

Forfás



Enlargement of the European Union

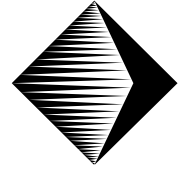
Forfás Submission to the National Forum on Europe

January 2002

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Forfás



Senator Maurice Hayes,
Chairman,
National Forum on Europe,
State Apartments,
Dublin Castle,
Dublin 2.

31 January 2002

Dear Chairman,

Forfás greatly appreciates having the opportunity to make a submission to the National Forum on Europe. It does this from the particular perspective of its statutory responsibilities in relation to industrial policy and Science and Technology policy and their implementation, as well as from its responsibility for the operation of the National Competitiveness Council.

Forfás considers that the work of the Forum is of fundamental importance in shaping the evolving relationship between Ireland, the European Union its member states and the wider international community of nations and in providing the citizens of Ireland with the opportunity to participate fully in that shaping process.

Forfás will be glad to provide the Forum with any further elucidation it requires, if any, on this submission.

Yours sincerely,

A handwritten signature in black ink that reads "John Travers". The signature is written in a cursive, slightly slanted style.

John Travers
Chief Executive Officer

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List of Acronyms

CAP	Common Agricultural Policy
CEECs	Central and Eastern European Countries
CSF	Community Support Framework
CSO	Central Statistics Office
DAFRD	Department of Agriculture, Food and Rural Development
ECB	European Central Bank
EEC	European Economic Community
EFTA	European Free Trade Association
EMU	European Monetary Union
ESF	European Social Fund
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
ICSTI	Irish Council for Science, Technology and Innovation
IDA	Industrial Development Authority
ILO	International Labour Organisation
MNC	Multi-National Corporation
NDP	National Development Plan
OECD	Organisation for Economic Co-Operation and Development
OP	Operational Programme
PATs	Programmes in Advanced Technology
R&D	Research and Development
RTDI	Research, Technology Development and Innovation
S&T	Science and Technology
SME	Small and Medium Sized Enterprise
WTO	World Trade Organisation

Executive Summary

1. Introduction

This submission from Forfás has been prepared in response to a request from the National Forum on Europe for submissions on Ireland's experience of, and evolving relationship with, the European Union, with particular reference to the implications of enlargement of the Union for Ireland. It outlines from the perspective of Forfás as the national advisory board for enterprise, trade, science, technology and innovation, the main benefits that have accrued to Ireland as a result of EU membership and considers the opportunities and challenges that enlargement poses in these areas.

1.1 Candidate countries marked by diversity and divergence

Twelve countries are currently negotiating entry terms for EU accession: ten are from Central and Eastern Europe - Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia - and two are from the Mediterranean area - Cyprus and Malta. They vary in size of population from Poland - the largest with a population of 39 million people - to Latvia, with a population of 2.4 million people. Economic wealth also differs significantly between the candidate countries, with Cyprus and Slovenia having over 70% of the EU average per capita GDP compared to Bulgaria, Latvia and Lithuania where it is below 30% of the EU average (2000). Agriculture also plays a more important role in the economies of countries like Poland and Hungary, where it accounts for 3.3% and 3.9% of GDP respectively, compared with some 2% of GDP of the EU-15 (2000) on average. Despite these differences, all the candidate countries have strongly orientated their trade and investment patterns towards the EU in recent years. Whilst most economies of the candidate states have grown and restructured substantially in the 1990s, their less developed status means that the economic effects of enlargement will be far greater for the new entrants than they will be for the present member states of the EU.

1.2 Ten countries expected to complete EU entry negotiations in 2002

The most advanced countries are now expected by the European Union to complete negotiations on EU entry by the end of 2002. This could see some ten countries, eight from Central and Eastern Europe in addition to Cyprus and Malta, join the EU in 2004, once the necessary approvals have been completed. In the meantime, the candidate countries already benefit from full access to the EU markets for industrial goods, participation in research and other programmes funded by EU and EU pre-accession aid. The regulatory, administrative and legal systems of the candidate countries are being restructured in preparation for EU membership. Foreign direct investment has also been increasing in these countries in anticipation of early EU membership - although there is considerable variation between the experiences of countries in this respect.

2. Benefits of EU membership for Ireland

2.1 Strong economic growth and convergence with the EU

Ireland's membership of the EU, and previously of the EEC, has coincided with relatively strong economic growth on average over the period and convergence with per capita income levels in the EU - both of which have been greatly facilitated by that membership. Per capita

GDP in Ireland has increased from 58.8% of the EU average in 1973 to almost 114% in 2000. Per capita GNP in Ireland has increased from about 64% of the EU average in 1973 to about 102% of the EU average in 2000. Net financial transfers from the EU have been an important stimulus to demand – although this is likely to change in future as Ireland becomes a net contributor to the EU budget. EEC/EU membership and associated transfers of financial resources and knowledge have also have made a major long-term contribution to economic planning in Ireland, helped to build and to deepen the physical and human capital infrastructure and supported highly successful national economic strategies in the 1980s and 1990s. Such financial transfers peaked at 6.5% of GDP in 1991. In future years, Ireland is likely to become a net contributor to, rather than a net recipient of, the EU budget. Such an outturn is entirely consistent with the development of Ireland's economy towards being one of the strongest in the EU and is to be welcomed for that reason.

2.2 Stable macro-economic environment is in Ireland's interest

Ireland's membership of Economic and Monetary Union (EMU) has greatly facilitated and supported the achievement of a stable macroeconomic environment in Ireland. Ireland's decision to become a full member of EMU from the outset required substantial reductions in government budgetary deficits and debt that have had strongly beneficial effects. The disciplines of the Stability and Growth Pact, which apply to all members of EMU, and associated macroeconomic policy co-ordination in the eurozone have provided a wider supportive framework for national macro-economic and fiscal policy in Ireland. They have contributed to the price stability, low inflation and strong sustainable growth, which have characterised the development of Ireland's economy over the past decade. The success of Ireland's economic policies and the greater integration of its macro-economic policies within the EU have been highly positive in developing Ireland's credibility as a location for internationally mobile investment.

2.3 EU membership has driven Ireland's integration in the global economy

The growth and diversification of Ireland's trade and investment patterns in recent years are closely linked to guaranteed access to the wider EU market since the 1970s. The reduction of trade barriers associated with the completion of the EU single market helped to stimulate economic growth in Ireland. The strategic focus of national policies on attracting and holding international mobile investment in traded goods and services and on maintaining a pro-enterprise approach has meant that the opportunities afforded to Ireland by closer European integration have been well-exploited. In general, EU membership has facilitated a re-orientation of trade and investment from a traditionally high over-dependence on the U.K. to a more welcome diversification and integration with a widely-based global economy including increased investment and trading with the U.S. and, to a lesser extent with states both within and external to the EU. The introduction of the euro removes exchange rate risk within the eurozone and is another incentive to firms to further develop trade within the eurozone and to use Ireland as an important locational base for that purpose.

2.4 Membership boosts Foreign Direct Investment in Ireland

Relative to its size, Ireland has attracted a significant portion of global investment flows, particularly from the U.S., over the past 20 years. These inward investment flows have made a major contribution to the overall high rates of economic and employment growth achieved in the 1990s. EU membership has been central to the success achieved in this area. In the 1990s, much of this was channelled into "greenfield" sites. The completion of the single

market, which provided access to larger open markets in the EU, was a significant magnet for investors in Ireland. The redefining of enterprise/industrial policy in the early 1990s to include all areas of public policy that impact in a significant way on industry/enterprise (e.g. infrastructural development, competition policy, public sector reform, science and technology, education and a favourable tax environment) were also important causal factors facilitated and supported by Ireland's membership of the EU. In the 1990s, EU membership has also overseen the emergence of "outward" direct investment by Irish firms in overseas markets. This boosts trade, technology transfer, and integration into global production networks and is a catalyst for movement into higher value-added activities by Irish companies. It marks a significant evolutionary stage in the development of the Irish economy in its integration in the global economy.

