

2002

The  
Competitiveness  
Challenge 2002



National  
Competitiveness  
Council



# 2002

## The Competitiveness Challenge 2002

Annual Policy Statement of the  
National Competitiveness Council

November 2002



National  
Competitiveness  
Council





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## FOREWORD BY AN TAOISEACH



Ireland's international competitiveness, allied to a well educated workforce and a favourable regulatory environment for enterprise, has been the hallmark of our extraordinary economic success. Now, as the economy faces into a difficult and uncertain time, competitiveness will assume even greater importance in the coming years. New challenges have to be faced and while recent economic success is no guarantee of future success, many lessons can be gleaned from our own experiences since the 1980's. In the absence of monetary and exchange rate

policy, and in light of weakened global demand, we must maintain competitiveness if we are to safeguard the economic gains made over the past decade. With this in mind, competitiveness is a key priority for Government policy.

The Government is determined that the conditions for enterprises operating in Ireland should be as favourable as possible. This encompasses the costs that businesses face, the skills level of the population, the physical infrastructure, the regulatory environment, the efficiency and effectiveness of public administration and other factors.

The National Competitiveness Council was established in 1997 as part of the Programme for Prosperity and Fairness to report to the Taoiseach on key competitiveness issues for the Irish economy. The Council makes recommendations to Government and provides a significant contribution to the development of policy in all of the areas mentioned above. The Council takes a broad view of competitiveness, defining it as the ability to achieve success in markets leading to better standards of living for all. The Annual Competitiveness Report, together with the Competitiveness Challenge provides a valuable insight into the current state of Irish competitiveness, together with a comprehensive list of policy actions, designed to protect and indeed enhance Ireland's competitive position relevant to other countries.

I am very pleased therefore to introduce both the *Annual Competitiveness Report 2002* and the *Competitiveness Challenge 2002*. The Government will give careful consideration to the Council's recommendations in the formulation of policy.

Mr. Bertie Ahern, T.D.  
Taoiseach  
November 2002





## PREFACE



This year the National Competitiveness Council is publishing its fifth *Annual Competitiveness Report* and *Competitiveness Challenge*. The Council would like to acknowledge the dedication and hard work of former Chairman Brian Patterson over the past five years.

Using a wide range of key indicators, sourced from bodies such as the OECD and Eurostat, the *Annual Competitiveness Report 2002* (ACR) analyses Ireland's competitiveness and compares it to that of Ireland's trading partners and main competitors. This year's report differs from last years in several ways. First it contains a more refined and focussed set of indicators. Using an input-output approach, these indicators are sub-divided into a number of separate headings, each representing a key driver of competitiveness. Second, this year's report is more accessible and user friendly, with improvements in the lay out of the statistics, graphs and tables.

This year's ACR confirms many of Ireland's strengths. However it also points out many areas of deterioration and leaves no room for complacency. Future policy must focus on improving the underlying structures of Ireland's economy. Escalating wage costs, prices and infrastructural deficits must be urgently tackled. As these key issues are addressed, policies must be put in place to develop our human capital, to facilitate the development of a knowledge economy. Using the analysis contained in the ACR as a starting point, the Council's main policy document, the *Competitiveness Challenge 2002* identifies a wide range of competitiveness issues and makes a number of recommendations for the direction of future public policy. In addition to addressing the primary concerns of prices and costs, wage growth moderation and the continued provision of infrastructure, the Council has focussed attention on issues such as Regulation and Competition Policy, Science, Technology and Innovation, and Education and Skills.

Both the domestic and global economies face difficult times ahead. The extent or exact timing of any upturn in economic growth cannot be predicted with a strong degree of confidence. As a result policy makers must contend with a number of potential domestic and international threats to the economy: rising costs, increasing wages, higher than acceptable inflation, lower investment than is desirable and weaker than expected global demand. Any decrease in international competitiveness would have adverse effects on employment, income levels and would inevitably impact on the Government's ambitious public spending plans, all of which would put at risk the benefits of the last ten years of unparalleled growth. Remaining at the forefront of world competitiveness is the key to overcoming these current difficulties and will put Ireland in a favourable position to take advantage of any world economic recovery, as well as making the most of the current environment.

In order to do this, the over-arching short to medium-term emphasis must be on the restoration of the 'virtuous circle' which Ireland enjoyed in the late 1990's. This virtuous circle of sustainable moderate wage growth, low inflation, productivity gains, social partnership and a competitive business environment was the bedrock on which Ireland's remarkable recent economic performance has been built. Although the economy has progressed in recent years, we cannot afford to ignore the fundamentals of Ireland's success and urgent policy action is required to restore Ireland's much lauded international competitiveness.

Looking to the future, strategies to enhance productivity must become the guiding light for policy makers. By addressing the drivers of productivity: skill levels, investment and innovation and moving towards the creation of a knowledge economy, policy makers can put in place a framework which will maximise the growth potential of the economy, ensuring continued prosperity and increasing living standards for all. Now more than ever, in the face of international economic unpredictability, competitiveness is Ireland's only security and the only way to ensure long term prosperity and social equality.

William Burgess  
Chairman  
National Competitiveness Council  
November 2002



## KEY FINDINGS

### WHAT IS COMPETITIVENESS?

The National Competitiveness Council defines competitiveness as “The ability to achieve success in markets leading to better standards of living for all”. The *Annual Competitiveness Report 2002* benchmarks a range of input indicators which underpin competitiveness, namely: Labour Costs; Prices and Costs; Economic Policy, Government and Regulation; Education and Skills; Information Society; Transport Infrastructure; Environment and Energy; Investment and Capital; R&D and Innovation; and Productivity.

### WHY TARGET COMPETITIVENESS?

It is evident from the *Annual Competitiveness Report 2002* (ACR), that Ireland’s competitive position has already been eroded. Unless policy reacts quickly to unfolding events, then further weakening of Ireland’s competitive position can be expected in the coming years. This would have severe implications for the wider economy, threatening a reversal of much of the economic progress made over the past decade. It is clear that there are many challenges facing policy makers if swift action is to be taken to protect Ireland’s international competitive position and to safeguard the country’s future economic progress. Achieving success in domestic policy is now of even greater importance given the highly open nature of the Irish economy and exposure to global economic activity and exchange rate fluctuations. Many of these important domestic policy issues are examined within this document – *Competitiveness Challenge 2002*.

### FOCUS ON THREE KEY COMPETITIVE ISSUES

The ACR surveys the competitive position of the Irish economy on the international stage. The report examines several competitiveness issues, presenting a clear picture of the unfolding, and in some cases deteriorating, competitive position across the economy. The National Competitiveness Council (the Council) wishes to highlight several areas of concern arising from their examination of the ACR.

The primary areas of equal concern to competitiveness are:

1. Prices and Costs

The rapid rise in non-employment costs and consumer prices.

2. Employment Costs, Productivity and Social Partnership

The parallel rise in wage costs.

3. Infrastructure

The infrastructure deficit across the country and the costs resulting from this.

These key areas require urgent policy action if Ireland is to protect its competitive position over the coming years. The Council has therefore compiled a list of recommendations for policy makers within this Report, which it hopes can be used to formulate better policy to underpin and enhance competitiveness, and maximise Ireland’s medium term economic well-being.



## ECONOMIC OVERVIEW

The Irish economy was not immune to the fall-out following the strong global downturn of 2001, with real GDP growth weakening sharply since the publication of *Competitiveness Challenge 2001*. Other economic data also point to a number of worrying trends over the last year, including persistent and strong rises in costs, prices and wages, weakening employment growth, continued infrastructural weaknesses across many areas, deterioration in the public finance position, and finally, the first signs of a reversal of euro weakness which had previously boosted competitiveness. Current economic conditions therefore remain fragile, with downside risks remaining high and a more difficult period of adjustment ahead. That said, the economic progress achieved over the last decade has placed Ireland in a strong position to absorb global economic weakness, with some macroeconomic indicators performing robustly compared to Ireland's major international competitors. Real GDP gains of between 3.5 to 4.0 per cent are expected this year with growth quickening to 4.5 per cent in 2003, just slightly below trend estimates.

	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2
Real GDP (%ch)	14.3	10.2	13.4	10.1	12.1	12.3	9.0	2.8	0.1	2.9	-
Employment (%ch)	6.6	6.1	5.0	4.1	3.8	3.6	2.7	2.8	2.5	2.1	1.9
Productivity * (%ch)	7.2	3.8	8.0	5.7	7.9	8.4	6.1	0.0	-2.4	0.8	-
Consumer Prices (%ch)	3.8	4.3	5.2	6.2	6.6	5.3	5.5	4.7	4.1	4.8	4.6
Unemployment (%)	5.1	4.7	4.3	4.3	3.9	3.7	3.7	4.3	4.0	4.4	4.2

*%ch=annual change*  
*\* Forfás labour productivity estimate*  
 Source: Central Statistics Office

The above table shows recent developments in key economic indicators:

- Rapid deceleration in GDP growth in the second half of 2001 as investment stalled and export growth slumped.
- Slowing employment growth from the fourth quarter of 1999.
- Cyclical fall in labour productivity from the second half of 2001.
- Persistent high levels of price inflation, wage growth and rises in enterprise level costs.

