

PRESS RELEASE

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Ireland Must Halt Deterioration in Cost Competitiveness - National Competitiveness Council

Council cautions that recent deterioration in cost competitiveness could threaten jobs and growth

Launch of *Cost of Doing Business in Ireland 2014* Report

The National Competitiveness Council (NCC) today has launched its *Costs of Doing Business in Ireland 2014* report which was conducted as part of the Governments' *Action Plan for Jobs 2014*.

The report finds that Ireland's costs base has improved across a range of metrics over the last number of years making Irish firms more competitive internationally and making Ireland a more attractive location for firms to base their operations in. It also finds, however, that despite these improvements Ireland is still a high cost location for a number of key business inputs. The Council points to the economy being at turning point in terms of cost competitiveness, with overall relative cost competitiveness disimproving and a series of upward cost pressures emerging: the harmonised competitiveness indicators show that Ireland's relative cost competitiveness is now deteriorating vis-à-vis our main competitors; labour costs are rising again following a number of years decline, industrial electricity prices have increased in recent years; and an upward trend is evident across a range of business service costs.

The NCC is emphasising the importance of Ireland's international cost competitiveness remaining a key economic priority for Government and is cautioning that further structural change is required to ensure that costs do not escalate and erode competitiveness gains already made.

Minister for Jobs, Enterprise and Innovation Richard Bruton TD said: "In the last three years we have seen substantial improvements in Ireland's competitiveness, going from 24th in the IMD world competitiveness rankings in 2011 to 17th last year. This has played a major part in the export-led jobs recovery we have seen, with Irish companies selling more of their products and services abroad and more multinational companies choosing Ireland as a location for investment. Today's report, showing that our competitiveness faces enormous challenges, must serve as a major wake-up call for anyone who thought that our competitiveness issues were resolved. Now is not the time for businesses to hike their prices, now is not the time for unions to make wage demands, and now is not the time for Government to take its foot off the pedal in making the structural reforms we need. That is why the Action Plan for Jobs puts a particular focus on competitiveness for 2014, and as today's report clearly shows, there must be no let-up in action right across Government and the economy in addressing this challenge".

Chairman of the NCC, Dr Don Thornhill commented, "To deliver the jobs growth that Ireland needs, our international cost competitiveness needs to continue to improve. The analysis from this report points to the Irish economy being at a pivotal point in terms of cost competitiveness. Recent price falls are largely a cyclical response to the Irish and international recessions rather than a response to structural changes in the Irish economy. In this light we need to see the Government's continuing focus on those aspects of the economy which drive costs for business. Reforms that reduce business costs and improve productivity need to become the new story of the Irish economy."

Martin D. Shanahan, Chief Executive, Forfás, which provides the NCC with policy analysis support said, "We must relentlessly pursue further improvements in our costs competitiveness. Ireland must learn the lessons from the past - we cannot afford any slippage in our international competitiveness if we are to achieve the enterprise growth and employment targets set out in the Government's Action Plan for Jobs. Recent cost competitiveness gains must be protected and structural changes are required to decrease price levels where they are out of kilter with EU and OECD norms.

Summary Findings

Labour Costs

- Following a number of years of marginal decline, labour costs in Ireland are on the increase. In 2012 and 2013 Irish labour costs grew by 2.4 per cent and 0.5 per cent respectively, against a backdrop of still elevated unemployment.
- Gross earnings are the 8th highest in the euro area while net wages are the 6th highest.

Property Costs

- Following several years of cost reductions the commercial property market has begun to stabilise. There is a risk of shortages in prime office space which could result in rent increases.

Transport Costs

- Diesel prices are 7 per cent more expensive in Ireland than in the euro area.
- While it is expensive to export from Ireland, Irish administrative processes are efficient and compare favourably with processes in key competitor countries.

Utility Costs

- Electricity costs in Ireland are relatively high with Ireland the 5th and 6th most expensive location in the euro area for SMEs and large users respectively.
- Landfill gate fees are the 5th most expensive out of 10 countries while non-hazardous thermal treatment fees are 3rd highest out of 9 countries.
- Ireland is the 5th most expensive location out of 16 for industrial water costs. Water services are currently undergoing a major reform and the cost impacts from these reforms are not yet clear.
- Telecom costs are relatively competitive though concerns persist in relation to the quality (speed) of services available.

Credit Costs

- New business interest rates for non-financial corporations are higher in Ireland than in the euro area with Irish rates 31 per cent higher for loans up to €1 million and 27 per cent higher for loans above 1 million.

Business services and other input costs

- Throughout 2012 and 2013 prices for a range of business services have been increasing in Ireland. This follows a period of significant price declines over the course of the recession. In Q3, prices were 3.4 per cent above 2010 levels.

Broader Cost Environment

- Ireland's current price level and inflation profile can be described as high cost but rising slowly. In 2012 Ireland was the 3rd most expensive location in the euro area for consumer goods and services. Irish prices were 14.6 per cent above the euro area average. Irish price levels remain above the euro area average in 10 of the 12 key product categories.
- Since the recession, the principle contributors to Irish inflation have been Miscellaneous Good and Services (driven by health insurance), Transport, Alcohol and Tobacco, Education and Health.

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NOTES TO EDITORS

About the NCC

The NCC reports to Government on key competitiveness issues for the Irish economy and makes recommendations on policy actions required to enhance Ireland's competitive position.

The Minister for Jobs, Enterprise and Innovation announced new membership of the National Competitiveness Council in May 2013 and mandated the Council to develop actions on competitiveness for implementation through the Action Plan structure. The members of the Council are:

- Dr Don Thornhill Chair, National Competitiveness Council
- Martin D. Shanahan, Chief Executive, Forfás
- Liam Casey, Chief Executive Officer, PCH International Ltd.
- Prof. Peter Clinch, Vice-President for Innovation, UCD
- Shay Cody, General Secretary, IMPACT Trade Union
- Clare Dunne, Assistant Secretary, DJEI
- Isolde Goggin, Chairperson, Competition Authority
- John Herlihy, Vice President, International SMB Sales and Head of Google Ireland
- Jane Magier, Joint Managing Director, Abbey Tours
- Danny McCoy, Chief Executive Officer, Ibec
- Seán Murphy, Deputy Chief Executive, Chambers Ireland
- Seán O'Driscoll, Chairman and Chief Executive Officer, Glen Dimplex Group
- Louise Phelan, Vice President of Global Operations Europe Middle East and Africa, PayPal
- Heather Reynolds, Director, Eishtec
- Dave Shanahan, Head of Strategic Health Initiatives Worldwide, AbbVie

- Paul Sweeney, Former Chief Economist, ICTU
- Siobhan Talbot, Group Managing Director, Glanbia

Representatives from the Departments of the Taoiseach, Agriculture, Food and the Marine, Communications, Energy and Natural Resources, Education and Skills, Environment, Community and Local Government, Finance, Justice and Equality, Public Expenditure and Reform, Transport, Tourism and Sport attend Council meetings in an advisory capacity. The work of the NCC is underpinned by research and analysis undertaken by Forfás, Ireland's policy advisory board for enterprise, trade, science, technology and innovation.

About Forfás

Forfás is Ireland's policy advisory board for enterprise, trade, science, technology and innovation. It provides independent and rigorous research, advice and support in the areas of enterprise and science policy. This work informs the Department of Jobs, Enterprise and Innovation and wider Government. Forfás works with IDA Ireland, Enterprise Ireland and Science Foundation Ireland to ensure the coherence of policies across the enterprise development agencies.

The full report *Costs of Doing Business in Ireland 2014* is available at www.competitiveness.ie and www.forfas.ie