD.

Other employment costs giving cause for concern include taxation (particularly since the abolition of the ceiling on employers' PRSF<sup>2</sup>) and liability insurance costs. With regard to the former, there is a need to improve work incentives by reducing the burden of taxation on low to middle incomes. With regard to the latter, a recent survey undertaken by IBEC suggests that the cost of liability insurance has risen by over 40 per cent between 1999 and 2001, while at the same time accident rates and claim rates have actually fallen. In addition to liability insurance, motor insurance remains an area that is problematic. Moreover, post September 11th, conditions in the insurance industry have worsened considerably and this will lead to further increases in costs.

### *Productivity*

Throughout the 1990s, productivity grew in Ireland by over 3 per cent per year on average, which was 1st out of 17 leading OECD countries. The annual average productivity growth rate was 3.9 per cent for the period 1996-2000, and is estimated at 3.6 per cent for the year 1999-2000.

Despite this rapid growth in productivity levels over the last decade, the absolute level of productivity (calculated as GDP per person employed per annum) as of 1999 was still only 75 per cent of the level of the leading country, Luxembourg, and 84 per cent of the second leading country, the United States. Moreover, high productivity in Ireland is concentrated in the industrial sector, and within the industrial sector in sub-sectors dominated largely by foreign multinationals.

Wages are now rising faster than productivity, which – particularly when associated with other employment costs that have increased in recent years - implies a loss in competitiveness. This situation presents a serious problem, jeopardising both employment and incomes, particularly given the current global economic downturn and its threat to existing business, reduced growth opportunities and the tightening of margins. The possibility of adverse changes in exchange rates exacerbates these difficulties.

## What has been done?

### *Social Partnership*

The Council has consistently emphasised the enormous contribution that Social Partnership has made to Ireland's economic success over recent years.

Some frustration with the Social Partnership process on the part of employers, trade unions and the voluntary sector has been evident in recent times. This is natural given the pressures that the process has been under. However, as pointed out in its statement on the matter last year, the Council believes that not enough has been done to promote Social Partnership through highlighting the positive contributions it has made and can continue to make.

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<sup>2</sup> Any discussion of PRSF should give due regard to the importance of maintaining the integrity and adequacy of the Social Insurance Fund.

### What needs to be done?

More moderate growth in employment costs is now required to maintain and improve competitiveness. Enhancing productivity growth is also now required. Ultimately, increased productivity is the only basis for sustained growth in per capita incomes. While many of the factors that affect productivity lie within firms, including investment, technology, skills levels, training, and management, productivity is also affected by the costs that firms must pay for different inputs and services. The level of these costs is affected by the quality of public infrastructure and the level of competition in different markets.

Given the difficulties we are now facing, the importance of a flexible, solution-oriented Social Partnership process becomes more important than ever. The Council believes that the Social Partnership process has an enormous contribution to make both in controlling employment cost growth and in promoting productivity growth.

The Council recognises that the Social Partnership process may have to adapt itself creatively to the new circumstances in terms of both agenda and process. In that context, the Council would draw attention to the discussion paper on this issue that it commissioned earlier this year, entitled *The Future of Social Partnership in Ireland*. (The issue of public sector pay and the benchmarking process is referred to later in this report under the heading 'Public Sector Efficiency and Effectiveness'.)

#### The Council makes the following recommendations:

Increases in employment costs (including wages, taxation, and liability insurance) are out-pacing productivity growth resulting in declining international competitiveness. This presents a real threat in the current negative global economic environment. Accordingly, the Council recommends that all efforts be made by the Social Partners to control employment costs and to stimulate productivity growth, including the following:

- The Social Partners should work together to ensure a moderation relative to recent years in cost increases facing firms and organisations in both the traded and sheltered sectors of the economy, including wage increases and wage-related costs.
- The labour taxation wedge, i.e. the difference between gross payroll cost to employers and net take-home pay, which consists of income taxation and employers' and employees' social security contributions, should be set at a level that is internationally competitive. This should be kept under constant review.
- The Social Partnership process should prioritise measures required to enhance productivity growth, including investment, the development of a culture of life-long learning with associated flexibility in training and education and the promotion of in-company training. (Other areas crucial for enhancing productivity and where the Social Partners have an important policy contribution to make, such as delivery of public infrastructure and promotion of research and development, are dealt with later in this report.)
- The Social Partners should encourage the take-up of competitiveness-enhancing gain-sharing mechanisms at enterprise level to improve productivity and to promote pay flexibility. Such mechanisms could have an important role to play in maintaining employment in the event of adverse exchange rate movements to which the economy may be exposed.
- In order to tackle escalating insurance costs, priority should be given to ensuring that the Personal Injuries Assessment Board is operational as planned by early 2002. Litigation procedures should also be reviewed with a view to reducing costs (See later).
- A campaign should be undertaken to highlight the contribution of Social Partnership to Ireland's economic and social transformation and the on-going contribution that it can make to maintaining and improving Ireland's competitiveness, leading to rising standards of living for all.



## Other Cost Issues

### Why is this important?

The relative costs a firm faces for different inputs and services in part determine its competitiveness. For many firms, the main costs relate to employment, but the level of non-labour costs is also extremely important from a competitiveness point of view, and countries actively seek competitive advantage in this area through programmes of market liberalisation and regulatory reform.

Annual Competitiveness Report 2001 gives Ireland a rank of 10th out of 15 OECD countries under the **Competitiveness Score for Non-Labour Enterprise Costs**. This low ranking reflects medium cost levels for most telecom services, commercial fuel and electricity (although electricity prices have subsequently risen); high office rents; and very high charges for mobile telephone calls.

From a competitiveness point of view, apart from employment costs, the following key issues with regard to costs facing the enterprise sector are now emerging:

- vulnerability of the economy to a strengthening of the euro against sterling and the dollar;
- rising electricity prices;
- the slow adoption of e-business.

### *Exchange Rates*

Ireland's effective exchange rate for 2000 (using a trade-weighted rate calculated by the OECD) was approximately 10 per cent lower than the 1995 rate, implying a currency-based competitiveness gain. However, this year has seen the euro beginning to appreciate against both sterling and the dollar, a trend long forecast by analysts.

Appreciation of the euro against sterling implies a currency-based loss in competitiveness for companies exporting to the UK or those competing on the domestic market against imports from the UK. This can be particularly problematic where companies are operating on tight margins, as many of those in traditional industries tend to be. An appreciation of the euro against the dollar creates difficulties for the US FDI sector in Ireland as costs measured in dollars rise, making Ireland a less attractive location for investment. An appreciation of the euro against the dollar also reduces the competitiveness of exports back to the US.

The Council considers that the trading sector in Ireland has not yet begun to take full advantage of the eurozone both as a destination for exports and as a source of imports. Of eurozone countries, Ireland has the second lowest share of exports going to the zone and the lowest share of imports coming from the zone. Ireland is, therefore, much more exposed to fluctuations in the external value of the euro than other countries.