In addition, other evidence indicates:

- Weakening income growth, consumer purchasing power and confidence.
- Emergence of the first signs of public finance weakness.
- Strengthening of the euro against the dollar, and to a lesser extent, sterling, resulting in a deterioration of the Irish Central Bank's Trade Weighted Competitiveness Indicator. The previous 10 per cent price advantages gained from the weak effective exchange rate have been eroded somewhat, further exposing already high prices and costs.
- Deterioration in the IMF relative unit labour cost indicator of competitiveness.

The new economic environment has brought to the fore the importance of maintaining competitiveness on the international stage. The recent deterioration in some key competitive areas must be quickly reversed, in order for the economy to be in a strong position to fully maximise its share of benefits from global economic recovery. If we fail to address some of these key challenges, then economic risks will rise even higher with economic growth coming in below potential as competitiveness is eroded.





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## PRICES AND COSTS

### WHY IS IT IMPORTANT?

Non-employment costs are crucial components of a firm's cost structure. Furthermore, increases in the components of non-employment costs feed directly into the consumer price index, thus increasing the risk of a wage-price spiral. Consumer price inflation in Ireland remains the highest in the EU, with price growth particularly rapid in the services sector: inflation in this sector was 8.3 per cent in the first quarter of 2002 versus 3.1 per cent in the Eurozone overall. This trend has continued into the second and third quarters of 2002 with initial estimates for the third quarter at around 8.5 per cent year-on-year.

Of particular concern to enterprise is the dramatic escalation in all categories of insurance costs in the last two years, particularly employers' liability, public liability and motor insurance costs. Health and property insurance costs also continue to rise dramatically.

Urgent action must be taken to stem the rapid acceleration of a firm's level costs if Ireland is to limit pricing risks to the economy as we go forward. These risks are two-fold: firstly, the risks to the domestic economy from the development of a wage-price spiral, and secondly, the risks to the exporting economy as end-product prices outstrip that of major competitors or profitability falls. Increased levels of competition amongst certain sectors of the Irish economy are crucial to lowering prices.

### Recent Developments

A recent Forfás study *Comparative Consumer Prices in the Eurozone & Consumer Price Inflation in the Changeover Period*, published in June 2002, has shown that consumer price levels in Ireland are now the second highest in the Eurozone. An examination of non-labour costs across the business environment in the ACR confirms that there has been a sustained and strong rise in firm-level costs over recent years. As a result, many firms struggle to keep costs under control, with many facing tough pricing decisions to protect market share and profit margins.

Ireland ranks:

- Fourth highest out of 16 countries in terms of office occupation total costs.
- Second highest out of ten countries for average house price inflation since 1980, with an average annual growth rate of 9.5 per cent according to the *Economist* House-Price Index.
- Second highest out of eight major economies for industrial electricity prices for mid/large capacity users. The Commission for Energy Regulation (CER) has recently approved further price increases for electricity at an average rate of 10 per cent to take effect from January 2003, as well as price increases for gas transmission tariffs which will translate into gas price increases.
- Telecommunications costs are now the ninth most expensive across 16 countries surveyed.

Regrettably, it was not possible to carry out an examination of international insurance costs at this stage due to data limitations. However, it is clear that the rapid rise in insurance costs facing Irish firms has contributed strongly to the swift increase in costs and competitive losses over recent years. Similarly, little comparable data on international childcare costs is available.

## WHAT HAS BEEN DONE?

### Insurance Costs

In *Competitiveness Challenge 2001*, the Council recommended prioritising the establishment of the Personal Injuries Assessment Board (PIAB) in order to tackle escalating insurance costs through the reduction of the component accounted for by legal costs. (IBEC has estimated that the legal fee element of personal injury claims accounts for up to 44 per cent of total costs.) The PIAB, due to be set up on an interim basis until new legislation has been drafted, will initially only deal with non-contested employers' liability claims. It is intended to extend the PIAB to motor insurance claims in the long term but no decision has been made regarding public liability insurance. The Council welcomes the undertaking by the Government to eventually implement the PIAB on a statutory basis with the expectation that this will bring about a reduction in the cost of delivering compensation. In particular the MIAB is calling for the establishment of a book of quantum setting out guideline compensation amounts for injuries promoting consistency across the courts and between judges.

The Motor Insurance Advisory Board (MIAB) published a report in March 2002 containing 67 recommendations aimed at reducing premiums. Arising from the report, the Tánaiste recently announced the MIAB Action Plan, details of which will be announced in the next few weeks. The Council welcomes the announcement of the Plan and looks forward to the implementation of the recommendations as a means of reducing insurance costs.

### Pricing in the Non-Traded Sector

The Council welcomes the strengthening of Competition Authority powers arising from the enactment of the *Competition Act 2002* as this is seen as one means of tackling escalating cost inflation particularly in the non-traded sector. In a similar vein, the Council would like to see the strengthening of the powers of sectoral regulators, particularly the Director of Consumer Affairs.

### Housing costs

Given the Irish culture of home ownership, escalating house prices and rentals are a cause for concern due to the implications on wage demands for firms and settlement patterns. According to the ACR, Ireland performed poorly ranking ninth out of eleven countries in a list of most affordable locations for urban housing. Although this data dates from 1999, house price inflation has far out-stripped the rate of inflation, which would assume that this affordability index has deteriorated further.

## WHAT NEEDS TO BE DONE?

(See also Competition and Regulation and Infrastructure Chapters)

### Recommendations

#### *Measures to reduce insurance premiums*

- 1a. Cost savings achieved through the implementation of the recommendations of the MIAB report should be immediately passed on to policy holders in their entirety in order to reduce premiums.
- 1b. The Council calls for the PIAB to be extended to public liability and all employers' liability claims as soon as possible. In order to encourage claimants to use the PIAB rather than the court system, a book of quantum should be developed for application to claims within the court system and the PIAB.

#### *Services Sector Competition*

2. Any competition policy and regulatory recommendations arising from the Competition Authority Studies into the level of competition in certain professional services, which includes the legal and medical professions, and into the level of competition in the banking and insurance sectors, should be quickly implemented to drive price inflation down.

#### *Energy Prices*

3. The extent of the cross-subsidisation of domestic users of electricity by industry should be made explicit, together with a time-scale for phasing out the practice. The Council recommends that a policy framework be developed quickly to ensure that further liberalisation of the energy markets and any decisions on the future ownership and structures of state energy utilities results in secure, efficient and competitively-priced supply and infrastructure provision that is adequate to meet the needs of a growing economy.



## EMPLOYMENT COSTS, PRODUCTIVITY AND SOCIAL PARTNERSHIP

### WHY IS IT IMPORTANT?

The main driver of the rapid ascension through the international wage ranking has been strong wage growth, which continues to outpace that of Ireland's main competitors. If these trends continue then EU estimates place average nominal compensation per employee 13 per cent higher than the EMU average, implying a severe and rapid competitive loss across the labour market. Key challenges must therefore be addressed swiftly if employment growth over the coming years is to be maximised allowing unemployment to remain low.

### Employment Costs

In recent years nominal compensation per employee in Ireland has rapidly caught up with EU-15 and EMU-12 average levels, weakening competitiveness on the international stage. Up until mid 2001, some of this damage was limited by the weak euro and effective exchange rate, which shielded unit labour cost rises compared to some competitors. However, the unfolding of economic events from mid 2001 and into 2002 has resulted in the development of a twin-fronted attack on employment cost competitiveness. Firstly, nominal wage costs are continuing to rise sharply (at around three times the EU average), despite slowing economic growth, weakening labour market conditions and reduced productivity gains. Secondly, previously favourable exchange rate movements are beginning to reverse as the euro regains ground against the dollar and to a lesser extent, sterling, thus driving up the effective exchange rate. The combination of these factors is therefore resulting in a rise in real unit labour costs, threatening labour market competitiveness.

The continuation of strong wage growth in Ireland would have adverse implications for Irish competitiveness. Not only will the attractiveness of Ireland as a target for foreign investment be reduced, but existing multinational firms will increasingly look to other countries as a location for production, particularly for lower value-added activities. At the same time, the competitiveness of indigenous firms is also under threat. It is therefore vital that wage growth slows rapidly and is capable of being absorbed by firms while, at the same time, protecting the competitive position of the economy and keeping unemployment at its current low level.

### Productivity

The economic surge over most of the last decade was supported by both strong productivity and employment growth. From the start of 2000 up until mid 2001, real GDP gains were increasingly supported by higher productivity gains, albeit in a small number of low labour intensive Multinational Corporations. These productivity gains took up any slack arising from the slowdown in employment growth as the economy came up against supply-side constraints as a result of the very tight labour market. However, following the global economic shock arising from the events of September 2001 productivity has suffered a cyclical downturn. Productivity growth must recover and become the main driver of economic expansion in the coming years, otherwise the economy will perform more weakly than expected. These downside risks include the prospect of weaker potential output growth, rising unemployment, slower income and investment gains and other knock-on effects to the domestic economy including the housing market. The wide divergence between productivity levels and growth across the industrial sector of the economy (dominated by foreign multinational firms), and other non-industrial sectors is also of some concern.