2.5 EU stimulates R&D, innovation and the growth of a research culture in Ireland

The closer integration of Science and Technology (S&T) policy with industrial policy has been an important feature of Irish public policy in the last two decades and particularly during the 1990s. Access to EU Structural Funds and participation in the EU's R&D programmes has done much to enable researchers in Ireland to access funds, collaborate with European partners in leading-edge research, develop a national system of innovation and upgrade the national S&T infrastructure. EU supports have been used, in addition to steadily increasing national supports, to lay the foundations for a knowledge-based economy. These aims are further carried forward in the National Development Plan 2000-2006, which allocates over €2 billion for investment in R&D.

2.6 EU has led to more competition and market liberalisation in the Irish economy

The removal of barriers to trade on the Irish market and increased trade openness have encouraged more competition in Ireland - an essential prerequisite for any country to develop successfully in a deepening global economy. Important and added impetus has been given to this process by the strong implementation of EU competition policy and its monitoring in Ireland and in other member states by the EU Commission. This has benefited firms and consumers. The benefits are most strongly seen in the liberalisation of energy, telecommunications and aviation sectors. The opening and further liberalisation of the financial services market, the distribution sector and postal services in the future, can yield further substantial benefits to consumers and business.

2.7 EU impacts on labour market change and improvements in working conditions

EU employment, social and equality policies have had major impacts on equal pay legislation, social protection and inclusion and equality of opportunity in Ireland. EU legislation and policies have influenced working conditions and the development of social policy for the better and facilitated the social partnership process which has had such a positive impact on the evolution of Ireland's social and economic progress over the past 15 years. Ireland benefited from the free movement of labour in the EU at a time of high unemployment and recession in the late 1980s and early 1990s. It also benefited from EU supports for training and the active use of labour policy to target unemployment. The introduction, in 1998, of the process of peer review of national employment policies and action plans has allowed Ireland to participate in the exchange of best practice experience with other EU member states.

2.8 Agri-Business benefits from increased access to EU markets

The submission confines itself to a brief review of the agri-food sector, as other bodies and agencies will address agriculture in greater detail in the Forum. The agri-food sector remains a key sector in the Irish economy – together with primary agriculture, it accounted for some 10% of GDP and some 10% of total merchandise exports in 2000. EU membership has provided access to a larger market and has provided some impetus for the greater commercialisation of the agri-food sector – particularly in the upgrading of quality - although this requires further development. It has also encouraged a restructuring of the industry and a greater orientation towards consumer-led demand. Ireland's food processing companies, despite considerable amalgamation in recent years, are still relatively small and may require further restructuring to remain competitive on the EU market in the future.

2.9 Membership gives Ireland a voice and influence in the EU

One of the most important political benefits of membership is that it gives Ireland a voice and an influence in the EU that is disproportionate to its small size - an outcome which has important and beneficial economic consequences in developing a positive perception of Ireland as a location for investment and as a global trading partner. Ireland has encouraged the development of EU cohesion policies and has successfully utilised its access to substantial EU financial transfers to catch-up with the average EU level of economic development. As discussed in many parts of this submission, public policy formulation and economic development in Ireland has been significantly influenced by Ireland's membership of the EU and the provisions of its governing treaties – from equality policy and competition policy to R&D policy and macroeconomic policy. The period of EU membership, and the 1990s in particular, has coincided with an increase in national self-confidence, economic success and a positive enhancement of Ireland's international profile.

2.10 A new juncture in Ireland's relationship with the EU

Ireland now holds the prospect of being among the most economically advanced EU member states within the next decade. The advances already made, the prospects in hand and the fundamental changes taking place in the European Union itself means that Ireland's relationship with the EU will undergo a sea-change over the next decade. The EU will remain a fundamentally important framework for political and economic co-operation between Ireland and other member states and between Ireland and non-EU countries. The challenge for Irish policy-makers will be to adjust Ireland's relationships with the EU from one of financial and conceptual dependency to that of taking greater responsibility for participating more fully in the initiation, evolution and shaping of EU policies generally. This will need to be done and articulated, not simply from the perspective of essential national self-interest but also, from within the perspective of the wider geo-political and economic framework which lies at the heart of the European Union.

3. Challenges and Opportunities of Enlargement

3.1 Long-term economic effects of enlargement will be substantial

Enlargement will increase the economic weight and significance of the EU in institutions with a global reach, such as the World Trade Organisation (WTO). While the enlargement countries are not expected to join the eurozone for some time they will, however, be subject

to the disciplines of EMU upon EU entry. Also, as many of these countries have already aligned their currencies with the euro, real economic convergence can be expected to occur as they progress within the EU – probably at differential rates in the different accession countries. Access to EU financial transfers and the strengthening of national planning and public administration, as Ireland's experience demonstrates, will also support this. Ireland, which, expects to be a net contributor to the EU budget in future years, if strong economic growth is maintained, is likely to see an increase in its transfers to the EU after 2006 when the current EU budget framework expires.

3.2 Enlargement will create trade and investment opportunities for Ireland

Trade between the EU and the enlargement countries is already largely free. EU membership will boost this by extending and deepening the benefits of the single market to the successful applicant countries. Business-enhancing market liberalisation, better regulation, competition, macro-economic stability and a more certain business climate will result in these countries from EU membership. Ireland's trade with the enlargement applicant countries, although relatively small, has grown significantly in the 1990s and will be boosted by enlargement. In the long-run, access to the EU market and EU support for economic convergence is expected to enable the enlargement countries to mirror Ireland's economic success. This will also boost demand for more sophisticated imports, such as those increasingly being produced in Ireland.

3.3 Competition for internationally mobile investment

Enlargement will generate greater competition for investment flows with Ireland. Current levels of internationally mobile investment flows into the enlargement countries are lower than those into Ireland but are expanding and, in some cases, moving into high value-added activities. On-going privatisation and liberalisation of utilities, in addition to the prospect of EU membership, are the main drivers of this investment. Large market size and geographic proximity to the main EU markets and those further east also play a role. The increasing locational attractiveness, dynamism and fast pace of economic development of the enlargement countries means that Ireland must build competitive advantages more decisively on a knowledge-based economy in order to continue to attract and maintain high levels of internationally mobile investment. For Ireland this means placing an increasingly strong policy focus on R&D and the creation and maintenance of a highly educated, productive and flexible labour force. It also means the further development of a system of public administration that is efficient, well organised and with a capability of meeting the regulatory and infrastructural requirements of the traded goods and services sector in an increasingly competitive international market-place.

3.4 Impetus to outward direct investment from Ireland

Enlargement provides opportunities for Irish-owned companies in the goods and services sector to invest in the enlargement countries as part of an international business strategy to enhance trade, assets and returns on investment. The globalisation of systems of production procurement, distribution and investment means that producers of goods and services in Ireland require to develop new strategic approaches to international markets in general. Developing closer integration with the enlargement countries can be an important part of that strategy.

