



Ireland's ability to adapt to change is crucial to maintaining our strong economy

Forfás End of Year Statement 2003

Introduction

In 2003 Forfás worked on several key policy initiatives designed to help Ireland progress towards the goal of being a knowledge and innovation driven economy, including:

- The introduction of an R&D tax credit for industry;
- The development of the broadband market in Ireland, particularly in relation to the reduction of costs and increasing the availability of services in regional locations;
- The development of long-term strategies for the provision of skills pivotal to our move towards a knowledge economy;
- Identification of priorities to support research and innovation;
- Supporting the work of the Enterprise Strategy Group; and
- The establishment of Discover Science & Engineering, the new national integrated awareness programme.

These and previous policy initiatives are making the Irish business environment more attractive to increasingly complex and skilled activities – activities that in turn support better employment throughout the country. This is evidenced by the quality of projects supported by Forfás' sister agencies, Enterprise Ireland and IDA Ireland, not just in Dublin but throughout the country, including:

- **Google, Overture** and **eBay** all announced the establishment of key European Centres in Ireland
- **Cape Technologies, DigiSoft.tv** and **Vistamed** - Irish companies involved in significant R&D activity
- **Diageo** has made Waterford the location for a global supply production facility
- **Pfizer** added further strategic activity to its Irish operation with the establishment of its European Financial Shared Services operation
- **ABB** announced the establishment of a new global R&D and marketing centre
- **Ingersoll Rand** has made Ireland the location of choice for its global export sales and service activities

Priorities 2004

Ireland's future strategy should be to secure our relatively high living standards with world-class human capital and physical infrastructure to rival that of the most economically advanced countries. To this end Forfás will advise on policy formulation and implementation in the following areas in 2004:

- Sustaining increases in public investment in research and innovation and achieving a step change in the research and innovation performance of the enterprise base;
- Implementation of the National Spatial Strategy;
- Ways in which the social partnership process can continue to support national competitiveness and the transition towards a knowledge economy;
- Maintaining investment and progress on key infrastructural projects under the National Development Plan;
- Further improving Ireland's performance in the areas of broadband telecommunications access and costs;
- Promoting an increased interest in science and encouraging young people to consider science as a viable career option; and
- Giving greater emphasis and resources to upskilling people at work.

Activities of Forfás

The activities of Forfás and its sister agencies (IDA Ireland, Enterprise Ireland and Science Foundation Ireland) in 2003 were driven primarily by three inter-related goals:

- Ensuring that employment levels continue to meet the needs of a growing population;
- Enhancing the quality and skill base of employment in Ireland to support national economic and social prosperity; and
- Promoting a more even regional distribution of employment opportunities and prosperity.

Employment

Overall employment levels in the economy continued to grow in 2003. The total number at work rose by some 26,000 to more than 1.82 million during the year. This was a particularly strong performance given the fact that most developed countries experienced falls in employment during the same period.

Employment levels in agency-supported companies stood at 297,000 in 2003, a decrease of almost 7,500 on 2002. 2003 is the third consecutive year where there has been a net decrease in employment in agency-supported companies. This resulted in 19,000 less jobs in manufacturing and internationally traded services compared to the peak of 316,500 in 2000. However, employment in agency-supported companies is still one third higher than it was a decade ago when it stood at 224,000.

The manufacturing sector accounted for all of the net decrease in employment in 2003. Within the internationally traded services sector, job gains and losses were in balance with 8,500 job gains and losses. In contrast there were 14,000 jobs created in manufacturing, but they were more than outweighed by losses of 21,500. The computer and electronics sector accounted for almost half of the net decrease.

The textile sector and the paper and printing sector also witnessed significant net decreases in employment with approximately 1,000 jobs being lost in each.

The decline in overall employment by agency-supported companies in 2003 reflected:

- Sluggish import demand from Ireland's major trading partners;
- Increasing competition for mobile investment projects from Asia and central and eastern Europe; and
- The increasing cost of doing business in Ireland relative to other countries.

Advising on policies to counter Ireland's declining cost competitiveness was a significant priority for Forfás during 2003. In May, Forfás published a Consumer Pricing Report 2003. The study found that Ireland has joined Finland as the most expensive country in the euro area, and identified those sectors of the economy responsible for the bulk of price increases in recent years.

Similarly, the Annual Competitiveness Report by the National Competitiveness Council (NCC), whose secretariat is provided by Forfás, found that Ireland ranks 4th most expensive of 16 countries for insurance premiums per capita, 3rd most expensive out of ten countries for landfill costs and 3rd most expensive of nine countries for industrial electricity costs.