### **Social Partnership**

Social partnership has been the cornerstone of Irish economic policy for the past fifteen years. Under successive agreements, pay moderation and tax cuts in a low inflation environment provided the platform for sustainable growth in employment and incomes. Throughout the 1990s, Ireland managed to achieve an ideal balance of productivity growth, income growth and enhanced competitiveness at the same time. The pressures of economic success, including the tight labour market, the very tight housing market, and ultimately consumer price inflation, could bring this virtuous circle to an end. At the same time, the deterioration in the fiscal position means that the scope for future tax cuts is drastically reduced, while the global economic environment has also deteriorated considerably, as described above. In these new, more difficult circumstances, Social Partnership can again provide stability and leadership. In this regard, the Council would emphasise that beyond the core pay, tax and social elements of the agreements, the social partnership process has made an enormous national contribution in terms of policy formulation and review and through providing an inclusive, national forum focused on addressing issues of socio-economic development in a problem-solving context.

### **Recent Developments**

Data from the ACR shows that following several years of rapid catch-up, Ireland is now ranked:

- Seventh highest out of 16 countries surveyed in terms of nominal compensation (in euros) per employee.
- Second highest out of 16 countries surveyed in terms of wage growth per employee in 2002 with other indicators also pointing to a sharp rise in unit labour costs.
- Second highest out of 16 countries surveyed for projected growth in unit labour costs in 2002 and 2003.

### **WHAT HAS BEEN DONE?**

#### **Productivity**

Productivity growth averaged close to 3 per cent per annum in the period 1990-1995, before accelerating to around 4 per cent in the period 1996-2001. Strong productivity gains across a limited number of multinational manufacturing industries with high levels of foreign direct investment was the main driver in quickening productivity growth over the last five years. Productivity gains of 4 per cent must be maintained over the medium term if the estimated trend growth rate of 5-6 per cent is to be achieved. Alongside the targeting of higher productivity niche industries, there must also be focus on increasing productivity across indigenous industries and the services sector.

### Social Partnership

(See Public Sector Efficiency and Effectiveness Chapter re the Public Service Benchmarking Body Report)

The Council recognises the key role that continued Social Partnership will have in delivering realistic, affordable and competitive employment costs. Given the current economic environment and the pressures that the Social Partnership process itself has been under in recent years, any new partnership agreement may need to be different in character to the agreements to date. If Social Partnership is to remain relevant and continue to play a major role in national wage bargaining and policy, it will need to respond flexibly and realistically to new challenges based on a shared understanding of the problems and a shared understanding of the solutions. In particular, it will be important to link pay, productivity performance and national competitiveness in innovative ways.

The Council welcomes the establishment of the National Centre for Partnership and Performance (NCP) and the publication of the NCP's *Modernising the Workplace for the Future – A Strategy for Change and Innovation 2002-2005*. These steps represent an important recognition of and support for the contribution that enterprise and institution-level partnership can make to organisational performance, productivity growth, improved quality of outputs and services (including public services) and quality of life. The Council believes that the NCP should engage in an international benchmarking exercise to identify best practice in the operation of different models of enterprise partnership. This will enable employers and unions to decide how best to advance co-operative industrial relations at the level of enterprises and workplaces and to improve their capacity for innovation and improvisation.

### WHAT NEEDS TO BE DONE?

#### Recommendations

##### *Labour Costs*

1. Wage growth must be related to the ability of enterprise to absorb the costs without damaging the competitiveness position of the economy. All social partners should recognise the changed economic environment, the need for rapid action, and the economic consequences of failing to restore wage competitiveness on the international stage.

##### *Inflation and costs*

2. Equally, wage competitiveness must come in parallel with a reduction in other price and cost increases. Directing policy to this key area, will allow real wage gains to reflect productivity gains, without threatening a wage/price spiral which would have severe consequences for the economy.



By the end of the 1990s, Ireland's infrastructure 'deficit' was already well documented. With decades of under-investment in infrastructure, a more than doubling of the size of the economy over a relatively short period of time, population growth and rapid settlement growth in urban areas, it was inevitable that the physical infrastructure of the economy would ultimately present a set of constraints to further sustainable development. Balanced spatial development is also currently constrained by inadequate regional and communications and energy infrastructure.

### Recent Developments

Recent evidence from the ACR points to a continued weak infrastructural position compared to Ireland's major competitors. Key indicators reveal that Ireland:

- Has the longest delivery times of eight capital cities surveyed.
- Is ranked just 13th out of 16 countries concerning length of motorway per 1,000 sq. km.
- Is ranked top of ten countries surveyed for the proportion of goods transported by road.
- Is ranked eighth out of ten countries examined for rail infrastructure quality.
- Is ranked 15th out of 16 countries for access to broadband lines.

The following Infrastructural issues are dealt with in this chapter:

1. National Development Plan / National Spatial Strategy
2. Transport
3. Telecommunications
4. Energy
5. Waste Management
6. Water Supply and Waste-Water Treatment Facilities





## WHY IS IT IMPORTANT?

The National Development Plan (NDP) aims to improve infrastructure over the next four years. However the real competitive benefits from these improvements will not be seen for several years. Improving the infrastructure of the economy will allow easier movement of goods, services and people. These efficiency and cost gains will, in turn, increase the medium term growth potential of the economy.

The Government is currently preparing the National Spatial Strategy (NSS), which is at an advanced stage, to build on regional policy set down in the NDP and to provide a blueprint for spatial development in Ireland over the next two decades. The 'spatial problem' confronted by the NSS has both a broad national and a specific enterprise dimension. It is concerned with the undesirable uneven concentration of population and urban development generally, leading to the dissolution of rural communities and specifically with disparities in investment and employment opportunities. The Council welcomes the placing of the NSS at the apex of all national, regional and local planning processes to shape spatial outcomes in ways that are consistent with the strategy goal, in particular improved regional and national competitiveness.

## WHAT HAS BEEN DONE?

Good progress overall is being made on the implementation of the NDP. There are visible signs of progress in road and public transport infrastructure. However, there have been a number of problems in the efficient and effective delivery of the NDP including: (i) public finance tightness which has now begun to emerge; (ii) delays due to the planning process; and, (iii) project price inflation, particularly in 2000 and 2001.

### Public Finance Tightness

It is recognised that failure to deliver planned capital investment will result in lower productivity growth, economic losses and weaker competitiveness in the medium and long term. Government current expenditure growth is up 19.6 per cent for the first 10 months of the year to October 2002, compared to the equivalent period in 2001, while tax revenue growth has decelerated to 2.3 per cent for the first 10 months of the year to October 2002, compared to the equivalent period in 2001. There is some concern that this will result in a diversion of funds from Government capital expenditure programmes under the NDP to finance current Government expenditure. Such a development would undermine the medium-term growth potential of the economy. Alternative funding mechanisms are being examined, but need to be accelerated.

See Efficiency and Effectiveness of the Public Service Chapter for further analysis.

### Planning Delays

Although the Council recognises that progress has been made in speeding up the planning process, the process could be further improved. Delays due to the planning process have affected most elements of infrastructural development, i.e. roads, housing, electricity, telecommunications and waste. (For example, given the long lead times of up to four years for the planning and construction of new electricity generating plant and up to seven years for planning and deployment of electricity transmission network infrastructures, delays in the planning process are particularly problematic for the energy sector.) These delays have been attributed variously to excessive bureaucracy, timetables for decisions not being met, the different levels of planning permission, and planning authorities being under-resourced. While it is important in a democratic society that citizens have the right to object to

developments and to have their objections dealt with in a fair and systematic manner, it is not clear that the existing arrangements for these processes are the most efficient possible, and this is creating huge costs for both businesses and individuals.

### Project Price Inflation

Construction price inflation averaged 12 per cent in 2000 and 9 per cent in 2001. Department of Environment and Local Government estimates are 5 per cent for 2002 and below 5 per cent for 2003. Although this fall in construction price inflation is a welcome development, inflation estimates made under the NDP were for 6 per cent per annum, an under estimation which has in part led to cost over-runs for several infrastructure projects, particularly roads. This has added to the substantial funding gap which now exists between the NDP budget and the funding requirements for completion of the NDP.

## WHAT NEEDS TO BE DONE?

### Recommendations

#### *Public Finance Tightness and Reprioritisation of NDP Road Projects*

- 1a. The 2003 Mid-Term Review of the NDP should be used as an opportunity to re-prioritise road projects for the final four years of the NDP 2003-2006 to take account of a two year delay partially due to planning approval delays, overruns arising and significant increases in costs, resulting in a lack of adequate funding. The building of main inter-urban routes and motorways in their entirety should be prioritised. The re-prioritisation process should also integrate the NSS into the plans for the remainder of the NDP period.
- 1b. In conjunction with item 1a. above, planning should begin on NDP Phase 2, which should include projects that will not be delivered in the 2000-2006 period, as well as additional projects, e.g., the building of further artery routes to alleviate congestion in towns and city centres. Throughout the re-prioritisation process and planning for NDP Phase 2, a rigorous cost-benefit analysis exercise and continuous value for money audits should be adopted for all projects.