3.5 Ireland can offer experience to enlargement candidate countries in economic development, business planning and science and technology

Ireland can share its successful experience of EU membership with the candidate countries as they build and develop. Many of these countries have a rich tradition of scientific excellence from which Ireland can learn both directly and through joint collaboration in EU R&D programmes by Ireland's third level educational sector and the business sector. EU enlargement will provide significant opportunities for Irish consultancy firms and other internationally trading companies in the enlargement countries.

3.6 Competition and regulation to move up the EU agenda

Enlargement is expected to generate improvements in the regulatory governance of the EU. It will also generate pressures for further harmonisation of rules and regulations - mainly from business firms wishing to operate within a single market environment. Just as the evolution of the single market has given rise to waves of mergers and acquisitions, enlargement now is expected to further boost competition and a restructuring of economic activities across the enlarged EU. This will give rise to more competition in the Irish market particularly in consumer and industrial goods, telecommunications, energy and financial services with consequential benefits for consumers and the traded sector.

3.7 Ireland to benefit from access to large labour and skills pool

Ireland will benefit from access to a larger pool of labour and skills which enlargement will bring. This will be important in view of the anticipated decline in the population of working age in Ireland based on the present demographic structures. In the short-term, the availability of largely young, skilled workers from the candidate countries can support Ireland's skills needs. Irish-based firms, may also be expected to avail of low (albeit increasing) labour costs in the candidate states by "outsourcing" certain activities. These developments will have benefits for wages, employment and productivity in Ireland.

3.8 Opportunities to develop niche markets in agri-food sector but need for new approaches to international markets

Opportunities in niche markets for quality products are emerging as the economies of the candidate countries develop and integrate with those of the EU. On the other hand, Ireland's agri-food sector will experience increasingly strong further competition on existing EU markets from newly emerging firms in the candidate countries. Both of these developments will call, on the part of Irish agri-food firms, for new strategies, beyond mergers and acquisitions and the accessing distribution systems, to withstand this competition and to take advantage of the new market opportunities in the accession countries.

3.9 Enlargement to alter EU's political agenda

Enlargement is one of many issues on the agenda of the EU at present as it seeks to advance the interests of its citizens in an uncertain world. Further market liberalisation in financial services, revision of competition rules, an expanding foreign policy agenda and renewed emphasis on internal security after the terrorist events of 11th September 2001 last and their aftermath are other important issues on which the EU is working. Enlargement has already added further strength to the arguments for fundamental institutional reforms within the EU. It is also giving rise to an increased interest in developing more cohesive approaches across

the EU in the areas of justice and home affairs as well as in the general areas of economic and social convergence in the enlarged EU. These developments will benefit all EU countries including Ireland. It is, however, essential that Ireland further develops its capacity to shape the EU agenda and the outcome of the deliberations on this extended agenda as it evolves.

3.10 Ireland has much to contribute to, and benefit from, the enlargement of the EU

Ireland has much to contribute to the success of EU enlargement by virtue of its own successful economic integration in the EU. Ireland's membership of the EU underlines the benefits of a rules-based system to small states and the importance of membership in giving a voice and influence in international affairs to small states in particular. Ireland can also learn from the emerging experience of radical economic restructuring, political change and dynamism in the enlargement candidate countries and from the scientific excellence which exists in many of these countries. While such a learning process is always desirable it is particularly appropriate for Ireland at the present time following a decade of unprecedented economic growth and solid social progress. Such success over a somewhat prolonged period can breed complacency.

It is important to remember that the real social and economic progress of the past decade is of relatively short duration in the history of a State whose most notable advances in social and economic terms has coincided with its membership of the European Union and its forerunners. Innovation, both in the traded goods and services sector and in the policy formulation and implementation process, has been at the heart of this progress. And diversity, in turn, has been at the centre of innovation. An enlarged EU will bring with it both diversity and consequential innovation. For those member states of the EU which are both positive and open to change, diversity and innovation, EU enlargement will bring with it significant opportunities. The strategy which Ireland should adopt is clear: strongly support the proposed enlargement of the EU, prepare for the changes in policy that this will entail and fully embrace and benefit from the opportunities for investment, trade, interaction with new member states and cultural diversity that will arise.

Section One: Introduction

1. Introduction

The stated purpose of the National Forum on Europe is to examine “*Ireland's experience of and evolving relationship with the Union, and consider the implications for the Union, and for Ireland as a member, of the extensive enlargement now in prospect*”. This takes place against the background of the Nice referendum in Ireland in 2001, on-going negotiations on EU enlargement and a broad EU-wide debate on the future of the EU. It is intended to lead to a deeper understanding of the EU within Ireland, Ireland's membership of it and its role in the EU's future development.

Forfás welcomes the opportunity to make a submission to the National Forum. The responsibilities of Forfás are to advise the Minister for Enterprise, Trade and Employment on matters relating to the development of industry and science and technology in Ireland. It advises on and co-ordinates the work of Enterprise Ireland and the Industrial Development Authority (IDA) which operate largely under legislation vested in Forfás. A number of other bodies also operate under the aegis of Forfás, including Science Foundation Ireland, the National Competitiveness Council (which reports to the Taoiseach) and the Irish Council for Science, Technology and Innovation. Forfás has a particular focus on enterprise, trade, science and technology. These areas have been greatly affected by Ireland's membership of the European Union. Accordingly, this submission focuses on the following broad areas:

- Macroeconomic issues
- Trade
- Investment
- Research, Development, Technology and Innovation
- Competition and Regulation
- Labour
- Agri-business
- International Role and Profile

This submission seeks to describe under these headings the benefits that have accrued to Ireland as a result of EU membership in the past and to set out the opportunities and challenges which EU enlargement will bring for Ireland. It describes how Ireland's economic development, its macro-economic policies, market regulation and the orientation of trade and investment have been greatly influenced by Ireland's membership of the EU. EU membership created in Ireland an impetus and opportunities to modernise the economy, diversify trade, advance regional and social cohesion, develop the national scientific base and improve working conditions. The submission seeks to demonstrate that the combination of national and EU policies and their operational impact has contributed to significant advance in each of these areas, to substantive economic growth and to the convergence of per capita income in Ireland towards those of the more advanced EU member states in the 1990s.

Enlargement of the EU presents new challenges and opportunities to Ireland. Some of these challenges and opportunities for Ireland are discernible at present. Others are not and will become apparent only as the enlargement process develops. Accordingly, *Ireland will need to put in place an institutional framework to monitor and analyse the process of dynamic change that EU enlargement will bring and to contribute to the consequential shaping of domestic and EU policies in a way that meets both national interests and those of the EU of which Ireland will remain an intrinsic part.*

A major EU challenge in relation to enlargement over the coming years will be to successfully integrate the economies of the enlargement countries with the EU by extending to them the four basic EU freedoms of movement of goods, services, capital and persons. Enlargement provides the opportunity to create a larger, more dynamic market that benefits enterprise and society in all member states. Whilst the burden of adjustment will fall heavily on the enlargement countries it will also be significant for the present member states, including Ireland which will have to shape in new ways the policies, institutions and finances of the EU and of their own domestic policies to the realities of an enlarged Union. While enlargement will undoubtedly bring major institutional and operational changes to the EU, there will also be a great deal of “business as usual” in the EU i.e. completing and managing Economic and Monetary Union, further market opening - especially in financial services and utilities - and making the EU a more competitive, knowledge-based economy, and convincing the individual citizens of the member states of the EU that the evolution and development of the Union is in their personal interests.