### *Rising Electricity Prices*

Annual Competitiveness Report 2001 shows Ireland ranked 8th out of 13, 9th out of 13, and 11th out of 15 EU countries for electricity prices to large, medium and small industrial users respectively as of January 2001. Given this disappointing performance, the Council notes with concern the recent rise in electricity prices, which has a direct negative impact on competitiveness. The Council also notes the diseconomies resulting from the small size and isolated geographic location of the Irish energy market, and emphasises the importance of ensuring security and reliability of supply in the short- and long-term. Ultimately, the liberalisation of the energy markets should result in secure, efficiently-generated, competitively-priced supply that is adequate to the needs of a growing economy. (See later section on energy.)

### *Using e-Business to Reduce Costs*

In an environment with rising domestic costs and stagnating global demand, it is imperative that all cost-reducing opportunities are exploited. Adoption of e-business is one of the most important of such opportunities, with the potential to:

- increase the speed with which supplies can be obtained;
- increase the speed with which goods can be dispatched;
- reduce sales and purchasing costs for both buyer and seller;
- reduce operating costs;
- widen the choice of input suppliers with attendant potential benefits in quality and costs;
- improve the range and quality of service offered;
- facilitate access to larger markets.

As shown in Annual Competitiveness Report 2001, Ireland is not particularly advanced in its adoption of e-business. Ireland ranked 11th and 15th respectively (out of 16 European countries) for the proportional value of Business to Consumer (B2C) and Business to Business (B2B) transactions. According to a study by the European Network for SME research, only 3 per cent of Irish SMEs used the Internet for distribution purposes in 1999 compared with 34 per cent in the leading country, Sweden. It is unlikely that Ireland's comparative position has improved greatly since then.

Clearly, there is much ground to be made up in this area. One of the major obstacles to further integration of e-business into enterprise culture in Ireland is the poor level of broadband access for small users. This issue is dealt with in more detail in the section on telecommunications.

### **What needs to be done?**

With rising enterprise costs giving cause for considerable concern at time of global and domestic economic downturn and possible adverse movements in exchange rates, the Council recommends:

- an enhanced level of action by Enterprise Ireland and by industry bodies to help Irish firms achieve increased exploitation of export and import opportunities within the eurozone; further encouraging Irish industry to diversify from the UK market; and the development of an import strategy to encourage eurozone sourcing;
- further improvements in the regulation of the telecommunications and energy markets to maximise long-term consumer benefit;
- that the State development agencies, employer bodies and trade unions promote a more rapid introduction of e-business practices into enterprise culture in order to exploit fully the potential cost savings and other benefits.



## The Competitiveness of Indigenous Enterprise

### Why is this important?

Improving productivity and promoting growth in the indigenous sector is a key element in maintaining and enhancing Ireland's competitiveness. In the current global economic conditions, the importance of the indigenous sector as a source of economic growth and employment is more important than ever. The foreign-owned manufacturing sector has borne the brunt of the job losses in Ireland this year, reflecting its more direct exposure to economic developments in the USA. However, the business environment for indigenous industry is likely to deteriorate in the coming period.

### What has been done?

Considerable assistance is provided to indigenous industry on an on-going basis through the State agencies – Enterprise Ireland, Shannon Development and Údarás na Gaeltachta.

### What needs to be done?

One essential component in assisting Irish companies to survive and maintain positive growth patterns at a time of economic slowdown is ensuring ready access to finance. Venture capital investment levels have already fallen dramatically over the course of 2001 and there is little doubt that the heightened uncertainty and economic gloom since September 11th will further affect the provision of private capital investment in Ireland. Ireland still lags behind a number of other countries in relation to entrepreneurship, and the current less-than-favourable economic climate means that further efforts are needed to encourage emerging entrepreneurs. In the light of these concerns, the Council recommends that further State assistance be provided in the form of venture capital. The emphasis should be on new sectors and companies and on seed capital. A regional emphasis would also be appropriate as some companies are reported to be currently denied access to venture capital because of location.

In general, adjustments should be made where necessary to the existing policies of State support to indigenous industry to reflect the changed economic circumstances, in particular the heightened need for competitiveness. New strategies may need to be devised. For example, it is possible that assistance should be provided to companies that have long-term viability and are endeavouring to improve productivity and competitiveness without their necessarily being on an immediate growth path. Support could also be provided for group activities: for example, where networks are being built to share learning with a focus on productivity.

The Council also understands that demand by indigenous companies for marketing assistance is increasing in the current circumstances with more companies looking to diversify from existing markets or to export for the first time. Given EU regulations, the nature of the support is in the form of contacts and capability assistance rather than grant-aid. The Council supports further provision of such assistance as required.

With continuing economic downturn almost certain and adverse movements in exchange rates possible, the Council recommends the following in relation to State support to indigenous industry:

- Additional finance should be provided through Enterprise Ireland for venture capital investment in indigenous high-technology companies.
- Existing policies of State support to indigenous industry should be adjusted as necessary to reflect the changed economic circumstances, in particular the heightened need for competitiveness. For example, consideration should be given to the establishment of a Competitiveness Fund by Enterprise Ireland to provide assistance to companies that have long-term viability and are endeavouring to improve productivity and competitiveness without their necessarily being on an immediate growth path.
- Increased marketing assistance should be provided for indigenous companies.



## Education

### Why is this important?

For individuals, education and skills are the most important determinants of employment opportunities and income. Similarly for any society overall, the skills and entrepreneurship of the human resources available to that society are the single most important factor in determining its economic output, growth and standards of living.

Annual Competitiveness Report 2001 gives Ireland a rank of 16th out of 20 countries under the **Competitiveness Score for Education**. This reflects a low level of investment in education as a proportion of GNP or GDP, low levels of absolute expenditure per student, low educational participation rates, a low level of educational attainment - particularly in regard to the proportion of the population with at least upper secondary education, and a low level of literacy.

The poor performance in the area of education highlighted by Annual Competitiveness Report 2001 is contrary to our own perception of our performance in this area. The fall off in the study of scientific and technical subjects at second and third level is particularly problematic to sustaining the competitiveness of Ireland's economy. This is of major concern since Ireland's transition to a high value-added, high income economy is dependent on a strong supply of scientifically-trained technicians and graduates to work in research and development and in sectors of the economy.

### What has been done?

The education sector is a huge area for policy, and reform and modernisation is an on-going process. Developments over recent years include the introduction of new curricula and alternations to the examination system. The current National Development Plan provides for considerable increases in expenditure on education, continuing the trend of recent years. An area of particular focus for increased expenditure is third level basic research (see also section on science and technology). This has already been welcomed by the Council. Recent policy contributions include the publication of the White Paper on Adult Education (2000) and the work of the Expert Group on Future Skills Needs.