#### *Fast-tracking of Key Infrastructural Projects through the Planning Process*

2. A specialist planning body should be established as a division of An Bord Pleanála with responsibility for assessing planning applications for infrastructure projects in the national interest.
3. Planning applications for all strategic infrastructure projects should go directly to An Bord Pleanála with provision for appeal to An Bord Pleanála for individuals and groups with a material interest in the project. Currently this is restricted to roads, waste services and solid waste facilities. Mandatory timetables for decisions should be given for all infrastructural projects and these target deadlines should be met.
4. A special division of the High Court should be formally established to deal with infrastructural and environmental planning appeals.

#### *Implementation of the NSS*

5. A strong implementation authority with a statutory remit should be established to drive and co-ordinate the implementation of the NSS. This authority should co-ordinate the preparation of regional planning guidelines by the regional authorities within 18 months in order to give effect to the NSS.

### WHY IS IT IMPORTANT?

Inadequacies in Ireland's road and rail infrastructure and in public transport directly undermine competitiveness by increasing travel/distribution costs for both individuals and businesses, thus reducing productivity, as well as the capacity of the economy to respond flexibly to emerging needs. Poor transport infrastructure has also been an explanatory factor in house price inflation and limited regional development. Congestion continues to build up in major urban centres.

### Recent Developments

Key indicators in the ACR reveal that Ireland is ranked:

- Top out of ten countries for the proportion of goods transported by road.
- 13th out of 16 countries concerning length of motorway per 1,000 sq. km.
- Eighth out of ten countries examined for rail infrastructure quality.
- Has the longest delivery times of eight capital cities surveyed.

### WHAT HAS BEEN DONE?

All of the Government funding allocated to the roads projects for 2002 will be spent on work in progress. There is now insufficient funding for 23 additional projects that have received planning approval and were due to commence in 2002. A further seven projects are earmarked to start in 2003, but currently there is no budget for this work. To date Public Private Partnership (PPP) schemes amount to almost €1 billion versus a minimum target of €1.3 billion under the NDP, predominantly for major contracts on the national roads network. Given the tightness of Government finance to fund the remainder of the NDP, at least in the short term, there is a need to attract investors for further PPP schemes. Attracting PPP investors to transport schemes is problematic due to the absence of multi-annual funding and thereby uncertainty as to the amount of annual funding. There is also uncertainty surrounding the method of financing roads through PPP schemes. As a result, there is a huge risk that interest from potential PPP parties will wane in the absence of more certainty in the exchequer funding and revenue options.

Substantial investment has been made over the last five years in improving public transport. For example, over one third of replacement buses for CIE planned under the NDP have been provided to date. Other developments include the rail safety programme, modernisation of Heuston station, increased DART, rail and bus capacity and progress on Luas.

### Recommendations

#### *Multi-Annual Funding*

1. NDP roads programme funding should be provided on a three to five year rolling basis, to provide certainty to PPP providers, contractors and businesses. Policy issues around infrastructure charges and tolling and the manner by which PPP promoters earn remuneration on investment should be clarified.
2. Future settlement patterns should be linked with the provision of public transport infrastructure. In this regard, the Strategic Rail Review should provide a long-term, integrated plan for the development of the rail network based on future population and settlement projections. This plan should be integrated with the NSS.

### WHY IS IT IMPORTANT?

Widespread availability of competitively priced broadband is crucial to Ireland's development as a knowledge economy, realising the growth and productivity benefits of e-business and new technologies and developing as an attractive location for portable investment in hi-tech industry. Larger companies and institutions are generally well served. However, the roll-out of broadband connectivity to smaller towns and to SMEs in general remains disappointingly slow.

### Recent Developments

According to the ACR Ireland is ranked 15th out of 16 countries for access to broadband lines.

### WHAT HAS BEEN DONE?

In March 2002, the Government announced the Regional Broadband Investment Initiative to provide optical fibre networks and DSL services over copper networks to an initial 20 towns, to be rolled out to 123 locations over the next five years on a PPP basis if the initial phase proves successful. It is important to ensure that the State's involvement is efficient and effective in itself and does not crowd out private-sector investment. The Government should not own the local loop but must play a strong role in putting the required investment in place if the economic benefits of broadband are to be secured.

### Recommendations

1. Funding to complete the development of optical fibre networks in the initial 20 towns identified by the Regional Broadband Investment Initiative should be provided in the Budget 2003 estimates. In light of the tighter fiscal situation, the development of a single PPP should be accelerated to leverage the maximum private sector finance and participation.
2. A specialist broadband planning body or office should be established to co-ordinate and manage, in close co-operation with the private sector, the involvement of the full range of public authorities concerned in the Regional Broadband Investment Initiative. The State should make the best use of existing infrastructures to achieve a faster and more complete rollout of broadband services, including the optical fibre networks of semi-state bodies.
3. The transposition into domestic law of the new EU regulatory framework for telecommunications should be accelerated. In transposing these directives, the Government should address the following key omissions from the *Communications Regulation Act, 2002*:
  - The potential insufficiency of existing fines as a deterrent;
  - The lack of an appeals mechanism; and,
  - The need to maintain national regulatory oversight of market areas where competition is yet to develop, in particular mobile and high speed interconnection charges.
4. A substantial programme of demand-side measures to stimulate rapid take-up of broadband services should be developed by the Department of Communications, Marine and Natural Resources, at the level of Government in the roll-out of eGovernment services on a more extensive and faster rate than competing countries.

### WHY IS IT IMPORTANT?

Under-investment and a rapid increase in demand have led to capacity constraints in the energy sector. Even with recent investment in energy generation, present supply growth is inadequate to match projected demand over the next decade. The transmission and distribution systems are also in need of substantial upgrading, and while this represents a constraint throughout the country, particular weaknesses in certain regional areas present a real barrier to economic development. Hi-tech industries require a higher capacity of supply and a high standard of quality at competitive prices.

### Recent Developments

According to the ACR, Ireland is second highest out of eight major economies for industrial electricity prices for mid/large capacity users. Further price increases averaging 10 per cent are due from January 2003 as part of a process of re-balancing the current practice of cross-subsidisation of domestic users as well as price increases for gas transmission tariffs which will translate into gas price increases.

### WHAT HAS BEEN DONE?

(See the North-South Competitiveness Chapter for issues relating to an all-island energy market.)

A major investment programme is underway for the transmission and distribution networks with the ESB, in conjunction with EirGrid, undertaking an investment of over €2.5 billion. However, the portion of this which will be spent on the transmission network (€571 million to 2006) does not provide directly for current and future spatial development objectives.

The relatively small size of the Irish market, ESB's dominance and the uncertainty over future trading arrangements all serve to reduce the attractiveness of the Irish market from both an investor's and a financier's point of view. The current planning process is also a major impediment to potential investors. The regulation of the market should minimise uncertainty and reduce barriers to entry.

The gas market is also undergoing a period of liberalisation and investment. Bord Gáis Eireann is investing over €1 billion in the construction of a second Ireland-UK interconnector and the completion of a main ring to the West.

### Recommendations

1. The CER should provide the following changes to current trading arrangements to attract Independent Power Producer investors into the Electricity market:
  - Certainty, particularly in relation to sales to Public Electricity Supply (ESB) post 2005;
  - Transparency, particularly in relation to prices of each plant in the market;
  - Liquidity through the provision of a trading mechanism e.g. a Power Exchange and;
  - Market participants should achieve adequate reward for the level of risk they are prepared to take.
2. Eirgrid should initiate the development of a long-term plan for the transmission network, taking account of the regional promotion priorities of the development agencies and the emerging NSS.
3. The long-term priority for the electricity market should be to achieve security, adequacy and sustainability of supply, with maximum efficiency. Energy policy and the regulatory framework should accelerate the development of alternative efficient sources of energy supply, e.g., renewable energy and combined heat and power.

### WHY IS IT IMPORTANT?

It is vital for Irish industry that adequate and effective waste services and infrastructure are available. Waste management poses the risk of huge potential costs for Irish enterprise unless addressed quickly. This includes the new Landfill Levy and a number of EU directives on producer responsibility for waste which are currently on the horizon, for example, accountability for the recovery cost of packaging waste, the cost associated with the end of life of a vehicle and the disposal of electrical equipment. The rate of waste generation is continuing to increase and licensed landfill site capacity is forecast to run out within four to five years. In 2000, almost 90 per cent of Ireland's waste was processed through landfill. The switch from an almost exclusive reliance on landfill to other means of waste management e.g. incineration and recycling is hindered by restrictive planning regulations, the lack of recycling facilities and the very high cost of recycling, and a lack of market development for recycled material.

### Recent Developments

The ACR ranks Ireland 16th out of 16 countries for the recycling of paper and cardboard as a percentage of consumption. In 1999, Ireland achieved a 17.4 per cent recovery rate for repackaging waste.