1.1 Summary profile of candidate countries for EU membership, 2001

At the outset of this submission, it is useful to set out a brief profile of the present candidate countries for EU membership. The current round of EU enlargement involves twelve countries. Ten of these are from Central and Eastern Europe (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). In addition, Cyprus and Malta are also in negotiations on accession to the EU. Turkey, also a candidate for membership, has not yet begun accession negotiations with the EU. For this reason, this submission concentrates on the impact of enlargement to the ten Central and Eastern European Countries (CEECs), Cyprus and Malta. Given the size and level of economic development of the CEECs, greater attention is given to the issues raised by their accession to the EU. An overview profile of the candidate countries is set out in Table 1 below.

The 12 candidates now negotiating EU entry terms are characterised by a high degree of economic and political diversity. Their membership will add considerably to the geopolitical reach of the EU. It will extend its borders to the East – to Russia, the Ukraine and Belarus – and the South-East – to Serbia, Croatia and the Black Sea. It will add some 105 million people to the current EU population of 378 million people (2001). Of the candidates, Poland and Romania have the largest populations, some 39 million and 22 million people respectively. The smaller states of Latvia and Lithuania have 2.4 million and 3.7 million people respectively. Cyprus and Malta combined have a population of less than one million people.

There is considerable economic diversity within the candidates and between them and the EU. Of the ten CEECs, Bulgaria and Romania lag significantly behind in creating competitive, market economies. Slovenia has the highest per capita GDP of the Central European countries (about 72% of the average EU GDP per capita using purchasing power standards) compared to Poland (39%) and Hungary (52%) in 2000.¹ Cyprus and Malta, on the other hand, are relatively more wealthy. The group of 12 candidates together with Turkey account for some 6.6% of EU GDP (at current prices) in 1999.² This is a little more than the GDP of the Netherlands.

The economic structure of the candidates differs significantly from that of the present EU member states. Agriculture plays a large role in employment and in the GDP of a number of the candidate countries. It accounts for about 21% of employment and some 5% of GDP in the ten CEECs (2000).³ In the case of Poland, expected to be in the first group of countries that join the EU, agriculture represents some 19% of total employment and contributes 3.3% of GDP.⁴ Bulgaria and Romania are heavily dependent on agriculture - it accounts for some 11% and 42% of employment respectively and contributes some 16% of GDP and 11% of GDP respectively in these countries.⁵

¹EU Commission (November, 2001) *Making a success of Enlargement, A Strategy Paper*, Directorate General of Enlargement

²EU Commission (September 2001) *The Economic Impact of Enlargement*, Directorate General for Economic and Financial Affairs

³EU Commission (September 2001) *EU and Enlargement*, Directorate General for Agriculture. These figures include agriculture, forestry, hunting and fishing. Note that there is some variation between national, EU and OECD statistics on agriculture. See also Eurostat (2001) *Statistics in Focus, Agriculture and Fisheries, Preliminary economic accounts for agriculture in twelve candidate countries, 1998-99*, July.

⁴Eurostat (2001). The figure for agriculture's contribution to GDP is an estimate.

⁵Eurostat (2001). The figure for the share of agriculture in GDP is provisional for Bulgaria.

During the 1990s, the CEECs have removed most of the vestiges of their formerly centrally-planned economies, re-structured their industrial bases and oriented their trade and investment patterns towards the EU. After an initial period of decline, their economies have expanded significantly in the second half of the 1990s. This has been facilitated by improved access to the EU market, inflows of foreign direct investment (FDI) and associated technology transfers, improved macro-economic stability and the benefits of emerging market economies. All of the ten CEECs, except Bulgaria and Romania, now have functioning market economies and are expected to be able to deal competently with the challenges of market competition within the EU. Romania and Bulgaria lag behind in their economic development and, based on current progress, are not likely to be in the first group of countries to join the EU.

Table 1: Economic Profile of 13 Candidate Countries for EU Membership

	Area	Population	Labour Force	Employment	Unemployment Rate	GNP	GDP	GDP PPS per capita as % EU average	Imports	Exports
	1000 km sq	1000 persons	1000 persons	1000 persons	%	€ billions	€ billions	%	€ billions	€ billions
		2000	2000	2000	2000	2000	2000	2000	2000	2000
Bulgaria	111	8,216	3,305	2,914	18.1	12.6	13.0	24	8.3	7.6
Czech	79	10,273	5,186	4,732	9	54.2	55.0	60	41.4	39.3
Estonia	45	1,435	705	609	5.3	5.2	5.5	38	5.5	5.2
Hungary	93	10,024	4,112	3,849	9.3	46.9	50.3	52	33.0	31.0
Latvia	65	2,416	1,196	1,038	8.4	6.4 ^a	7.7	29	4.2	3.5
Lithuania	65	3,693	1,791	1,586	11.5	12.0	12.2	29	6.3	5.5
Poland	313	38,646	17,838	15,339	14	144.6 ^a	170.7	39	65.2	53.3
Romania	238	22,444	9,585	8,410	11.2	37.2 ^b	40.0	27	15.9	13.6
Slovakia	49	5,401	2,609	2,124	18.2	13.3 ^c	20.9	48	15.9	15.4
Slovenia	20	1,990	-	-	12.2	19.5	19.5	72	12.2	11.5
CEEC-10	1,078	104,538	46,327	40,600		150.5	394.9		208.0	186.0
Cyprus	9	661 ^b	300 ^b	289 ^b	-	9.4	9.4	83	4.2 ^a	3.8 ^a
Malta	0.3	387 ^a	147	140	-	-	3.9	53	4.4	4.0
Turkey	775	66,835	23,506	21,970	6.6	219.1	217.4	29	67.7	51.8
TOTAL	1,862	171,373	69,981	62,710		379.1	625.6		280.1	241.8
Ireland	70	3,787	1,752	1,679	4.1	88.0	103.5	114*	83.5	98.2

Note: All data are in respect of year 2000 except: a 1999; b 1998; c 1995.

**Estimate, Eurostat, (2001)*

Source: European Commission, 2001 and OECD, Main Economic Indicators, 2001

1.2 The Enlargement Process: state of play and timetable for EU entry (end 2001)

In March 1998, the European Union opened negotiations on EU membership with six countries (Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia). In February 2000, accession negotiations were opened with a further six countries (Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia). The negotiations conducted between the EU and each individual candidate concern the terms of entry into the EU. They are organised around 31 areas or chapters ranging from the free movement of goods to company law, transport, environment and industrial policy. Some of these chapters have been easily agreed but those dealing with areas such as agriculture, regional policy and the EU budget raise difficult social,

economic and political issues for individual candidates and the present group of EU member states. Entry terms concerning the free movement of labour and environmental protection were nonetheless been concluded with six candidates by the end of October 2001. Negotiations on the outstanding areas are now expected by the EU Commission to finish in late 2002.⁶ The accession negotiations will be finalised as a single package with each candidate.

Although there is no fixed timetable for countries to join the EU, it is, as indicated, expected that a first tranche of ten countries may complete the full set of negotiations by the end of 2002. These comprise eight CEECs (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) together with Cyprus and Malta. Bulgaria and Romania are not expected to be in this first wave of entrants as their current preparations and positions in meeting the entry criteria lie somewhat behind. Once the necessary approval procedures have been completed, the first tranche of additional member states could conceivably join the EU in early 2004. This timetable hinges on a number of key elements:

- Ratification of the Nice Treaty by the present member states of the EU⁷,
- The ability of the EU states and the candidate states to agree to EU entry terms, and
- Continued progress in preparations for membership by the candidates especially in the areas of strengthening their legal and administrative systems so that they can effectively implement and enforce EU legislation and policies.