The Council particularly welcomes the recent establishment of NQAI (National Qualifications Authority of Ireland), HETAC (Higher Education and Training Awards Council) and FETAC (Further Education and Training Awards Council) to improve the regulation of qualifications in Ireland. These institutions will contribute to the development of a culture of life-long learning through improving standardised accreditation, thus facilitating progression and transfer for learners. One of the tasks facing these bodies will be the need not alone to inform themselves of the educational and training needs of industry but also to promote practices in education and training to meet these needs.

### What needs to be done?

Fresh, creative approaches are now required to re-structure the educational sector. Such approaches must reflect changing demographics (particularly the rapid fall-off in the number of school leavers over the coming years and the ageing of the population), new technologies, and changing lifestyles. This will require, as a priority, removal of unnecessary obstacles to access, transfer and progression for students. With life-long learning increasingly becoming a way of life for the labour force, a corresponding emphasis is required to renew commitment to quality standards, to ensure that course delivery is as flexible as possible, and generally to recognise the need to have education and training provision that is more learner-centred.

The lack of computer literacy and access to information and communications technologies will be as serious a disadvantage to participation in society in future as illiteracy is now. Sections of society must not be left socially and economically disadvantaged. This can best be achieved through the resourcing of community-based information and communications technology centres and initiatives to provide general access, knowledge and training for all citizens in the use of the internet, targeted in particular on areas of social disadvantage.

The Council makes the following recommendations:

- The decline in the number of students taking science and technology subjects must be quickly halted through the revision of curricula, review of examination systems, provision of finance for laboratories and equipment in schools, and measures to attract more scientific and technical graduates into the teaching profession. The Task Force on the Physical Sciences, established by the Minister for Education and Science to address these issues, must report as planned early next year with an integrated strategy involving these different elements. The Task Force's recommendations must, if accepted, be implemented as quickly as possible, with effect from the start of the academic year 2002/2003.
- In order to continue the important work that has already been undertaken to begin tackling the 'digital divide', additional funding should be provided to the 'Community Application of Information Technology' programme, to be disbursed through the Social Partners and local groups on a structured competitive-tendering basis.
- The tightening of public finances should not be allowed to impact on the planned expanded output of post graduate and PhD engineers and scientists for industry and research (*See also section on science and technology*).
- The £130m five-year programme in ICT skills investment put forward by the Expert Group on Future Skills Needs should be implemented as proposed.
- In line with the target in the National Anti-Poverty Strategy, the proportion of the population aged 16-64 with restricted literacy should be reduced to below the 10-20 per cent level by 2007.
- The Task Force on Life-Long Learning should, by February 2002, complete its report outlining a strategic framework for facilitating life-long learning. The framework should give primary emphasis to issues of access, progression and transfer of learning, including flexibility and quality of delivery.



## Infrastructure: Implementing the NDP

**Annual Competitiveness Report 2001** gives Ireland a rank of 13th out of 15 OECD countries under the **Competitiveness Score for Transport Infrastructure**. This reflects a low density of rail infrastructure, very little rail electrification, a medium density road network and an under-developed motorway network.

### **Change over time: Length of motorway network per 1000 km<sup>2</sup>**

The length of Ireland's motorway network has increased rapidly since the 1980s. However, the network is still under-developed by OECD standards. In 1987, the length of Ireland's motorway network was 0.1 km per km<sup>2</sup>, giving a rank of 27th out of 27 OECD countries. By 1997, this figure had risen to 1.3, giving a rank of 23rd out of 28 countries.

### **What the data do not reflect: Investment in Infrastructure**

The significant expenditure on infrastructure towards the end of the last decade and particularly the very considerable expenditure planned under the current National Development Plan 2001-2006 will certainly improve the stock of transport infrastructure. Nonetheless, given the long period of under investment, advancing our competitive position in this regard is likely to take some time. Ireland's per capita investment in transport infrastructure between 1990-1996 was 13th out of 15 European countries. The leading country, Luxembourg, invested almost four times as much per capita over the same period.

### **Why is this important?**

In a number of reports, the Council has drawn attention to the linkage between competitiveness and infrastructure, pointing out how present inadequacies both in the road system and in the provision of public transport are undermining competitiveness in costs, through decreased labour market mobility and house-price inflation. The National Development Plan is a major investment programme that is intended to lead to significant improvements in infrastructure. Reduced journey times will improve deliveries of supplies and products for businesses, and reduced commuting times will improve labour markets and the quality of life generally. Moreover, infrastructure improvements will increase the attractiveness of rural areas as investment locations, reducing congestion in the South and East of the country.

### **What has been done?**

The National Development Plan is the most important investment programme ever undertaken by the State. With a total value over €40 billion, the plan covers a period from 2001 to 2006. Although the range of projects covers the areas of science and technology, education, childcare and others, the most direct impact on competitiveness is provided by the improvements contained in it for the national road system and also for urban rail.

### **What needs to be done?**

A mid-term review of the NDP is scheduled for 2004. However, given recent developments in the domestic and global economies and the implications for public finances, the Council considers that an earlier opportunity should be taken to review the Plan to determine whether any re-orientation is required. The National Spatial Strategy, which has now reached the public discussion document stage, can be a crucial input at this point.

A particular concern is the delays that persist in relation to planning and compulsory acquisition. Some groups object to particular aspects of implementation, and others are opposed to specific projects themselves, such as proposed motorways. An initiative has recently been launched to increase public awareness of the importance of the NDP and its role in national and regional development. This is an important initiative that requires the strongest possible leadership at political level and enthusiastic support at all levels in the Social Partnership process.

The Council makes the following recommendations:

- Even in the context of the lower levels of Government revenue envisaged over the next few years relative to earlier projections, the highest priority should be given to the implementation, and acceleration where possible, of Government's capital development programme, which is indispensable to the medium-term growth of the economy – affecting costs, business responsiveness, regional development and labour market flexibility. The Council particularly emphasises the importance of on-schedule delivery of transport infrastructure - especially the major national routes and urban transport projects - and telecommunications.
- The Council recommends continuing review of the National Development Plan, as well as other infrastructural projects formally outside the Plan, with the objectives of prioritising from the point of view of competitiveness, re-examining budgeting and scheduling, establishing comparative cost-benefit ratios and integrating into the Plan the specific components of the emerging National Spatial Strategy.
- The NDP should be project managed from a whole-of-Government perspective. While individual aspects are the responsibility of individual Government Departments and Agencies, its full contribution to the overall competitiveness of the economy will only be achieved within a comprehensive and integrated approach in the design and delivery of the different elements.
- A campaign should be undertaken to communicate the benefits of the NDP to the economy as a whole and to all communities. The Social Partners and business organisations should play an active role in this campaign.
- The NSS should identify a specific set of infrastructures of national economic importance to be incorporated in regional planning guidelines and local development plans.
- Opportunities for the development of infrastructure corridors should be exploited where feasible to combine electricity, gas, telecoms and roads, in the interests of efficiency and accelerating the planning and delivery of these various elements of infrastructure.
- The feasibility of an improved road and rail corridor for the west of Ireland should be explored as part of the National Spatial Strategy process.
- The Council recommends a formal process of benchmarking to identify best international practice in the planning of infrastructure, project organisation and management, construction performance benchmarks, new technology and innovations, leading to better construction techniques.
- With regard to rural public transport, the Council emphasises the importance of regulatory reform in the transport sector, and de-regulation of local bus services in the regions.