### WHAT HAS BEEN DONE?

There is evidence of progress in waste management awareness programmes, particularly for recycling. However, there is widespread failure throughout the country to provide recycling facilities and "bring sites" which are required by both domestic and industrial waste producers. The Minister for the Environment and Local Government in April 2002 announced the establishment of a National Waste Management Board, which will co-ordinate and monitor the implementation of national and regional waste management policy and planning. Progress on the establishment of the National Waste Management Board and the introduction of mandatory waste management audits for industry is expected late in 2002.

### WHAT NEEDS TO BE DONE?

#### Recommendations

1. The National Waste Management Board should be established quickly and given statutory and executive powers to ensure that the required infrastructure and services are provided where regional waste management plans are not being satisfactorily progressed and to develop planning schemes for the pre-designation of "Waste Management Centres", a concept contained in the *Planning and Development Act, 2000*.
2. Enterprise Ireland and the Department of the Environment and Local Government should work together to promote the establishment of recycling projects by the private sector.
3. The Strategic Environmental Assessment (SEA) approach should be used to identify how best to minimise any potential negative impacts in developing the new infrastructure specified in the national, regional and county plans, and these plans should be incorporated into the overall framework of the NSS, so that supporting infrastructure can be planned.

#### WHY IS IT IMPORTANT?

Water supply and waste-water treatment facilities are important, from enterprise, spatial development and environmental perspectives. Each of the locations being targeted for enterprise development and population growth over the next decade and beyond will require additional water and/or waste-water treatment capacity. A number of EU Directives relating to water and waste-water treatment have created requirements for higher standards, which in turn requires increased investment.

#### WHAT HAS BEEN DONE?

The Minister for Environment and Local Government published a *Water Services Investment Programme 2002 – 2004* in April 2002, setting out medium term priorities for investment in water and waste-water infrastructure. Under the NDP, €3.1 billion has been allocated for investment in water and waste-water infrastructure. Eighty water and waste-water schemes were completed in 2001 bringing the total completed to 182. A number of waste-water treatment projects are currently underway across the country. There is a need to adopt a national investment plan that prioritises for population and industry growth.

#### WHAT NEEDS TO BE DONE?

##### Recommendations

1. The Department of the Environment and Local Government should review existing investment programmes in water supply and waste-water treatment infrastructure to take account of the requirements of the NSS.



## COMPETITION AND REGULATION

### WHY IS IT IMPORTANT?

Increased levels of competition amongst certain sectors of the Irish economy are crucial to lowering prices. Increasingly, regulatory reform is seen as a means by which competitiveness can be improved. For some time now, competitor countries have been placing considerable emphasis on facilitating competition through reform of regulatory frameworks. Ireland must do likewise. The key to better regulation is ensuring that regulation is only used when appropriate; and that where it is used, it is of high quality. Thus, better regulation prevents the imposition of unnecessary burdens on enterprise, citizens and public administration and so encourages efficiency and competitiveness.

### Recent Developments

Data from the ACR shows that on the international stage Ireland performs slightly above average regarding competition and regulation. Ireland ranks sixth best out of the 13 Competition Authorities examined in the Global Competition Review. Ireland also ranks third out of 15 regarding employment protection against dismissal (15/15 = most protected labour force).

Although the evidence appears to be solid overall, there are clearly some key areas of the Irish economy which would benefit from further reforms of regulation and from increased competition. These areas have become more than evident over recent years, where there has been a rapid increase in prices and costs to consumers and firms. Lowering these costs will contribute significantly to competitiveness over the medium term.

### WHAT HAS BEEN DONE?

Following the publication of the OECD review, *Regulatory Reform in Ireland*, the Government set up the High-Level Group on Regulation in order to formulate a considered response to the OECD review. The Council welcomes the subsequent publication by the Government of a consultation document entitled *Towards Better Regulation*. Following from this consultation process, a national policy statement is being drafted. Other initiatives include work being undertaken in the area of Regulatory Impact Analysis and the establishment of the Consumer Advisory Council. This latter development is an important step towards fulfilling the OECD recommendations and the general principle of competition and regulation that improving and protecting the welfare of the consumer be the ultimate objective of policy.

A sub-group of the High Level Group on Regulation has drafted a paper proposing a model of Regulatory Impact Analysis (RIA) which will shortly be considered by Government with a view to piloting it in a number of Departments by the end of 2002/early 2003. While initially RIA will only be applied to primary legislation, it is envisaged that, over time, as expertise and experience in its use grows, it will be extended to secondary legislation.

The Council welcomes the establishment of the Irish Financial Services Regulatory Authority (IFSRA).

New competition legislation was enacted in 2002. The Act made improvements in a number of areas, including the Competition Authority's powers, the treatment of different offences, the Competition Authority's advocacy function, and its relations with regulators.

The Council welcomes the fact that the Competition Authority is now undertaking a study into the level of competition in certain professional services. Of particular interest are the legal and medical professions. As a matter of principle, when the State accords



privileges to a profession with regard to legal status and market access, it should maintain a proportionate say in ensuring that adequate measures are in place to safeguard the welfare of the consumer. Separate Competition Authority studies into the Irish banking and insurance markets (to be conducted in conjunction with the Department of Enterprise, Trade and Employment) have also been announced. A study by Forfás in June 2002 *Comparative Consumer Prices in the Eurozone & Consumer Price Inflation in the Changeover Period* raised concerns about the level of competition in certain non-traded services, including professional services, and it is important that these issues are studied in more detail as they directly affect competitiveness. The Forfás study also raised the familiar question of deregulating the pub sector.

#### WHAT NEEDS TO BE DONE?

Ireland is now entering a critical transitional phase in its economic development. Regulatory reform can play an important role in ensuring that this transition is successfully accomplished. The national policy statement on regulation, currently in preparation, can make a key contribution to this process. Ideally, it should be in the form of a Government White Paper. Transparency and accountability should be guiding principles. It is also important to recognise that regulatory reform is an ongoing process. The regulatory framework will need to be continually updated in the light of advances in technology, economic developments, and changes under reforms instituted in other countries.

#### Recommendations

1. The new financial regulatory body, the IFSRA, should adopt a strongly pro-competitive stance, working closely with the Competition Authority to ensure that there are a sufficient variety of financial service providers operating in the Irish market. In this regard, the Government should give strong support to the accelerated implementation of the EU's *Financial Services Action Programme* which will encourage more accessibility financial services across national borders.
2. The High Level Group on Regulatory Reform should prepare a report on the implementation of the recommendations in the OECD's review *Regulatory Reform in Ireland*. Recommendations should be made to overcome barriers or disagreement on outstanding recommendations.
3. A programme of Regulatory Impact Assessment, to which the Government is already committed, should be introduced across the public service, including the civil service, regulators, and local authorities. Consultation mechanisms in advance of changes in regulation should continue to be strengthened. A process should be established to assess the impact on Ireland of forthcoming legislation which is to be adopted at European level, especially with regard to national competitiveness.
4. Market participants within a regulated industry should have recourse to a 'request for decision' process under which the market regulator would be obliged to respond within a specified time period, for example in relation to the future transposition of an EU Directive, in order to enhance certainty, aid dispute resolution, and facilitate investment decisions.
5. The ongoing work of analysing and consolidating existing legislation should be prioritised and adequately resourced. Any programme of simplification should preferably be both targeted and ongoing.



### WHY IS IT IMPORTANT?

Ireland has benefited greatly in the last fifteen years or so from the performance of science-driven sectors. Spill over effects from high-tech foreign enterprises have stimulated a range of new, technology-based firms in areas like software to add to traditional indigenous strengths e.g. in the food-processing sector. The challenge now is to consolidate these advances at a time of increasing uncertainty in world markets and to lay the groundwork for moving to a new stage of industrial development.

Up until recent years, successes have been based to a large extent on the manufacturing sector. Ireland now contains some of the most sophisticated manufacturing plants in the world in these high-tech sectors. But things are changing rapidly. The pharmaceutical industry is undergoing a biotechnology revolution which will make many of their existing manufacturing processes redundant. Ireland is no longer competitive in low-end manufacturing activities. Countries like India and China are producing huge numbers of well-trained computer specialists able to operate to a global level thanks to developments in information and communications technologies. To prosper in this changing world Ireland must intensify its commitment to science, technology and innovation by increasing its investment in research and in human resources, and by addressing the bottlenecks which are hindering a fuller exploitation of our undoubted strengths in these areas.

Research intensities overall in the business sector are below international norms. The level of business expenditure on R&D in Ireland is approximately 1.03 per cent of GNP, well below the OECD average of 1.5 per cent (1999). Almost two thirds of business sector R&D in Ireland is performed in foreign-owned industry. R&D performed in Ireland is mainly related to manufacturing process improvements and is small relative to gross industry output.