Formal EU membership will bring guarantees of market access, the free movement of goods, services, capital and labour, full rights of participation in EU decision-making and a timetable for the introduction of the full body of EU legislation and policies in the new member states. Trade and investment conditions have already improved in the candidate states in anticipation of enlargement and as a result of EU market opening that has taken place since the early 1990s. The candidates already benefit from access to EU programmes in the areas of R&D and education. Hence, economic integration between the EU and the candidate countries for EU enlargement is already in progress and the required adjustment of policies by the EU and its member states is already underway. Investment decisions in the candidate countries have already been made by international investors on the assumption that they will join the EU within a relatively short time period.

1.3 Challenges and opportunities of enlargement for EU and Ireland

This enlargement round, because of the number and diversity of candidates involved, poses significant challenges to the EU in terms of market regulation, macroeconomic management, budget transfers and policy adjustments. EU membership is expected to improve competitiveness and the efficient allocation of resources, and to raise productivity and output in the new member countries. The introduction of EU regulatory frameworks and quality standards through the extension of the regulatory framework of the EU single market will create a better and more predictable business environment. In time, this will boost economic output and growth in the EU as a whole. It will create a single market of 480 million people within which there will be the free movement of goods, services, persons and capital. Within the EU, the impact of enlargement will vary across states and sectors. The neighbouring states that have the highest levels of trade and investment with Central and Eastern Europe are

⁶ EU Commission (November 2001) *Making a Success of Enlargement*

⁷ There has been some debate as to whether such ratification by all member states is a strictly legal prerequisite for EU enlargement. This is not an issue pursued in this paper.

expected to benefit more from enlargement e.g. Germany, Austria, Italy and Finland. But all member states, including Ireland, will have opportunities to develop trade and investment links that will benefit their economies and enhance their competitiveness.

Within the EU, further institutional changes will be required to ensure that a substantially larger European Union of up to 27 states can work efficiently. This will undoubtedly alter Ireland's institutional and political relationship with the EU. It will also affect the trade and investment environment in Europe and, thereby, provide both opportunities and challenges to Ireland. It is likely to result in net financial transfers from Ireland to the EU and in doing so accelerate the change in its traditional status of net recipient of EU funds. Finally, it will introduce new perspectives and interests to the policy and legislative agenda of the Union, thus expanding the range of policy and operational issues that Ireland will have to manage as an EU member.

Enlargement comes at a time when the basis of the relationship between Ireland and the EU is already changing. Rapid economic growth, significant social change, a new era of peace in Northern Ireland and a greater and welcome willingness to engage in fundamental debate on EU policies represent important agents of this changing relationship. EU membership has helped to strengthen Ireland's international profile and to change for the better its economic relationships with both the U.K. and the United States as well as with other EU member states. The nature of Ireland's relationships, both within the EU and external to it, will undoubtedly continue to evolve and change in future years. These changes will require commensurate changes in the way that Ireland defines and represents its national interests within the EU and in other international fora.

This submission outlines the implications of EU enlargement for Ireland from the perspective of the remit of Forfás to promote the development of enterprise and science and technology in Ireland. Section Two reviews the main benefits of EU membership for Ireland in the areas of the macro-economy, trade, foreign direct investment, research, technology and innovation, regulation and competition, agri-business and Ireland's broad political relationship with the EU. These highlight the significant and overall positive impact of EU membership on the development of the Irish economy. Section Three outlines the challenges and opportunities of enlargement in the key areas relevant to enterprise, with a particular focus on trade and investment. Conclusions are drawn out in Section Four.

Section Two: Ireland's Benefits from EU Membership

2. Macro-Economic Issues

2.1 Membership has been marked by strong economic growth and convergence with the EU

The most striking macro-economic effect of Ireland's membership of the EU and its forerunners has been in the convergence of income levels. GDP per capita has gone from 58.8% of the EU average in 1973 to 114% of per capita GDP in 2000.⁸ For many years before Ireland became a member of the EEC its economic performance relative to other EEC countries deteriorated: in the thirteen years before membership GDP per capita actually fell from 62.8% of the average of the then member states to 58.8% in 1973. In the same period of time following membership GDP per capita grew to 69.7% of the average. Ireland's economy underperformed that of Europe, the U.S. and Japan in the 1960s, but, coincidentally with its membership of the EEC in 1973, has exceeded them since and exceeded Japan's average growth in every decade except the 1980s.

2.2 Financial transfers from the EU have played an important role in economic development

Since its membership of the EEC in 1973, Ireland has benefited from significant financial transfers from the EU budget. The major part of these transfers have taken place under the Common Agricultural Policy. These have played a major role in supporting farm incomes and brought associated multiplier benefits to the Irish economy. In 2000, receipts for price supports in the agricultural sector totalled €1,681.4 million.⁹ This compared to receipts of €920.7 billion in 2000 from the EU's Structural and Cohesion Funds. These combined funds are used to support regional and social development, cohesion (in the areas of the environment and transport) and the development of agriculture. The Single Market programme of 1989 brought with it a substantial increase in the Structural Funds which aimed to promote economic convergence and regional development across the EU.¹⁰ Details of the breakdown of receipts by Ireland from the EU budget for the period 1973-2001 are given in Table A1 of the Statistical Annex.

Over the period of membership, Ireland's net receipts (that is, receipts less payments to the EU budget) from the EU contributed significantly to its GDP. This fluctuated from a low of 1.2% of GDP in 1973 to between 3.5% and 4.9% of GDP over the period 1981 – 1989 (see further details in Table A2 of Statistical Annex). As indicated in Table 2 below, these reached a high-point of 6.5% of GDP in 1991 and have declined to 1.5% of GDP in 2000. Since the early 1990s and the onset of high economic growth rates in Ireland, Ireland's payments to the EU have grown at a much faster rate than EU receipts. In 1991, Irish payments to the EU budget totalled over 16% of the amount received or €442.12 million. But by 2000 this had increased to 40% of receipts, or €1, 074.96 million.

⁸ Estimate. GDP at current market prices per head of population (Eurostat). Per capita GNP increased from 64% of the EU average in 1973 to about 102% of the EU average in 2000 (Eurostat, *Statistics in Focus*, 2001).

⁹ Department of Finance (March 2001) *Budgetary and Economic Statistics*.

¹⁰ The Cohesion Fund came on stream in 1993 and has channelled some €1,235.3 million to Ireland over the period 1993-2000 – see Table A1, Statistical Annex.

EU Structural and Cohesion Funds have had two direct effects on the Irish economy. Firstly, these transfers stimulated demand both directly and through the multiplier impact. Secondly, they yielded significant supply-side benefits as a result of improvements in the human capital stock and physical infrastructure in Ireland.

Table 2: Ireland - Receipts from and Payments to the EU Budget

	Receipts	Payments	Net Receipts	% of GDP
	€ Million	€ Million	€ Million	
1973	47.1	5.7	41.4	1.2
1980	711.8	112.9	598.9	5
1991	2,795	442.1	2,357.8	6.5
2000	2,602.1	1,075	1,527.1	1.5

Source: Department of Finance, 2001

In the short run, the most obvious effect of structural funds was their impact on demand. In addition to associated spending under national capital programmes, these increased labour demand and incomes. Funding received from the EU's Community Support Frameworks (CSF), 1989-1997, is estimated to have created 30,000 jobs in Ireland¹¹. However, as the net flow of EU financial transfers declined in relative terms, the direct demand effect also declined. Accordingly, the more important effect of EU financial transfers (particularly, the structural and cohesion funds) had been on the supply-side of the economy. Honohan et al (1997) estimate that between 1995 and 1999, EU transfers under the CSF alone, from which much of the transfers to Ireland originate, raised Irish GNP by 3–4% above the levels it would have been in the absence of the CSF. They also estimate that the long-run impact of CSF funding on GNP is to increase its level by 2% above the level it would have been in the absence of such funding. Thus, while it cannot be claimed that transfers alone provided the impetus for Ireland's outstanding economic performance in the 1990s, it is undoubtedly the case that Ireland's membership of the EU provided significant additional funding for R&D, education/training, infrastructure and industrial development. This funding has permitted a level of development that otherwise would not have been possible and laid foundations for future growth and development. It is also the case that the interaction between EU transfers and other domestic policies, such as a stable macroeconomic environment, social partnership and favourable taxation policies created a synergistic effect that helped to generate additional growth in the economy in the 1990s.