## Infrastructure: Housing

### Why is this important?

Difficulties in the housing sector in Ireland continue to have wider economic repercussions and represent not only a social problem but are also having negative effects on economic growth and the flexibility of the labour market to respond to change. Rising costs of accommodation, whether bought or rented, create upward pressure on wages. They also act as a deterrent to immigration and the recruitment of skilled staff from abroad. The way in which housing is developed is adding to the difficulties. Low-density spatial development with poor public transport connections leads to increased congestion costs.

### What has been done?

There has, during the course of 2001, been a moderation in the growth of house prices, partly because of Government intervention in this area and partly because of the economic slowdown. However, the cost of housing remains extremely high, especially in Dublin and some other cities. It is also argued that recent State interventions in the housing market have led to the rental market suffering from an extreme shortage of supply. This further exacerbates the trends of inflexibility in the labour market and may also encourage emigration among younger skilled workers.

Welcome recent initiatives in this area include:

- the Planning Act, which, through its social housing provision, should promote both affordable housing and social integration;
- the Strategic Planning Guidelines, which provide a framework for integrated development of communities and the environment, giving direction for detailed planning in the future;
- the Consultation Paper on New Institutional Arrangements for Land Use and Transport in the Greater Dublin Area, published by the Department of the Environment and Local Government and the Department of Public Enterprise, which also represents a significant step towards the improvement of planning processes and the integrated development of services and communities.

### What needs to be done?

Improvements in the provision of housing can also come from the greater involvement of consumers in the development of housing schemes. The co-operative model of housing development, common in many other European countries, leads to housing developments essentially commissioned by groups of purchasers, who specify the design, materials and plans for the development in the light of their own perceptions and needs. Support is often provided through local authorities or through fiscal incentives for such developments, which foster more integrated communities and can lead to better quality designs. However, the share of such schemes in the total of houses constructed in Ireland at present is a tiny one.

The Council therefore recommends:

- Explicit public transport solutions should be established as a condition for larger-scale housing developments.
- Successful models of social housing through partnership and co-operative movements, as has been achieved in the Netherlands and Denmark, should be encouraged.
- The Department of the Environment and Local Government, in co-operation with the construction industry and the architecture, planning, and engineering professions should examine urgently the scope for introducing new patterns and techniques of housing development that are sensitive to social and environmental needs.



## Telecommunications

### Why is this important?

Business activity, particularly e-business, increasingly requires high-capacity, high-speed telecommunications networks. Many companies have to transfer large volumes of data at high speeds to customers, suppliers and executives worldwide. A low-cost telecommunications broadband infrastructure, on which the required services can be provided, is therefore essential to sustain competitiveness at a national and regional level.

Annual Competitiveness Report 2001 ranks Ireland 16 out of 21 OECD countries under a Score for Information Society. This reflects extremely poor broadband access in terms of DSL lines per 100 population, low incidence of online business-to-business and business-to-consumer transactions, and a low rate of small and medium sized enterprise (SME) connection to the Internet.

### What needs to be done?

#### *Develop a new national telecommunications infrastructure strategy*

Despite the progress outlined above, the roll-out of broadband facilities and services by the commercial sector has been disappointing since deregulation was introduced. A key deficiency is the absence of competitive provision of always-on, fixed-price broadband access using DSL and cable modems to meet the needs of SMEs. Ireland is currently ranked 27th out of 28 countries in the OECD in the provision of these services. There is also a need to address the difficulties that arise where different telecommunications companies are rolling out networks in the same areas with little apparent co-ordination in timing or deployment.

The provision of the required infrastructure is so important from a national and regional development perspective that the Government should consider the need for a stronger State role to ensure provision. Accordingly, a new strategy should be developed to ensure that the required telecommunications infrastructure is provided nationally with full open access for all telecommunications operators at a low price and on a non-discriminatory basis so that competitive broadband services can be delivered to best international standards.

Some of the principles that should guide the development of this strategy are as follows:

- An open-access national backbone infrastructure, serving the regions prioritised for development, is desirable.
- Low-cost access to the local access network or 'last mile' should be available to all telecommunications companies.
- Existing national telecommunications infrastructure assets should be utilised to the maximum extent.
- The strategy should be developed, as a matter of urgency, within four months.
- The national cost and benefit implications of alternative solutions to provide the above should be fully assessed.

At present, the wholly State-owned companies ESB, Bord Gáis Eireann and Iarnród Éireann have significant telecommunications infrastructure capacity in place or planned. Local Authorities are making telecommunications infrastructure investments. The State is a shareholder in the Global Crossing project. The feasibility of a new broadband corridor along the western seaboard, the Atlantic Broadband Corridor, is being assessed, and the Council very much welcomes this development. Consideration should be given, in developing the strategy mentioned above, to the co-ordination of these assets to eliminate unnecessary duplication and achieve economies of scale and increased utilisation.

Consideration should also be given, in developing the strategy, to encouraging Eircom to separate its backbone/local access infrastructure business from its retail business. The infrastructure business could then be regulated on a cost efficiency basis to ensure the same fair access price for all telecommunications companies, including Eircom retail. This could lead to increased utilisation of the infrastructure and commercial justification for its further development.

In the context of all these issues, consideration should be given to the establishment of a state body to oversee implementation of the strategy, co-ordinating the activities of local authorities in this regard and working in partnership with the private sector to deliver required broadband infrastructures and services in the regions. Such a step could be perceived as going against recent policy in this area, but policy in this instance must be driven by practical considerations. Of course, it would be important to assess risks such as the risk of de-incentivising private investment. But, on the whole, where market failures have been identified, targeted intervention is warranted.

#### *Other issues*

A number of other issues need to be addressed, as part of the strategy, including the following:

- Planning regulations underpinned by legislation for local authorities on infrastructure work, including local authority charges and the sharing of ducting by telecommunications companies, are urgently required.
- Property developers, including office, industrial and house builders, should be encouraged to provide common ducting for telecommunications companies.
- Targets should be adopted to upgrade the copper network to broadband capacity. This is normally achieved through the use of DSL technology.
- There is a need to communicate the benefits of an enhanced telecommunications infrastructure, including masts, and to accelerate the planning process for this infrastructure.

#### *Regulatory Certainty*

The private sector will be the primary driving force in achieving the required investment. This requires, above all, establishing a comprehensive, consistent and transparent regulatory framework within which all telecommunications service providers can fully develop the market opportunities in broadband services. This should be a key policy objective.