### Recent Developments

The ACR reveals a mixed picture in relation to the competitive position from the inputs of Science, Technology and Innovation compared to major competitors. Ireland is ranked:

- At the top of 13 countries surveyed regarding the number of science graduates aged 25-34 per 100,000 in the Labour force.
- Only eleventh out of 16 countries in expenditure on R&D as a share of total GDP.
- Twelfth out of 16 countries in internet usage per 1,000 inhabitants.
- Ninth out of 15 countries in technological achievement.
- Last out of ten countries surveyed in the proportion of DSL use.
- Tenth out of 15 countries regarding inventiveness.

It is clear that several areas of improvement are possible which will enhance competitiveness over the medium term. Adopting new technologies, developing human capital in key sectors of the economy and fostering a climate of innovation and inventiveness will ensure that not only is Ireland well positioned within the current climate, but is also ready to respond to the changing global and technological environment.

## WHAT HAS BEEN DONE?

### Research & Development

The need for a greater national research effort has been accepted. The Government has allocated very significant funding in the NDP, both for basic and strategic research via the Higher Education Authority (HEA) and Science Foundation Ireland (SFI) as well as for R&D in the business sector via IDA Ireland and Enterprise Ireland. The Government has also recognised possible problems raised by the sudden influx of funding into an area which has been relatively under-funded in the past. It has therefore asked the Irish Council for Science, Technology and Innovation (ICSTI) to convene a Commission to examine the underlying framework for research and innovation policies in Ireland. ICSTI is also currently addressing the appropriate mechanisms to ensure that the results and outputs from the new investments in public research are destined to lead to commercial exploitation.

Although business sector R&D has grown rapidly over the past ten to twelve years it still needs even faster growth, particularly on the part of foreign-owned firms in high-tech sectors, if it is to remain internationally competitive.

A Framework for the introduction of an R&D Tax Credit Scheme has been developed by an inter-agency group (Forfás, IDA, EI) within the context of an overall effort to improve the environment for business R&D; and Forfás, again in conjunction with EI and IDA, is currently undertaking another study aimed at developing an agreed national approach to the exploitation of Intellectual Property.

## WHAT NEEDS TO BE DONE?

### Careers in Science and Engineering

Last year's Competitiveness Challenge highlighted the decline in the period 1995 to 2000 in the numbers taking biology, physics and chemistry in the Leaving Certificate. This decline continued in 2001 and 2002. Young people do not see studying technical subjects as the gateway to a worthwhile career. This problem is by no means confined to Ireland and is a cause for concern in most developed countries. Successfully addressing this issue would give Ireland a significant competitive advantage, as well as ensuring greater success in moving towards a knowledge-based economy. A constructive first step has already been taken by the Irish Research Council for Science, Engineering and Technology which has begun to award scholarships for post-graduate study in science and engineering. This initiative sends a signal to students that the Government is beginning to take seriously the question of building a career structure in science. What now needs to be done is to build on this beginning and for the universities and the HEA to put in place real career opportunities (with security, pension entitlements and competitive salaries) for post-doctoral researchers. This will require additional funding but is an essential element of a long-term research strategy for Ireland.

The report of the Task Force on the Physical Sciences (April 2002) contains a number of other recommendations aimed at redressing the falling interest in the sciences throughout the education system and particularly in schools. The estimated cost of implementing the recommended six-point action plan is €178 million in capital investment plus an annual recurrent cost of €66 million. It is vital that these recommendations are addressed as a matter of urgency, not least because many of them will take time to implement and to impact on the system.

### Technology Acquisition and Innovation

Innovation policy in Ireland is in danger of over-emphasising the role of research in innovation. Research is important but most countries and firms will have to acquire more technology from outside than they generate themselves. In addition, only a percentage of enterprises are involved in research or will ever be. And research is of less importance to the services sector than to the manufacturing sector. The diffusion and absorption of new technologies is an area where Ireland continues to have a policy weakness. There is a need to look again at this whole area. It is expected that the ICSTI Innovation Commission (see above) would make recommendations on this area and these should be given careful consideration.

### New Research Initiatives

Ireland is attempting to move towards a knowledge driven economy, constructed partly on a strong and vibrant research system. Under the NDP, hundreds of millions of euro have been allocated to SFI, the HEA, other state agencies, and via a direct grant scheme, to industry, to develop the research system. This will take time as Ireland is moving from an existing system which is fragmented, under-funded and lacking strategic direction. The task of SFI, building up strong research groups in strategic areas, is particularly difficult and lengthy. Nevertheless, it is essential that we succeed. Accordingly, there should not be any move to divert uncommitted resources from the programme as a response to short-term national budgetary problems.

### Recommendations

1. The recommendations of the Task Force on the Physical Sciences should be implemented, despite the current public finance constraints, in order to halt and reverse the long-term decline in the proportion of students taking science subjects in the Leaving Certificate.
2. The HEA and universities, with Government assistance, should develop research career opportunities that are attractive to young people.
3. R&D allocations under the NDP should be accorded high priority for implementation and should not be affected by short-term budgetary adjustments.
4. Full consideration should be given to the recommendations of the Framework for the introduction of an R&D tax credit scheme to enhance the environment for business R&D.



## EDUCATION AND SKILLS

### WHY IS IT IMPORTANT?

Education is deeply important to society, the individual and to business. The Council here is focussing on education and skills from an enterprise point of view. The skills level of the workforce and the ability of the education system to respond flexibly to emerging economic needs and opportunities is a vital determinant of competitiveness. In particular, emerging technologies create requirements for higher and adaptive levels of skill. The widespread application of information technologies must be underpinned by delivery of the complex mix of education and training required to handle the technologies and maximise the productive potential that they offer. Focus on labour market competitiveness is becoming increasingly important also because productivity must rise in order to support sustained income growth. Ireland is increasingly becoming less of a low cost location than it was in the 1980s, and this will become increasingly true over the next decade. In order to attract higher value-added Foreign Direct Investment, the skills base of the Irish economy must be rich in technological, scientific and research capability and must also be responsive to changing demands: speed to market is crucial. It is also important that skills should not be equated with formal education. Formal education has to be enhanced by on-going learning: the specific experience of handling particular technologies, solving problems and adapting solutions to different conditions. On-going responsiveness necessitates life-long learning and up-skilling.

Irish spending on education has not kept pace with economic growth. As a result, the proportion of GDP spent on education (by public and private institutions) fell below 4.7 per cent from 1998. On average Ireland spends less on primary education (70 per cent of OECD average), less on secondary education (75 per cent of average), and slightly less on tertiary education (94 per cent of average) than other OECD countries. However, it is very important to point out that expenditure is an input and not an output in itself. What is important is the quality of education.

Quality and efficiency data must both be closely scrutinised. In particular data for participation, attainment and literacy should be examined. Performance in the tertiary sector appears relatively solid, with strong performance in the 25-34 cohort, and an above average out-turn of key graduate posts (e.g. science and technology). In the 25-64 cohort, data shows more disappointing results reflecting wide educational differentials and poor life-long learning achievements. In relation to primary and secondary education, literacy performance and scientific understanding (as measured by the new Programme for International Student Assessment (PISA) study) is actually above average despite the fact that teacher-to-pupil ratios are below average.

### Recent Developments

An examination of key indicators in the the ACR paints a mixed picture of educational and skills inputs to competitiveness:

- Expenditure on educational institutions as a share of GDP ranks Ireland eighth highest out of 14 major competitors.
- As regards participation, Ireland is ranked fourth best out of 11 countries regarding growth of enrolment in tertiary education from 1995 onwards.
- Looking at attainment, Ireland is ranked only eighth out of 13 countries concerning the share of population aged 25-34 that has at least third level education.
- Finally Ireland is ranked first out of twelve regarding productivity growth from 1996-2001, and has the fifth highest productivity per hour worked out of 16 countries.

## WHAT HAS BEEN DONE?

### **Strategic Framework on Lifelong Learning**

A strategic framework for lifelong learning is essential in order to create a coherent overall approach to making the vision of increased participation in learning a reality. The establishment of the Task Force on Lifelong Learning derives from commitments in the PPF and the EC Memorandum on lifelong learning. The Council calls for publication of the report of the Task Force on Lifelong Learning, together with a response from Government on the recommendations and their implementation. The report, due shortly, has identified the main elements of this underpinning framework as follows:

- Developing and implementing the national framework of qualifications;
- Ensuring basic skills for all;
- Providing coherent and comprehensive guidance and information;
- Addressing delivery, access and funding issues; and,
- Better learning opportunities in the workplace and for workers.

Lifelong learning requires long-term commitment. Completing the framework will necessitate further investment as not all of the building blocks are in place. Failure to make this investment will undermine Ireland's long-term economic and social well-being.

The Council continues to endorse the work of NQAI (National Qualifications Authority of Ireland), HETAC (Higher Education and Training Awards Council) and FETAC (Further Education and Training Awards Council) established to improve the quality of further and higher education. All three of these entities have a role to play in establishing a strategic framework of lifelong learning, particularly in developing and implementing the national framework of qualifications.