Alongside the increases in GDP, EU transfers have contributed positively to the balance of payments. They improved the budget surplus by between 1.2 and 1.7% as well as increasing the government's surplus by approximately 1.5% in the period 1973-1997¹². Their wider effects have included an impetus to the adoption of a more focused, longer-term time horizon for policy formulation, planning and financial programming in Ireland. In the case of the first CSF (1989-93) the accompanying financial transfers helped to bring about the end of a period of fiscal cutbacks and postponements of capital investment. In doing so they made a major contribution to the success of the Programme for National Recovery (1987-1990) (generally seen as a corner-stone of recent economic success in Ireland) and its successors in the 1990s.

¹¹ Honohan, P. et al. (1997), *Evaluation of Structural Funds in Ireland*, Economic and Social Research Institute, Dublin, p.50

¹² Honohan, P. et al. (1997).

Other economic benefits were derived from the operation of EU financed programmes in Ireland. Multi-annual budgeting made a major contribution to the planning framework. The requirement for formal evaluation of programmes also made a significant contribution to more effective implementation of policy-making in Ireland. The disciplines established for macro-economic and monetary policy, discussed below, further contributed to strengthening the policy-making framework.

2.3 Economic and Monetary Union has led to a stable macro-economic climate

The social partnership process from the mid-1980s onwards played an important role in the inculcation of budgetary discipline and fiscal rectitude in macroeconomic policy in Ireland. This was an essential first step in the preparations for Economic and Monetary Union (EMU), which in the 1980s was recognised as an important goal for the future development of the Irish economy. EMU represents a major step forward in European economic integration.

From a macroeconomic point of view in Ireland the most significant impact of the arrangements for economic and monetary union have lain, not so much in the introduction of notes and coins and the phasing out of national currencies in January 2002, but in the policy changes and institutional developments associated with EMU. These have been of two kinds: those associated with the preparations for EMU and those consequential on its beginning.

In preparation for the introduction of the euro, candidate countries had to fulfil a number of macroeconomic conditions known as the Maastricht criteria. Some of these, including inflation and currency stability, were not entirely or directly under the control of individual governments but others, such as those relating to the government budget deficits and debt, were more directly so and related to domestic fiscal policy. Ireland's determination to qualify for membership at the outset of EMU imposed significant disciplines on budgetary policy, which resulted in satisfactory reductions both in the government debt and the deficit as a percentage of GDP. These developments were highly influential and positive in reducing interest rates and in improving the perception of Ireland as a base for internationally mobile investment. These trends have continued after 1 January 1999, when EMU began, with debt dropping to a very low level and the government balance moving into surplus from 1997 onwards.

EMU also led to fundamental change in monetary policy. The disappearance of the Irish pound meant that interest rates and exchange rate targets were no longer set in Ireland, and that these two important tools of policy were no longer available at national level. On the other hand, the benefits from EMU were apparent from an early stage. Interest rates fell in Ireland after the euro was introduced. The commitment of the European Central Bank (ECB) to low inflation provides a sound basis for investment decisions. This is underpinned by the Stability and Growth Pact (see below, 2.4), which reinforces the budgetary and fiscal disciplines originally established in preparation for EMU. It is the essential counterpart at economic policy level to the monetary policy implemented by the ECB.

While EMU holds the prospects of important long-term benefits for a more integrated EU economy it does place important new constraints on the policy levers available to Government in Ireland to help shape the evolution of the economy in response to both domestic and external factors. The removal of control over monetary policy and exchange rates plays increased emphasis on labour market policies as an instrument of macro-economic fine-tuning and competitiveness. As yet there is little experience of how such a reduced set of policy

levers can best be manipulated. This issue is particularly important for Ireland with its relatively high dependence on trade with countries which lie outside the euro-zone.

2.4 EU Economic policy co-ordination has been institutionalised

Macroeconomic policy co-ordination is also furthered through the EU's Broad Economic Policy Guidelines which are adopted annually by the EU Council. Since 1993, they have established a framework for national policy in the member states. Also, the EU Treaty states that member states "shall regard their economic policies as a matter of common concern and to co-ordinate them within the Council" (Article 99). A wider framework is given by the Stability and Growth Pact, adopted in 1997, which has the objective of securing budgetary discipline in stage three of EMU (i.e. the introduction of the euro). Under the Pact, member states must avoid excessive general government deficits, and pursue sound government finances as a means to strengthen the conditions for price stability and strong sustainable growth conducive to employment creation. National budgetary policy must also support stability-oriented monetary policy. Sound budgetary positions that are maintained at close to balance or in surplus will allow all member states to deal with normal cyclical fluctuations while keeping government deficits within the permitted reference level of 3% of GDP. Special criteria are set for the so-called "excessive deficit" procedure, which allows such deficits only in the context of a severe economic downturn. Beyond these broad disciplines, member states remain responsible for their national budgetary policies.

2.5 The non-participation of Sterling in the euro impacts on Ireland

Since the U.K. has not yet decided to join the euro, a large part of Ireland's foreign trade remains subject to foreign exchange rate fluctuations. Although the U.K. has diminished in importance as an export market in relative terms for Ireland since it joined the EU, exports to the U.K. still amount to some 22% of the total value of exports. Irish-owned companies in general, send more of their exports to the U.K. than foreign-owned companies. Moreover, many Irish firms compete on the domestic market with imports from the U.K. Whatever about the longer-term impact, any weakening of sterling has an immediate negative impact on Irish firms, which compete against U.K. firms. This weakens Ireland's competitiveness with respect to the U.K. On the other hand a strengthening of sterling gives rise to inflationary pressures in Ireland, because imports from the U.K. still account for 31% of total imports (see also 3.4 below).

This high dependence on the U.K. economy, for both exports and imports, while it has many positive aspects poses some threat – particularly as long as the U.K. remains outside the euro-zone. Accordingly, the promotion of trade diversification continues to be an important policy objective and operational requirement for firms. At present, Ireland ranks poorly in terms of trade diversification, both as regards exports and imports and the sectors in which trade takes place. Irish enterprises will find it easier, because of the removal of exchange rate risk within the eurozone, to develop new markets and sources of supply there.

One advantage which arises for Ireland from the U.K. remaining outside the eurozone lies in the area of foreign direct investment. Ireland is the only English-speaking member of the eurozone and the benefits of locating in Ireland for a U.S. firm for example, are clear: planning and marketing for the whole eurozone is possible from an Irish location, with no exchange rate consideration involved. In practice, Ireland competes with the U.K. for the

location of certain foreign direct investment flows and the euro can, therefore, sometimes be a deciding factor in the final decision on investment.