Revised legislation to strengthen and improve the regulatory system has been in consultation and drafting for some time but there is considerable uncertainty as to when it will be brought before the Oireachtas. It is critical that the final drafting of the Bill be given the highest priority and presented to the Oireachtas in the first session of 2002 at the latest. The delay in bringing the Bill before the Oireachtas and in having it enacted reflects badly on Ireland's commitment to an effective, transparent regulatory system for the telecommunications sector. The provision in the bill for the introduction of an appeals panel to be established on request to the Minister for Public Enterprise to review decisions of the Regulator is likely to introduce delays into the regulatory process and the proposed structure of the panel should be re-considered.

### *Develop Ireland's Internet Exchange*

Ireland's main exchange for the sharing of Internet traffic is the Internet Neutral Exchange (INEX), established in the early 1990s. It is managed on a co-operative basis among operators to service the Irish market, with international traffic forwarded to London for onward distribution. E-business enterprises and the location of internet data centres in Ireland have brought about a situation where INEX has to handle a significantly increased level of activity. It is now a key element in Ireland's Internet infrastructure. A strategic plan for the development of INEX, to handle this challenge is required, including the provision of adequate resources.

The Council recommends the following:

- The Department of Public Enterprise should publish a strategy by end March 2002 to accelerate an expansion of the telecommunications broadband infrastructure and to make it available on a low-cost, open-access basis.
- Publication of the forthcoming Communications (Regulation) Bill should be given the highest priority and should be presented to the Oireachtas in the first session of 2002 at the latest.
- Planning regulations governing the deployment of fibre- and wireless-based telecommunications infrastructures in a consistent national manner should be finalised and implemented by March 2002 at the latest.
- A strategic plan for the development of INEX should be drawn up.



## Energy

### Why is this important?

Ireland's electricity system is straining to cope with the demands being placed upon it by a larger and growing economy. This applies to the generation, transmission and distribution infrastructures.

Annual Competitiveness Report 2001 shows that for **electricity prices** at January 2001 Ireland is ranked 8 out of 13 countries for large users, 9 out of 13 countries for medium sized users, and 11 out of 15 countries for small industrial users. Electricity prices increased in October 2001. Large users will see a 3-4 per cent increase in the average price of electricity, while prices will rise by 14 per cent for medium-sized users and by 14 per cent for small industrial users. (In making comparisons between electricity prices in Ireland and those in other countries, it is useful to note that some other countries have significant hydroelectric endowment and/or (subsidised) nuclear energy generation. However, this does not alter the competitive reality of price differentials.)

The key policy objectives should be to provide a high quality energy system at minimum cost, on an all-island basis, and to provide for the necessary infrastructure in the National Spatial Strategy.

### What has been done?

Significant progress has been achieved in a number of areas, including the following:

- An additional 150 MW of emergency generating capacity was provided to ensure that peak demand would not exceed supply this winter.
- The market for Combined Heat and Power (CHP) was fully liberalised in 2001.
- A transmission investment programme of £100 million per annum over the next five years was agreed by Eirgrid and the Commission for Electricity Regulation (CER).
- The CER has approved an investment programme of £300 million per annum by ESB in distribution networks over the next five years.
- Tariffs for gas transmission were agreed by the Department of Public Enterprise in November 2001.
- The Government has given its approval for Bord Gáis Eireann (BGE) to proceed with the construction of a second gas inter-connector between Scotland and Ireland.
- Corrib Partners have announced that gas will be landed from the Corrib field, off the Mayo coast, from 2003.
- The Minister for Public Enterprise has decided to open 40 per cent of the electricity market to competition in 2002, moving to full liberalisation in February 2005.

### What needs to be done?

#### *Consider ownership options for the gas transmission network*

BGE is an integrated operator for gas transmission, distribution, supply and storage. Access to the gas grid is based on overall cost-reflective non-discriminatory tariffs. The structure of BGE will be reviewed in the context of negotiations at EU level on future regulation of the gas market. The Department of Public Enterprise is also considering draft legislation to transform BGE into a public limited company.

An important issue is whether to privatise BGE in its integrated form or in some form of structural separation of its activities. There may be a case for the maintenance of the monopoly elements of onshore gas transmission and distribution networks in public ownership for strategic interest reasons and as an instrument of social, economic and regional development. This could allow low cost access to all gas suppliers and could support strong competition between these suppliers. An alternate approach would be to ensure fair access for gas suppliers to a privately-owned vertically-separated network through effective regulation of price and access terms. There is a need for considered research of the options before a final decision is made.

### *Provide electricity capacity in advance of demand in key regional centres*

The Development Agencies have identified priority Regional Centres for expansion but, in the case of some of these regions, Eirgrid has no plans to provide the required high voltage transmission capacity. It is important that these infrastructure deficits be corrected in the context of a balanced National Spatial Strategy. Given the time lapse between project decision and project delivery, it is also important that this matter is dealt with quickly. The deficit could be corrected by the provision of financial support for transmission capacity in these regions based on the existing practice in the telecommunications sector. Support could also be provided for the development of local, small-scale generating capacity, which would reduce the requirement for extensive transmission investment to link these regions to the national network. This would also help to overcome an emerging shortage of generation capacity nationally over the medium term. Two new power stations are to be commissioned during 2002, which will provide security of supply over the following two years, but Eirgrid projects that additional generating capacity will be required thereafter.

### *Management of transmission network*

Access to the transmission network needs to be non-discriminatory and at prices that induce efficient use. In its recent publication *Regulatory Reform in Ireland*, the OECD expressed concern that ESB ownership of the transmission network could create difficulties in this regard, owing to the fact that ESB is involved simultaneously in both competitive and monopolistic activities. Moreover, the OECD observed that it would be difficult for Eirgrid 'to ensure that ESB Transmission is fulfilling its maintenance and development tasks in a non-discriminatory way'. The OECD argued that separation of ownership of generation and transmission assets was the best route to remove incentives for discrimination. This is not the route that has been taken in the Irish case, but the Council believes that the situation should be monitored to ensure that Eirgrid is able to function effectively as the independent operator of the system.

### *All-island energy market*

Economies of scale and reduced investment could be achieved if the energy infrastructure was developed for the Island of Ireland. Initial work has been carried out, and this should now be accelerated. Priorities should include an assessment of how best to meet the energy needs of the Northwest region and how to provide North-South gas links and enhanced electricity inter-connectors.

### *Accelerate the Planning Process*

Transmission network planning applications should be fast-tracked. Additional resources should be provided in planning offices to facilitate this work, and a team of specialists on energy networks should be established among local authorities.

The Council recommends the following:

- The planning and development of an all-island energy market for gas and electricity should be accelerated in order to exploit opportunities for reduced investment cost and economies of scale.
- A study should be undertaken, and completed by May 2002, on the ownership options for the gas transmission network and its component parts.
- Financial support should be provided for the development of electricity capacity in advance of demand in key regional centres.
- Eirgrid's ability to function effectively as independent operator of the transmission network within the existing institutional and asset-ownership structures should be monitored on an on-going basis.
- The planning process for decisions on upgrading the transmission network should be fast-tracked.