Through its work with the NCC, Forfás put forward a number of constructive policy proposals in 2003 designed to halt the deterioration in Ireland's cost competitiveness by reducing consumer price inflation back to the EU average. Most significant were the proposed measures to increase domestic competition and public sector productivity. Forfás and the NCC welcomed the low inflationary impact of Budget 2004 and are confident that implementation of the other proposals could lead to a further reduction in the rate of inflation in 2004. This would, in turn, help to moderate wage growth in order to keep it in line with cost competitiveness requirements at firm and industry level.

Employment Quality and Skills

The intensification of competition from developing countries means that Ireland can no longer compete on costs alone. Further job creation requires that Ireland provides a business environment that supports increasingly complex and skilled manufacturing and service activities. It must also enable firms, both indigenous and foreign-owned, to develop and produce innovative new products, services and production processes.

Forfás survey data on productivity (output per worker) and wage growth provide strong evidence of higher quality jobs in agency-supported companies as a result of an increasing focus on more skilled and knowledge-intensive activities. According to the data, agency-assisted firms enjoyed productivity growth of 4-5% in the period 2000-2002. This was twice the estimated EU performance over the same period.

Advising Government on the policies needed to accelerate this transition to a knowledge-driven economy was a central focus of Forfás in 2003 and outputs included:

- **Research Funding:** Government demonstrated substantial further commitment to research and innovation during 2003, committing a total investment of €285 million for 2004, an increase of 39% on 2003 investment. The Government also increased its support for basic research through Science Foundation Ireland (SFI) and applied research through Enterprise Ireland.

SFI has made over €320 million in investment commitments since 2001, supporting in Ireland over 750 world-class researchers working in the fields underpinning Biotechnology (BioT) and Information and Communications Technology (ICT). In addition, during 2003 the Government reinstated the funding for the Programme for Research in Third Level Institutions (PRTLTI). These investments send a strong signal to industry and researchers, both at home and abroad, that Ireland is serious and consistent in its approach to developing as a knowledge and innovation based economy.

- **Irish Participation in EU Research Networks:** The creation of a European Research Area (ERA) is a key component of the strategy defined at the Lisbon European Council in March 2000, specifically through creating an internal market for research in Europe and reducing fragmentation of research activities. Ireland has benefited greatly from the EU Framework Programmes for Research and Forfás continued to advise and evaluate Ireland's participation in the Sixth Framework Programme during 2003. Ireland is also a member of a number of European research organisations and in 2003 Forfás worked in partnership with the Department of Enterprise, Trade and Employment in negotiating Ireland's participation in the European Molecular Biology Laboratory (EMBL). EMBL encompasses five facilities across Europe which provide the scientific community with access to important research infrastructure. These facilities are available to Irish scientists as of 1st January 2004.
- **Commercialisation of Publicly-Funded Research.** Ireland's international competitiveness requires that publicly-funded research be available to industry for commercialisation. To this end Forfás has, through its work with the Irish Council for Science, Technology and Innovation (ICSTI), been engaged in the development of new standards and protocols for the sharing of Intellectual Property, generated from publicly-funded research, between the public and private sectors. Guidelines in this crucial area should assist in fostering further collaboration between industry and the third level sector and will be published in early 2004.
- **R&D Tax Credit:** Increased investment in research and development (R&D) by companies in Ireland will be crucial to making jobs here more sustainable in the face of intensifying international competition. Industry in Ireland has increased its investment in R&D activities in recent years, but not at a rate which will improve our position relative to other countries. In order to stimulate increased R&D spending, Forfás completed an analysis during 2003 of the costs and benefits of the introduction of an R&D tax credit. The announcement of the introduction of a R&D tax credit scheme in Budget 2004 is very welcome in this context. It will help to ensure that Ireland is not at a competitive disadvantage as a location for R&D and will assist firms already located here to invest significantly in R&D.
- **Skills:** Our ability to attract and sustain knowledge intensive industry will depend critically on the supply of high-skilled people, including researchers. It has been estimated that some 80% of people who will make up the workforce of the knowledge based Irish economy of 2015 are already at work. Priority will need to be given to the ongoing training and education of workers. Formal education will need to be enhanced by a commitment to life-long learning, incorporating informal on the job experience, as well as a formal framework that encourages both a return to education and the constant upskilling of the workforce.