3. Trade

3.1 EU Membership has driven Irish integration into the global economy

International trade is the lifeblood of the Irish economy. Since accession to the European Union (then the European Economic Community - EEC) in 1973, total Irish trade in goods and services has increased from €1.7 billion in that year (81% of GDP) to €98.2 billion in 2000 (176% of GDP).¹³ This has made Ireland one of the most open trading economies in the world, relative to population and economic size. There are now few businesses in Ireland of a significant scale that do not trade in goods and services with foreign customers or suppliers. Ireland's transformation into an open, competitive, trading economy is strongly associated with membership of the EU, as illustrated in the discussion below.

EU membership deepened and accelerated Ireland's integration into the global economy in a number of ways:

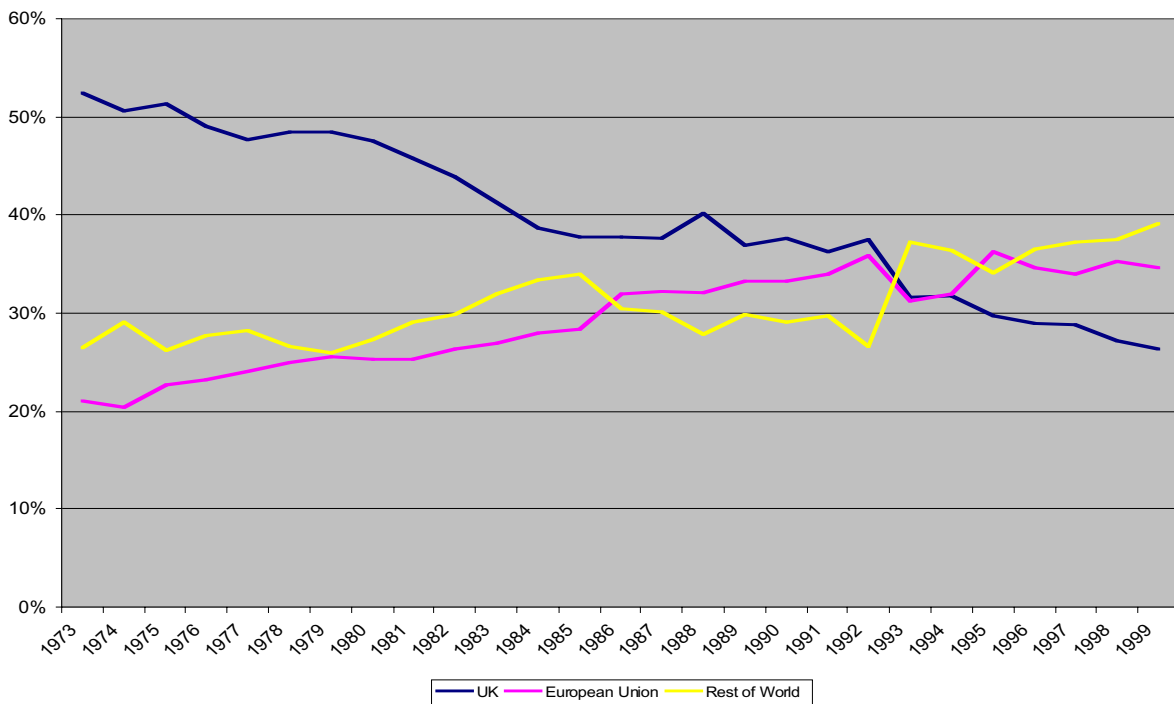
- Ireland's preparations for EU membership, which began in the 1960s with the removal of barriers to trade in goods with the U.K., greatly strengthened the ability of the traded goods and services sectors in Ireland to compete in international markets;
- Ireland's membership of the EEC in 1973 resulted in the elimination of most tariff barriers to trade in goods with other EU member states. Membership provided free and, just as importantly, secure access to the EU markets. While this also required a painful restructuring of inefficient Irish-owned firms that had heretofore been protected from external competition, it opened up a massive market of 300 million European consumers for a new generation of fast-growing export-driven Irish-owned firms in industries such as agri-business, electronics, construction materials and paper;
- The creation of the Single European Market in 1992 removed most remaining physical, technical and fiscal non-tariff barriers to trade within the EU. In essence, this extended EU trade liberalisation from goods to services and capital, and brought sizeable benefits for Irish traders and the economy in general. The single market introduced trade liberalisation, led to industrial restructuring and increased GDP in the EU as a whole. It is estimated to have generated an increase of 3.5% in Ireland's GDP in 2000 which compares favourably with the impact of EU transfers under the Community Support Framework on the Irish economy (see Section 2.2).¹⁴ Irish firms gained significant cost reductions through for example, cheaper inputs, transport, insurance and packaging. Increased competition generated by improved market access for firms across EU member state borders also brought about price reductions that led to an increase in demand and output, an increase in market size and increased trade between EU member states. It accelerated the internationalisation of a large number of Irish services firms in the banking, aviation and technology sectors;
- As discussed in the Section 4 below, the creation of the Single Market was one of the main factors behind the surge of FDI into Ireland in the 1990s. This not only benefited the manufacturing sector but also encouraged foreign investment in the area of financial

¹³ CSO (2001), *National Accounts*.

¹⁴ Barry, F. Bradely, J. Hannan, A (2001), *The Single Market, The Structural Funds, Ireland's Recent Economic Growth*, University College Dublin, Dublin

services and the development of the International Financial Services Centre (IFSC). The arrival of so many multinational companies (MNCs) in Ireland had a dramatic impact on Ireland's foreign trade patterns as illustrated in the change in the direction of Ireland's trade since it joined the EEC in 1973. They have transformed manufacturing activity in Ireland from a primarily indigenous, low-technology sector geared to domestic and U.K. markets to a mainly foreign-owned, high-technology sector that is geared to global markets. In the period 1991-1998, MNCs accounted for 95% of the growth in Irish industrial exports. By 1999, foreign-owned industry accounted for around €52.1 billion, or almost 75%, of total Irish exports of goods;¹⁵

Figure 1: Share of Ireland's Trade by Geographic Region, 1973-1999



Source: CSO, 2000, *External Trade*

- The MNC's need for a strong indigenous industrial base provided an important stimulus to the development of local industry and services in Ireland. Over time, significant supply-side linkages have developed between the indigenous and the foreign-owned sectors in Ireland. In addition, the transfer of technology, R&D and management techniques contributed to growth in employment and in new firms, particularly in the 1990s. For example, overall net permanent employment in Enterprise Ireland-supported companies grew by 29.1% (equivalent to 33,380 jobs) over the ten year period 1992 - 2001 to reach a total of 134,346 jobs in 2001.¹⁶ The greatest increases in employment were in the financial services sector, which witnessed a fourfold increase in net employment, and the

¹⁵ CSO (1999), *Census of Industrial Production (CIP) 1999*. In contrast, total merchandise exports by Irish owned companies reached €14.73 billion in 1999, down from €16.51 billion in 1998 (Forfás (forthcoming), *Trade and Investment Report 2001*).

¹⁶ Forfás, *Annual Employment Survey, 2001* and *Annual Business Survey of Economic Impact 2001*

internationally traded services sector, which saw a threefold increase in employment between 1991-2000.