## Science and Technology

### Why is this important?

Science and technology provides the basis for technological progress and innovation. New products and processes open markets, displace existing products, improve productivity and generate further developments that continue the growth impetus. A science and technology base in Ireland is essential to provide a basis for future growth, to allow Ireland's exports to continue to compete on world markets, to attract increasingly science-based international investment to Ireland, to develop skills and the knowledge base, and to encourage successful entrepreneurship and innovation.

At present, Ireland has a number of weaknesses in the field of science and technology:

- Total R&D in Ireland remains low relative to other developed countries. According to the latest OECD statistics Ireland ranks 19th out of 26 countries in terms of total R&D performance; of the seven lower ranked countries three are in Eastern Europe.
- There are weaknesses in all three components of total R&D in Ireland – the business sector, the higher education sector and the government sector. There are indications recently of a slow-down in the rate of growth of business-sector R&D spend, which, coupled with the high growth rate of GDP in recent years, is leading to a deterioration in Ireland's relative position internationally.

### What has been done?

Many initiatives have been taken by Government over recent years in order to increase R&D activity and to encourage innovation. The support to Irish owned companies available from Enterprise Ireland and its predecessors has always emphasised the significance of science and technology for enterprise development and a significant range of programmes both national and at European level have been made available to Irish companies. Most recently significant resource commitments have been made to the field of science and technology, through the provision of £550 million for the establishment of Science Foundation of Ireland, together with a similar allocation for the Programme of Research in Third Level Institutes. These represent major steps to complement technological programmes through a targeting of the basic research from which future technological innovation will emerge.

### What needs to be done?

#### Research and Development Activity - Business

The introduction of tax credits could be an important step to encourage further R&D in Ireland, both by Irish owned companies and by multinationals with existing manufacturing activity. At present, particularly for multinationals, Ireland's low corporate tax rates paradoxically amount to a disincentive to undertake R&D, because the amount saved through offsetting R&D expenditures against profits is correspondingly low in terms of tax savings. Other countries, however, offer a tax regime that is more conducive to R&D expenditures. Australia, France, Spain, Italy, Netherlands, Canada, United States, Singapore, Korea and Taiwan all operate either a tax credit system or a multiple deduction system, thus providing significantly greater incentives for the undertaking of R&D. The introduction of an R&D tax credit system should be urgently studied in Ireland, with due regard to the necessary safeguards. These could include, for instance, a restriction of the tax credits to additional R&D. This would be research activity over and above existing levels. In addition controls would be needed in order accurately to measure the value of the R&D undertaken, and a system of independent technical assessment would be required.

## Research and Development Activity – Government and Higher Education

Given the serious under-investment by the State sector in R&D over the past twenty years, time must now be given to the establishment of new structures and mechanisms and the development of a culture of research. Accordingly, there should not be excessive pressure for early expenditure of resources allocated under the NDP that could simply be wasteful, nor should resources as yet uncommitted be diverted from the programme. The focus now must be on creating centres of research excellence rather than on spending quickly. Institutions involved in the NDP must co-operate and co-ordinate efforts to ensure coherent policy and activity, thereby maximising the ultimate return to resources. Furthermore, with hugely expanded State sector expenditure on R&D now beginning, the transfer of results to the market place is also becoming more important.

### Human Resources

Between 1995 and 2000 there were declines respectively of 15 per cent, 18 per cent and 22 per cent in the numbers studying biology, physics and chemistry for the Leaving Certificate examinations. Moreover, there had already been a decline in the percentage up-take of the physical sciences since the mid-1980s, which had been partially masked by the increase in the size of the Leaving Certificate cohort over that period. These trends could be compounded by demographic changes that will result in a significant fall in the numbers taking Leaving Certificate over the next two decades.

If the decline in the percentage of students studying science to Leaving Certificate standard is not reversed, the implications for both industrial and scientific development, especially given Ireland's heavy dependence on technology-based enterprises, will be serious. It is imperative that considerable changes to the teaching of science at both primary and secondary levels be introduced without delay and that the Government makes available the necessary resources to introduce these changes. (See also section on education.)

#### The Council recommends:

- The R&D allocations under the NDP should be accorded the highest priority for implementation and should not be used as a public expenditure buffer to balance public expenditure and revenue.
- The institutions involved in NDP R&D funding (including the Higher Education Authority, the Health Research Boards, Science Foundation Ireland, and Enterprise Ireland) should co-operate and co-ordinate efforts to ensure coherent policy and activity, thereby maximising the ultimate return to resources.
- The transfer of results of publicly-funded research to the market place should be prioritised through the adoption of the recommendations in ICSTT's recent statement - *Commercialisation of Publicly Funded Research*.
- A study on the introduction of R&D tax credits as part of an integrated strategy to increase business R&D should be completed by September 2002.



## Environment

### Why is this important?

Annual Competitiveness Report 2001 ranks Ireland 9 out of 13 OECD countries under an **Environmental Protection and Management Score**. This reflects threats to the environment and aspects of management and protection rather than the state of the environment, which is generally good. The low rank is due in particular to the low proportionate amount of protected land, very intensive use of nitrogenous fertilisers, high rates of waste generation, and very low proportionate expenditure on pollution abatement and control. Ireland ranks 15 out of 27 countries in terms of industrial waste generation and 22 out of 28 countries with regard to municipal waste generation.

Ireland has abundant and relatively unspoiled environmental resources by international standards. These resources are, however, coming under increasing pressures from economic growth and social change. Specifically, the main environmental issues now confronting Ireland are eutrophication of inland waters, increasing volume of waste, deterioration of the urban environment and allied transport problems, and the need to reduce emissions of greenhouse gases. While initiatives are underway to tackle eutrophication and a number of traffic related issues, the most pressing problems for the enterprise sector are waste generation and greenhouse-gas emissions.

#### *Waste management*

Ireland is well behind competing countries in using an integrated waste management approach including prevention and minimisation, recycling and thermal treatment as well as landfill. This is leading to increased costs at national and company level.

The rate of waste generation is continuing to increase and existing waste disposal sites are reaching the end of their useful lifetime. Overseas facilities are only available for the treatment of hazardous waste and there is a risk that these could be closed to industry in Ireland. If these issues are not addressed industry may be forced to scale-down its operations and may be deterred from establishing new operations.

#### *Climate change and greenhouse gas emissions*

The main greenhouse gas in Ireland is carbon dioxide (CO<sub>2</sub>), mainly arising from the burning of fossil fuel in transport, heating and electricity generation. Irish emissions of other greenhouse gases, including methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) are proportionately higher than other countries, and emissions from the agriculture sector were 35 per cent of all greenhouse gas emissions in 1990, the highest of all sectors. Emissions from the transport sector are forecast to have the largest increase (by 180 per cent) by 2010.