The Expert Group for Future Skills Needs (EGFSN), whose secretariat and research support is provided by Forfás, reviewed the future skills requirements of seven key sectors of the Irish economy in 2003. In its Fourth Skills Report, the EGFSN concentrated on areas of high added-value, such as ICT; biotechnology; financial services and food processing and investigated the importance of generic skills for organisational success. It forecast that sectors as diverse as biotechnology and engineering are primed for significant growth from 2005 onwards and that if current trends in the supply of skills by the broad education and training sector are left unchecked, there will be a significant short-fall in skills required to fuel this growth. It also found that this skills "gap" could be substantial in sectors which depend heavily on science and technology skills.

- **Science Awareness:** During 2003 Forfás activity on encouraging interest in science both in general and as a career was focused on the establishment of Discover Science and Engineering, the new national integrated awareness programme.

Discover Science & Engineering is managed by Forfás on behalf of the Office of Science and Technology at the Department of Enterprise, Trade and Employment and brings together the many existing science, engineering, technology and innovation awareness activities previously managed by different bodies, both public and private. The goal of the programme is to build and expand on these activities and to deliver a more focused, strategic and quantifiable awareness campaign.

Regional Development

Overall, the employment balance between Dublin and the regions has remained fairly static over the past number of years, with Dublin accounting for just less than one third of total employment among agency-supported companies. The Border, Midlands and West (BMW) region has, however, increased its share of job gains in recent years. In 1999 the BMW region accounted for 18.1% of gross job gains in agency-assisted companies. This share increased to 26.0 % in 2003, which is more in line with the region's share of population (26.5%). This must be seen as encouraging given the perceived vulnerability to cost competition from developing countries of many of the firms located in the regions.

Forfás' sister agencies have been involved in projects to provide resources and infrastructure to facilitate future growth in regional locations. IDA Ireland has been engaged in the development of a number of world-class business and technology parks in key towns throughout the country and spent over €50 million during 2003 on property developments, almost all outside Dublin. Enterprise Ireland also has plans for the development of "webworks" facilities in four locations around the country (Cork, Galway, Waterford and Sligo). Webworks will provide high quality office facilities and telecommunications infrastructure for technology based companies.

Forfás has also been involved in various activities to support a greater regional balance:

- **Broadband to Regional Centres:** Forfás worked with the Department of Communications, the Marine and Natural Resources on the roll out of broadband Metropolitan Area Networks (MANs) to regional locations. Construction of the MANs is on schedule and expected to be operational in the near future. In addition the Department has announced a new Broadband Action Plan, to which Forfás contributed,

which will connect a further 88 towns of 1,500+ population to broadband with Community Broadband Exchanges and strategic fibre.

Forfás will also shortly publish a wide ranging Broadband Telecommunications Benchmarking Study. This study will benchmark Ireland's performance in this key area against 21 other advanced economies and will make a number of recommendations designed to improve access and lower costs.

- **National Spatial Strategy:** If Ireland is to achieve its goal of balanced and sustainable regional development urgent action must be taken in the implementation of the infrastructural aspects of the National Spatial Strategy. This will have the effect of enabling the creation of urban centres of critical mass throughout the regions and which can match the attractiveness of Dublin, Cork and other cities as locations for investment and employment.

Forfás with Enterprise Ireland and IDA Ireland have been working with the NSS Steering Group on guiding delivery of priority infrastructure projects to meet the needs of regional enterprise development.

- www.infrastructure.ie: During 2003 Forfás redeveloped its website www.infrastructure.ie, which provides up to date information and maps of Ireland's physical, social and enterprise infrastructures.

Key Projects in 2004

A major area of activity for Forfás in recent months and going forward will be supporting the work of the Enterprise Strategy Group. Established by the Tánaiste, Ms Mary Harney, T.D. and chaired by Mr Eoin O'Driscoll, the Enterprise Strategy Group is reviewing Ireland's Enterprise Strategy in the context of the opportunities and challenges likely to arise over the next decade, to formulate a vision and strategy which will enable Ireland to consolidate and build on successes of the past ten years. Both the domestic and global economies are evolving rapidly, and Irish enterprise policy must evolve in line with these changes. Forfás has devoted considerable resources during 2003 to assisting the Group in its work and it is anticipated that its first report will be completed before the summer 2004.

In January 2003, the Tánaiste announced the establishment of a high level European Research Area Steering Group, under the auspices of the Inter-Departmental Committee on Science and Technology. The Steering Group is chaired by the Department of Enterprise, Trade and Employment and research and co-ordination support is being provided by Forfás. This Steering Group has assessed the policy implications of the development of the ERA for Ireland and is preparing an Irish action plan dealing specifically with the need to increase business R&D performance, provide a supportive environment for research and innovation and strengthen the science base. It has also developed targets for Ireland to contribute to the overall EU target of investment in R&D of 3% of GDP by 2010.

Ends.

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