### **The Expert Group on Future Skills Needs (EGFSN)**

The Expert Group on Future Skills Needs is one element of the Business, Education and Training Partnership established by the Irish Government in 1997 to develop national strategies to tackle the issue of skills needs, manpower estimation and education and training for business. In recent years, the EGFSN has made a very significant contribution through the identification of skills needs and of the measures required to fulfil these needs. The Expert Group's work has led to a significant increase in third level places in Information and Communications Technologies (ICT). A €12 million provision has been made in 2002 to maximise existing graduate potential and expand part-time opportunities in the ICT area. This represents an initial response to the recommendation of the Expert Skills Group for a €165 million investment over five years in the ICT skills area. There has also been an increase in the number of places in life sciences at third level. The Expert Group is currently undertaking a review of the skills needs of the biotechnology and other life sciences sub-sectors, in particular the pharmaceutical and medical devices sectors. It is also analysing the skills requirements in the food sector and in cultural industries. A working group under the aegis of the HEA is examining issues raised by the Expert Group in relation to research as a career in Ireland, and the attractiveness of Ireland as a location for a research career.

### Task Force on the Physical Sciences

The Council recognises the absolutely critical importance of the recommendations of the Task Force on the Physical Sciences. This view is fully endorsed by the EGFSN and state development agencies. (See the Science, Technology and Innovation Chapter for further discussion.)

#### WHAT NEEDS TO BE DONE?

##### Recommendations

1. The recommendations of the Third Report of the Expert Group on Future Skills Needs, in particular, the programme of investment of €165 million to create third level ICT places over 2002-2007, should be implemented.
2. In order to facilitate the transition from an investment economy to an innovation economy, measures should be taken to increase substantially the output of doctorates, particularly in the areas of science, technology and engineering.
3. The proposal for a National Office for Equity of Access to Higher Education, put forward by the Action Group on Access to Third Level Education (May 2001) should be implemented to improve second level retention and performance and the successful transition to third level education by students from socio-economically disadvantaged backgrounds, students with a disability, mature students and students from disadvantaged communities.
4. The development of an integrated programme for second chance and further education as put forward in the White Paper on Adult Education (2000) should be implemented, including a National Adult Literacy Programme; a Back to Education Initiative providing for significant expansion of part-time options under Youthreach/Traveller, VTOS and PLC courses; an ICT Basic Skills programme for adults as part of the Back to Education Initiative and increased flexibility and improved organisational structures for self-funded part-time adult education in schools.



### WHY IS IT IMPORTANT?

SMEs are a major contributor to Ireland's national income and their level of competitiveness is a crucial component of national competitiveness. Approximately 99 per cent of Irish firms are SMEs. These account for 49 per cent of employment, which is lower than the average proportion of employment accounted for by SMEs in Europe. Given Ireland's rising cost base and the trends of globalisation, the Council views SMEs as an important source of economic growth over the next decade, particularly in the high-tech and services sectors. It is also important to focus on SMEs because they tend to suffer disproportionately from problems such as rising wage costs and high insurance costs. Entrepreneurial activity must be promoted as an important component of Ireland's national ability to create wealth, as a new way of encouraging innovation and as an important mechanism for increasing economic efficiency.

A recent report *Entrepreneurship in Ireland* commissioned at the instigation of the Council has identified the following issues as being particular challenges facing Irish SMEs/entrepreneurs, i.e. apart from general issues which affect the enterprise sector as a whole:

- Difficulty in accessing small amounts of high seed capital at the early stages;
- Under-development of female entrepreneurship;
- Under-utilisation of education and training systems as a means of promoting entrepreneurship and innovation.

### Recent Developments

Indicators examined in the ACR, show that Ireland:

- Performs close to the average concerning the inputs to competitiveness from Small Businesses and Entrepreneurship.
- Ranks fourth out of 10 countries surveyed in cumulative venture capital raised as a percentage of output – one of the key drivers of small business competitiveness.
- Ranks fourth best out of 12 countries regarding the rate of return on capital employed.

### WHAT HAS BEEN DONE?

The competitiveness of a successful SME sector is deeply reliant upon the availability of sufficient supplies of finance from a variety of sources, provided efficiently and at competitive cost levels. Recent studies into the supply of venture capital have found a significant improvement in Ireland. With regard to specific state supports, Enterprise Ireland's venture capital programme should act as a catalyst to encourage external investments in its clients during 2002. However, these improvements must be seen in context. The bulk of investment has gone towards the IT sector and the awards have been larger than most small firms could command.

Relatively low levels of female entrepreneurship in Ireland have been identified in statistical analysis and research including the *Global Entrepreneurship Monitor 2001* study which found that Ireland ranked 14th lowest out of 16 of the ACR countries surveyed for the percentage of women entrepreneurs, but although women-owned firms may not yet have attained the same level of achievement as those owned by men, as a group they are catching up fast. Women face additional barriers to men such as the initial negative attitudes of officialdom, sub-suppliers and customers. Although these attitudes tend to disappear over time they do act as a barrier at pre-start up and start



up phase. Women also face particular difficulties when reconciling work and family life. This is made more problematic when confronted with the additional cost and lack of availability of childcare. Under the NDP, €436 million was scheduled under the Equal Opportunities Childcare Programme of which €117 million has been spent to date in the form of grant assistance for capital spending and staff employed in association with childcare. A further €317 million is available under the NDP Regional Operational Programmes.

Continuous improvements in the educational system and in training systems, together with a number of measures for more efficient functioning of labour markets have also contributed to the recent development of SMEs and entrepreneurship. A review of education and entrepreneurship is currently underway under the auspices of the EU with the participation of the Department of Enterprise, Trade and Employment. As SMEs evolve, there is a corresponding need to develop both personal and professional skills. The importance of a highly experienced and effective mentoring process is essential in this regard.

## WHAT NEEDS TO BE DONE?

### Recommendations

1. The Council notes that there are perceptions of fragmented supports and confusion amongst potential entrepreneurs. Accordingly it proposes that existing agencies and bodies be networked to provide an Enterprise Link, through which potential entrepreneurs could access a standard initial service of information and advice about the supports available for different types of companies. This would require some common branding and training of client facing staff in a variety of state and community enterprise bodies.
2. In order to enhance SME service sector productivity:
  - FÁS should focus on the question of productivity and intensify its efforts in this regard in its training initiatives for services and other sectors supplying the domestic market; and,
  - Enterprise Ireland should more proactively address the needs of its client companies with low productivity levels, through the introduction of a competitiveness fund and other means.
3. Recognising that Ireland is currently below average in the number of female entrepreneurs, a specially funded programme designed to attract and increase the number of female entrepreneurs should be set up and operated by the State's business development agencies. This specially funded programme could include funding for education & training, advertising, awareness issues, seminars & network building, feasibility grants and financial assistance. The Council recommends the establishment of an Implementation Group, comprised of representatives from the Department of Enterprise, Trade and Employment, the Equality Unit, Department of Justice, Equality and Law Reform, the business development agencies and the private sector as appropriate, to carry forward these recommendations.



## EFFICIENCY AND EFFECTIVENESS OF THE PUBLIC SERVICE

### WHY IS IT IMPORTANT?

The efficiency and effectiveness of the public service is important at any time because of the bearing it has on the level of taxation, the range and quality of public services, and the ability of public policy and implementation to respond flexibly to emerging social and economic needs and opportunities. These issues assume an increased importance now when public finance is coming under serious pressure for the first time in a number of years: expenditure growth is up 19.6 per cent for the first 10 months of the year to October 2002, compared to the equivalent period in 2001 while tax revenue growth has decelerated to 2.3 per cent for the first 10 months of the year to October 2002, compared to the equivalent period in 2001. At the same time demands for expenditure in a range of areas have never been higher. Efficiency and effectiveness of the public service are also crucial topics in the context of the forthcoming negotiations for a successor agreement to the PPF and the agreement and implementation of the Report of the Public Service Benchmarking Body. Almost all of the growth in employment of 33,500 in the year to the second quarter of 2002 was accounted for by the Public Sector. There is a need to translate the growth in employment in the Public Sector into improved service delivery in terms of policy-making, delivery of infrastructure and better regulation.

### Recent Developments

Data to measure the efficiency and effectiveness of the public sector is currently limited, both on the domestic and international stage. Recent data from the ACR confirms that Ireland is a relatively low tax/low spend economy. Tax revenues as a proportion of GDP were measured as the fourth lowest across 16 nations examined. Government spending as a share of output was also measured as second lowest out of 12 countries surveyed.

### WHAT HAS BEEN DONE?

#### Public Sector Pay Benchmarking Report

Released in June 2002, the Report of the Public Service Benchmarking Body has made recommendations for (i) a number of changes in public service personnel management practices and (ii) a range of pay increases, linked to agreement on relevant modernisation and change, giving rise to an overall increase in public service pay of 8.9 per cent. Agreement and implementation of the report's recommendations are expected to be linked with the negotiation and implementation of a successor agreement to the PPF. The objective of this process has been to bring public service pay in line with private sector pay and therefore, according to the report, there is no justification for any follow on claims from the private sector, and also to bring an end to the system of relativities that has dominated public service wage negotiations in previous years. The exercise was also undertaken within the context of agreed commitment to public service modernisation, including on-going co-operation with change. The terms of reference stated specifically that it was 'accepted that change is a requirement of a modern, high-performing public service and...not in itself a basis for claims for improvements in pay and conditions'.