As part of the EU target, Ireland has agreed to limit the growth in greenhouse gas emissions by 13 per cent above 1990 levels. In the business-as-usual scenario, it is projected that net annual emissions would increase by 37.3 per cent, therefore reductions of emissions of 13.1 million tonnes (Mt) CO<sub>2</sub> equivalent on this projected figure will be required to meet the national target. The costs associated with meeting this obligation could be high and a

combination of four policy instruments, which will affect the enterprise sector, will be required to meet our international commitments:

- taxation to encourage reduction in emissions;
- negotiated agreements with enterprise sectors and companies to agree targets;
- emissions trading with other countries willing to sell emissions credits and;
- overseas investments in projects that will reduce global emissions.

### **What needs to be done?**

#### *Waste*

**Develop Programmes and Infrastructure:** A series of initiatives are required to promote waste prevention, minimisation and recycling and to facilitate the establishment of a contract thermal treatment facility for hazardous waste.

**Build consensus and improve co-ordination:** A communication programme is required to develop a shared national vision for waste management within the framework of the integrated strategy that now exists.

**A National Waste Management Agency** could provide the co-ordination and central focus required to fulfil the wide range of functions needed to implement national, regional and county waste management plans. The Agency could be given step-in powers to assist in the implementation of Local Authority projects, where delays are occurring.

**Accelerate the planning process:** Considerable delays are involved in the current planning process and this is likely to deter private investment in waste management facilities. A different planning process could be used based on the pre-designation of appropriate strategic sites as *Waste Management Centres*, a concept contained in the Planning and Development Act 2000. Potential sites for specific types of waste management projects would be identified and a planning scheme and Environmental Impact Assessment developed. The planning process would then be completed in the normal way with a full third party objection and appeal process.

Some countries provide community incentives for perceived and real dis-amenities experienced by a community as a result of it hosting a waste management facility on behalf of the wider population. This approach would be useful in Ireland.

#### *Climate change and greenhouse-gas emissions*

**Develop tax proposals for greenhouse gas:** Greenhouse gas taxation is included in the Government Climate Change Strategy. Proposals should be signalled well in advance so that companies have time to avail of other policy instruments to reduce any liability. Incentives should be provided to promote the use of renewable energy and combined heat and power facilities.

**Negotiate agreements with industry sectors:** Targets should be negotiated by the Government with sectors and companies.

The Council recommends the following:

#### *Waste*

- A National Waste Management Agency should be established with step-in-powers where delays are occurring in putting key waste infrastructure projects in place.
- €2.5m per annum should be provided for a communications programme to demonstrate the need for an integrated approach (including thermal treatment) to waste management and to encourage waste separation by households and businesses.
- Community Planning Incentives, such as roads, schools and recreational facilities, should be provided where appropriate in conjunction with the development of key waste projects.
- The proposed National Waste Management Agency should be provided with powers to use planning schemes for waste management centres, similar to Strategic Development Zone provisions in the Planning and Development Act 2000.

#### *Climate change and greenhouse gas emissions*

- Any greenhouse gas tax proposals should be signalled well in advance and linked to the prior implementation of negotiated agreements on emissions reductions between the State and industry sectors.
- Incentives should be provided for renewable energy and combined heat and power facilities.
- Guidelines should be developed for companies to access emissions trading and overseas investment mechanisms.
- The institutional arrangements for the provision of administrative support and advice to companies on taxation, negotiated agreements, emissions trading and overseas investments should be determined.



## Public Sector Effectiveness and Efficiency

### Why is this important?

The public sector has made an enormous contribution to Ireland's economic transformation in recent years. It is important that this contribution is recognised. Nevertheless, the scope to improve public sector efficiency and effectiveness remains significant. Where it occurs, public sector ineffectiveness – i.e. non-achievement or slow/partial achievement of objectives – hampers competitiveness. Public sector inefficiency – i.e. wasteful use of public resources – means that more tax than necessary is levied to provide a given level of services, or fewer services are provided at a given level of taxation. Bearing in mind that Government spending accounts for approximately one third of national economic activity (this proportion is higher in other EU countries), public sector effectiveness and efficiency are clearly important issues for competitiveness. Moreover, given the enormous role that the state plays in the economic and social development of the country, the importance of having in place the highest international standards for the formulation, implementation and review of policy in a range of areas is critical.

### What has been done?

The Council welcomes the significant changes in public sector management in Ireland that have occurred in recent years, including:

- the introduction of the Strategic Management Initiative (SMI) – an ambitious change programme for the Civil Service, detailed in *Delivering Better Government* (1996) and further developed in the *Programme for Prosperity and Fairness* (2000);
- the specification and delegation of authority/accountability under the Public Service Management Act, 1997;
- the implementation of the Freedom of Information Act, 1997;
- the launch of *Better Local Government* (1996) – an initiative on local government and local development leading to the creation of county/city development boards, and the publication of the Local Government Bill, 2000;
- implementation of the Health (Amendment) (No.3) Act, 1996, relating to accountability in the health sector, the preparation of detailed service plans by health agencies, and the creation of the Eastern Regional Health Authority to commission services;
- liberalisation of markets previously dominated by commercial state companies, and improvements in the areas of competition law and market regulation.

### What needs to be done?

The Council welcomes the evaluation of the SMI that is currently underway. SMI was first introduced in 1994. Since then, the country has undergone enormous social, economic and technological change. It is, therefore, appropriate that a new vision for public sector reform be developed, and that renewed energy and commitment be devoted to the on-going task of modernisation. The SMI evaluation should be one of the starting points for such a new programme.

The Council recommends the following:

With increasing demands for public expenditure at a time when revenue growth is contracting, a concerted programme must be undertaken of further improving the effectiveness and efficiency of the public sector in order to maximise the return on public resources. Arising from the present evaluation of the Strategic Management Initiative, a new programme of Public Service Reform and Modernisation should urgently be established. The programme should include the following elements:

#### *Governance*

- examination of the role and function of Government, including focus on the optimal contribution of private and voluntary sectors to the delivery of public services;
- focus on outcomes rather than activities;
- new emphasis on co-ordinated policy-making and implementation;

#### *Capacity Building*

- further development of human resource, financial, information and project management;
- appropriate training for all public employees, including public representatives, with leadership training for senior public servants to create drivers of the reform process, and development of training capabilities in this field;

#### *Finance*

- comprehensive review of public expenditure programmes, going beyond the current Budget process, through the application of rigorous evaluation techniques and zero-based budgeting;

#### *Customer orientation*

- customer orientation, including the establishment of clear standards that customers are entitled to expect;

#### *Sectoral Reform*

- urgent delivery of the programme of modernisation for the Civil Service and for the Education, Health and Local Government Sectors, as set out under the Programme for Prosperity and Fairness;

The Council also recommends the following:

- The public pay benchmarking process agreed as part of the Programme for Prosperity and Fairness should be strictly adhered to and completed as planned. The process should not be allowed to revert under pressure to the discredited system of internal public sector relativities that has operated in the past.