### Strategic Management Initiative (SMI)

Recent reviews of the SMI report that progress has been made in the three 'outward facing' themes, i.e. Regulatory Reform, Quality Customer Service, and Openness and Accountability. However, less progress has been made on the Corporate Modernisation Programme represented by the three 'inward facing' themes, i.e. Human Resources Management, Financial Management and Information Systems Management. In all of these cases, there is considerable need for new practices to be implemented. At present, a new Management Information Framework and a Performance Management Development System are in different stages of roll-out across Government Departments and offices.

- Vision, Strategy and Action Plan

Work is currently underway on a 'Vision, Strategy and Action Plan' for the next five years, which is effectively an extension and enhancement of the SMI. This programme is designed to push implementation of the Modernisation Programme, as well as building on progress to date under the three 'outward facing' themes.

- Quality Customer Service

An evaluation of Customer Action Plans was completed in April 2002. Although it was found that the twelve stated principles of Quality Customer Service are being implemented, the need for further integration of services was identified. E-Government initiatives can make an extremely important contribution in this regard.

### Expenditure Review Initiative (ERI)

Under ERI, components of Government expenditure have been formally evaluated. Two recent reviews of the ERI itself have also been undertaken: one by the Comptroller and Auditor General and a second by the Central Steering Committee on Programme Evaluation. Arising from this work, the Government has agreed that expenditure reviews will be more focused in the future, with emphasis, for example, on larger quantum of expenditure, areas where the external environment has changed and areas where expenditure has been growing unusually fast. There will also be increased emphasis on the review of cross-cutting issues. For the period 2000-2002, it is estimated that approximately 25 per cent of total Government expenditure will be covered by ERI, in addition to a review of significant elements of NDP expenditure. At present, there are no formal links between expenditure review and the budgetary process.

### Procurement

The value of procurement markets in the public sector has been estimated at over €8 billion per annum. Efficient and integrated procurement processes and practices across the public sector have the potential to achieve more effective service delivery and value for money. The *Strategy for the Implementation of eProcurement in the Irish Public Sector* which was approved by Government in April 2002 sets out a policy framework for public sector procurement over the medium to longer term. The potential savings to be generated from adoption of the Strategy could represent at least two per cent of annual procurement expenditure. A National Policy Unit has been established in the Department of Finance with responsibility for the development and co-ordination of national procurement and eprocurement policy.

## WHAT NEEDS TO BE DONE?

### Recommendations

1. Negotiations are currently underway between employers and unions to implement all of the recommendations of the Public Service Benchmarking Report. The recommendation of the Public Service Benchmarking Body that the 'implementation of the pay awards should be made conditional (apart from the one quarter of any award to be implemented with effect from 1 December 2001) upon agreement on relevant modernisation and change issues at the appropriate local bargaining levels' should be accepted. Specific modernisation and reform proposals should be built in to the successor agreement to the PPF.
2. The implementation of awards arising from the Benchmarking process should be managed in a manner that reflects the changed fiscal circumstances and the overriding need to maintain fiscal stability as the platform for sustained economic growth and rising living standards.
3. The Vision, Strategy and Action Plan under the Strategic Management Initiative should:
  - Focus on outcomes and outputs and make specific, time-framed recommendations for change that must occur to achieve these goals; and,
  - Provide for improved communication, knowledge management and resource sharing between Government Departments.
4. All Government expenditure should be subject to periodic, formal, independent evaluation as to rationale, effectiveness, efficiency and impact. The results of such evaluations should systematically inform the process of budget allocation. The Council recognises that it would take a number of years to develop such a comprehensive framework. To begin with, this should be a guiding objective, and the ERI should be developed in this direction over a targeted period.
5. A two to three year funding time-span for public capital spending, particularly for infrastructure projects, should be adopted with clear objectives and targets to deliver longer-term, targeted, more efficient allocation of resources than the current system based on an annual Budget.



## NORTH-SOUTH COMPETITIVENESS

### WHY IS IT IMPORTANT?

The two economies on the island - North and South - have many common characteristics and face similar competitive challenges within their own jurisdictions. Commonalities include:

- Small, open, geographically peripheral economies;
- Disadvantaged border areas;
- Skills shortages;
- Infrastructural shortfalls (transport, energy, health, education, ICT);
- Poor inter-economy mobility; and,
- Lagging enterprise, innovation and R&D culture.

Strategic co-operation at both macro and micro levels will create tangible benefits, including economies of scale, lower shared costs, improved efficiencies, and access to larger markets for both intermediate and final goods. Building networks of trust, co-operation, alliances and intertrade between firms will create considerable spillover benefits in the areas of skills, training, knowledge and technology. Such developments in turn improve the island's overall competitive position from European and global perspectives.

### WHAT HAS BEEN DONE?

The continuing work of the North-South Ministerial Council and the cross-border implementation bodies has provided a unique opportunity for strategic and practical co-operation towards promoting North South competitiveness. The National Competitiveness Council has commented on the potential gains in its 2001 report *Towards All-Island Competitiveness: Issues and Approaches*, undertaken jointly with the Northern Ireland Economic and Research Council (NIERC). The highlights of their progress so far are set out below:

#### **Trade and Business Development**

InterTradeIreland - the Trade and Business Development Body - has been particularly active in this area. InterTradeIreland's legislative remit from the British and Irish Governments is 'to exchange information and co-ordinate work on trade and business development... and... to increase enterprise competitiveness in a North/South context in areas such as skills availability, telecoms, IT, and electronic commerce'.

The spillovers and synergies of increased co-ordination and co-operation in the areas outlined in the legislation are reflected in new networks which involve the exchange of knowledge between firms, industries, universities and other centres of knowledge on the island. Ultimately these networks will lead to the emergence of new competitive strengths and clusters of economic activity.

Significant progress has been made in facilitating the development of knowledge networks to increase cross-border trade through areas such as: the Digital Island Initiative; science and technology; equity finance; skills and labour mobility; entrepreneurship; all-island benchmarking; supply chain and cluster development; and, public procurement. Forfás has been centrally involved in many of these activities.

## Energy

Another important area where North/South collaboration can enhance competitiveness is energy. A *Report on North-South Energy Studies*, released in late 2001, examined how the development of an all-island energy market could be facilitated. Three North-South energy seminars have since been held bringing together Ministers, Regulators and other key market players. In terms of practical steps towards improving infrastructure, investment to enhance the North-South electricity interconnector is underway. Also, in Northern Ireland, work is continuing on the development of gas pipelines from Belfast to Derry and from Antrim to Gormanston, the latter of which will link in with the second gas interconnector from Scotland to the South. The Irish Exchequer has made a grant of €12.7 million in respect of these two Northern pipelines.

## WHAT NEEDS TO BE DONE?

### Recommendations

1. Full support should be given, from both North and South, to the continuing work of *InterTradeIreland* as it seeks to improve the competitiveness of the island economy through the facilitation of all island networks of co-operation in areas such as science and technology, equity, skills, labour mobility, entrepreneurship, supply chain and cluster development, public procurement, and all-island benchmarking.
2. The Digital Island Initiative should be subject to on-going monitoring by the Ministries and Agencies involved to ensure the Initiative maintains momentum and is translated into practical actions, particularly in relation to the following:
  - Improved standardisation and inter-operability of eGovernment arrangements, especially in relation to e-procurement and e-payment;
  - Co-ordination of plans for broadband deployment in Border and North West regions and in developing links between key centres; and,
  - Building on the joint work completed by the ODTR and Oftel towards optimising arrangements for mobile roaming and numbering.
3. The current process of North-South consultations on energy should lead to the production of a set of concrete proposals for facilitating the development of an all-island energy market. These proposals should address existing differences in trading, transmission and regulatory arrangements with a view to establishing a level playing-field for participants throughout the island.



## NCC Publications

Annual Competitiveness Report, 1998	March 1998
.....	.....
The Competitiveness Challenge Summary Statement	March 1998
.....	.....
Statement on Telecommunications: A Key Factor in Electronic Commerce and Competitiveness	November 1998
.....	.....
Statement on Skills	December 1998
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Annual Competitiveness Report, 1999	May 1999
.....	.....
Report on Costs	June 1999
.....	.....
Statement on Social Partnership	September 1999
.....	.....
Proposals on Transport Infrastructure, the Planning Process and Public Transport	March 2000
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The Competitiveness Challenge	May 2000
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Annual Competitiveness Report, 2000	May 2000
.....	.....
Statement on Telecommunications, e-Business and the Information Society	July 2000
.....	.....
Statement on Regulatory Reform	July 2000
.....	.....
Statement on Labour Supply and Skills	September 2000
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The Competitiveness Challenge, 2001	December 2001
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Annual Competitiveness Report, 2001	December 2001
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The Competitiveness Challenge, 2002	November 2002
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Annual Competitiveness Report, 2002	November 2002
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