## Competition and Regulation

### Why is this important?

Competitor countries continue to place huge emphasis on facilitating competition and improving the efficiency of their domestic economies through the reformation of their regulatory framework. Ireland must do likewise, particularly given that the traditional instruments used by government (exchange rate policy, interest rate policy etc.) are no longer available in the context of European integration and other international agreements.

### What has been done?

The National Competitiveness Council released its *Statement on Regulatory Reform* in July 2000. In April 2001, the OECD published its review *Regulatory Reform in Ireland*. The thrust of the report was that much progress has been made, but that improvement is still required in a number of areas. Of these, the Council wishes to draw attention to the following in particular:

- increasing the emphasis on consumer interests in the policy process, in part through enhanced consultation with consumers;
- identifying and removing licensing constraints on free entry in protected sectors, such as the pub and pharmacy sectors;
- strengthening the implementation of the regulatory reform policy by creating stronger disciplines and performance assessment;
- refining tools for regulatory impact analysis and adopting an explicit cost-benefit principle;
- enhancing the current programme of restating and consolidating existing laws and regulations;
- continuing to work to develop regional and island-wide regulatory solutions where efficiency gains can be identified;
- eliminating special-interest rules that inhibit competition such as the Groceries Order.

The Council welcomes the report's findings and the Government's response in setting up an Action Programme to address the broad range of issues identified by the OECD. The report will provide a useful basis for the development of a comprehensive framework for regulation. It will stimulate a better understanding of the need for regulatory reform, which should lead to improved decision-making at national level and, ultimately, towards increased competition in the domestic market, benefiting Ireland's international competitiveness.

### What needs to be done?

Due to constraints on Government expenditure, a special focus is now needed on aspects of competitiveness policy that do not need major additional expenditure but can bring benefits in terms of lower costs, reduced uncertainties and delays, and higher productivity. These include regulatory reform, improved competition in product and service markets, speedier legislative processes and streamlined legal and public administration systems.

In this regard, the Council welcomes the Government's commitment to implement the main recommendations in the OECD review, particularly those already identified by the NCC in its *Statement on Regulatory Reform*, including the following:

- The formulation of an over-arching national statement on regulatory reform and competition policy.
- The introduction of full regulatory impact analysis for legislation and regulation.
- Institutionalised collaboration between the regulators, Government Departments and the Competition Authority through the establishment of a High Level Group on Regulation.

The Council also recommends the following:

- Continued emphasis on the primacy of the needs of consumers (including businesses as customers) especially through improvements in the consultative process.
- A general programme of reform to improve regulation of self-regulating sectors, including removal of barriers to entry.
- A review of the operations of the legal system should be undertaken, examining in particular whether the processes and institutions themselves could be restructured towards the objective of reducing costs.



## Ireland in Europe

### Why is this important?

In spite of the fact that Ireland's membership of the EU has – through many different channels – been one of the primary drivers of the transformation of the Irish economy in recent years, and in spite of the enormous and growing importance of Ireland's ties with Europe, the Irish approach to Europe can be characterised as somewhat passive and reactive.

### What has been done?

Ireland has participated actively in EU structures and programmes since membership began. Up until now, Ireland has not articulated a broad view of how it wishes the EU to develop or of our own role within it. There are many fields in which Ireland should be seeking to influence and improve EU policy, including the following:

- the need for an integrated global approach to monetary policy;
- the need for harmonisation of approaches to trade and investment matters in international fora;
- the need for internationally co-ordinated regulation of international services.

### What needs to be done?

The accession of the new member states will also increase the size of the Single Market and contribute to social and economic stability in Europe as a whole. Enlargement offers significant opportunities for Ireland, in terms of both increased investment opportunities and a wider choice of goods and services. Changes in policy are not always anticipated or analysed in a timely way and change is sometimes seen as negative unless it leads to immediate obvious economic benefits for Ireland. The rejection of the Nice Treaty in Ireland has also led other EU countries to question Ireland's commitment to European co-operation.

The Council recommends the following:

- Government should set out its vision for the development of the EU and Ireland's role within it, including the establishment of close bilateral relations with applicant countries, developing an assessment of those countries' needs and special strengths, and identifying opportunities for the future.
- Closer bilateral relations should also be developed with other Member States, in order to identify areas of common concern with regard to competitiveness issues, and to jointly develop policy initiatives in these fields.
- Ireland should aim to be a source of new ideas for co-operation at European level in areas related to competitiveness and enterprise development and assign adequate resources to achieve this aim. Ireland should take a lead role in developing European initiatives in areas such as the knowledge-based economy, regulatory reform, advanced technologies etc.



## North-South Competitiveness

### Why is this important?

The two economies – North and South - have many challenges in common, including small size, openness, peripherality, longstanding regional imbalances, disadvantaged border regions, skills shortages, pressure on infrastructure, and weaknesses in the area of research and development. Strategic economic co-operation can help address these challenges.

### What has been done?

The Council welcomes the opportunity that has been created by the establishment of the North South Ministerial Council (NSMC) and the cross-border implementation bodies to take advantage of the mutual benefits of strategic co-operation. The Council also welcomes the work that has recently been undertaken – by the Council itself in conjunction with the Northern Ireland Economic Research Council - on behalf of the North South Ministerial Council examining issues of North-South competitiveness. Other useful work recently completed includes studies on co-operation in the areas of labour mobility, energy, telecommunications, information technology and e-business.

In the area of energy, the Department of Public Enterprise in the South and the Department of Enterprise, Trade and Investment in the North are actively co-operating with a view to the objective of developing an all-island energy market, which should benefit both business and consumers. A number of developments in this area are already moving towards fruition including the completion of work on strengthening interconnection between the NIE and ESB networks by the end of 2001. In addition, the scheduled completion and opening for trading in January 2002 of the Scotland to Northern Ireland interconnector will substantially expand the capacity for cross border trading and provide a link between the networks of Great Britain and the South.

There is also on-going co-operation in the areas of tourism, agriculture, the environment, health research, and between the industrial development agencies.

### What needs to be done?

Recognising that the establishment of the North South Ministerial Council and the cross border bodies under the Good Friday Agreement provides mechanisms for promoting economic co-operation, the Council recommends that full advantage be taken of the opportunities for mutual efficiency/competitiveness gains through North South policy co-ordination. In particular, the Council recommends co-operation in the areas of:

- developing an all-island energy market;
- developing telecommunications infrastructure;
- developing transport infrastructure;
- promoting lifelong learning;
- facilitating cross border labour mobility;
- promoting energy efficiency;
- promoting the up-take of e-business by SMEs;
- developing joint projects in R&D.