- Industrial exports by indigenous firms increased significantly from €2.41 billion to €4.32 billion between 1986 and 1991 and increased to €5.58 billion in 1999.¹⁷ Foreign-owned MNCs, in contrast, experienced higher levels of growth in exports between 1989-1999. They accounted for €52.1 billion or 90% of industrial exports in 1998. Irish-owned enterprises continue to rely on the domestic market for the majority of their sales - industrial exports made up 40 per cent of their total sales in 2000. However, there are tentative signs that they may be becoming more export-oriented. This is supported by evidence of the performance of Irish-owned companies that are supported by Enterprise Ireland. For these companies, exports grew from 6.2% of their overall sales in 1991 to 41% of their overall sales in 1999.¹⁸ Exports from these companies to the EU grew from 2% of sales in 1991 to 13% in 1999. In general, it should be noted that the export performance of the indigenous sector may be affected by the fact that many formerly Irish-owned firms moved into foreign ownership in the 1990s. These firms were among the highest exported-oriented firms in the Irish-owned sector.
- The growth in Outward Direct Investment (ODI) by Irish-owned firms in the 1990s (see Section 4.4 below) also reflects the increased internationalisation of Irish-owned companies and a shift from exports, the traditional means to access markets overseas, to acquisition as a means to access markets. This is particularly true of the agri-food sector where ODI provides an important instrument of gaining access to brands and distribution networks that enhance sales.
- Through its membership of the EU, Ireland has had a degree of influence in the World Trade Organisation (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), disproportionate to its population and economic size. The WTO has overseen the progressive removal of trade barriers between countries all over the world during the last fifty years. This process of freeing up of world trade, combined with the creation of the Single Market, has allowed Ireland to position itself as a hub for transatlantic trade in industrial goods between the EU and North America.

3.2 The introduction of the euro has reduced costs for Irish exporters

Since the adoption of the euro as Ireland's national currency as of January 1, 1999, Irish firms no longer face foreign exchange transaction costs when trading with the other eleven countries in the euro-zone. Because of Ireland's high trade dependence, savings in foreign exchange commissions have already been substantial. In addition, EMU eliminates nominal exchange rate volatility within the euro-zone. This allows Irish traders to plan for the future with greater certainty. Traditionally risk-averse exporters and importers are more likely to expand their trade with the euro-zone now that the danger of exchange rate volatility is removed. This process is likely to intensify following the introduction of euro notes and coins on January 1, 2002.

¹⁷ Forfás (2001) *Trade and Investment Report 2000* and (forthcoming) *Trade and Investment Report 2001*. Trade statistics for Irish and foreign-owned firms cited in the text are taken from these reports.

¹⁸ Forfás (forthcoming) *Annual Business Survey of Economic Impact, 2001*.

3.3 Trade expansion has led to rising living standards in Ireland

With the exception of Luxembourg, no other country in the EU now exports as much per capita as Ireland. Ireland's surplus in merchandise trade as a percentage of national income is unparalleled in the industrialised world. Economic theory teaches that rising trade between nations leads to higher average incomes in both trading partners. Empirical evidence tells that small, open economies (such as Ireland) that have adopted outward-oriented economic policies, in terms of trade and investment, tend to out-perform more closed economies. It is clear, therefore, that the dramatic increase in trade in goods and services between Ireland and the rest of the world since accession to the EU in 1973 has been a significant factor behind the impressive growth in Irish employment and living standards over this period of EU membership. Ireland's GDP per capita has increased from 58.8% of the EU average in 1973 to 114% of the average in 2000. Per capita GNP in Ireland has increased from about 64% of the EU average in 1973 to about 102% of the EU average in 2000.¹⁹

3.4 EU membership has increased the diversification of Ireland's trade

Significantly, as Figure 1 illustrates, EU membership has also reduced Ireland's economic dependence on the U.K.. Since Ireland joined the EU, merchandise exports to the U.K. have fallen from 55% of merchandise exports in 1973 to just 22% in 2000.²⁰ For imports, the U.K. share has fallen from 51% to 31% over the same period. Exports to the rest of the EU, on the other hand, have increased from 21% of total exports in 1973 to 43% in 1999. Over the same period, the relative importance of trade with non-EU countries has grown substantially, both for exports and imports. Non-EU exports increased from 24% of total exports in 1973, to 45% in 2000, while the non-EU share of total imports rose from 28% to 45% over the same period.

3.5 Increased trade diversification has gone hand-in-hand with strong increases in trade with the U.K.

While the increase in the pattern of trade diversity which Ireland has achieved since becoming a member state of the EU is a positive development, it is also worth noting that Ireland's trade with the U.K remains strong, and that this is a further positive and desirable feature of Ireland's trading relationships. Exports to and imports from the U.K in 2000 amounted to €18.1 billion and €17.2 billion respectively. In nominal terms, the level of exports to the U.K increased by a factor of 30 and the level of imports increased by a factor of 23 between 1973 and 2000 (i.e. exports were valued at €603 million and imports were valued at €733 million in 1973). Notwithstanding the impact of inflation, the scale of this increase indicates that there was a also substantial increase in the volume of trade between the U.K. and Ireland over the period 1973-2000. This demonstrates that trade diversification does not necessarily lead to a loss in traditional markets for Irish traders.

¹⁹ Eurostat (2001)

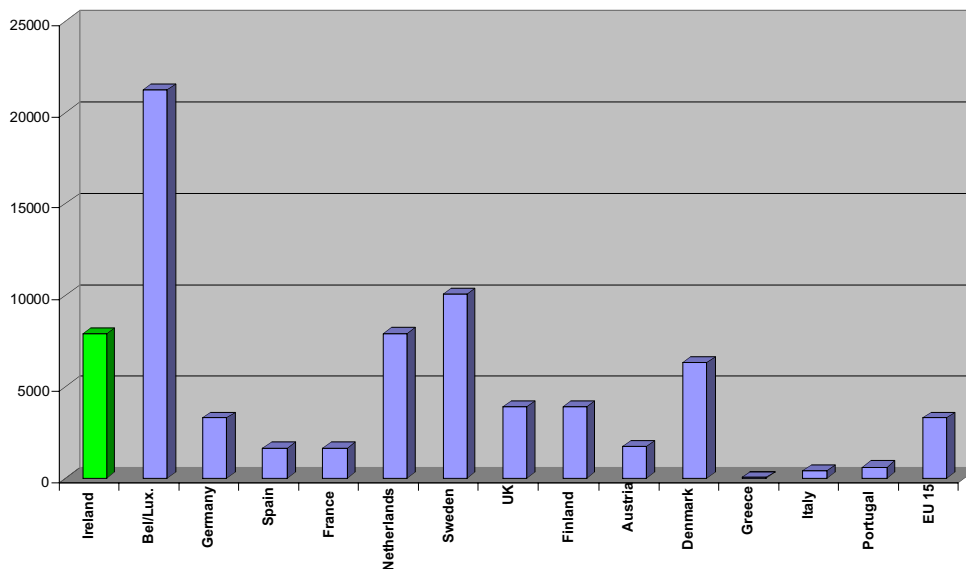
²⁰ CSO (2001)

4. Foreign Direct Investment

4.1 Large-scale inflows of internationally mobile direct investment have created high-skilled jobs in Ireland

Ireland has succeeded in defining a significant locational role in the strategies of Multi National Corporations (MNCs) to expand and rationalise their global production, distribution and management facilities. Over the past two decades and during the 1990s, in particular, Ireland secured a share of global mobile direct investment flows out of all proportion to its economic size. These investment flows underpinned a radical restructuring of Ireland’s industrial base into more highly-skilled and high value-added activities and a rapid growth in trade. Of all EU countries, only Sweden, the Netherlands and Belgium have received higher flows of FDI per capita in the period 1998-2000 (Figure 2). Indeed, the strong performance of these countries over this period was mainly the result of a small number of take-overs of large indigenous companies by foreign buyers. In contrast, a much higher proportion of FDI into Ireland over this period comprised “greenfield” investment in new international services and manufacturing projects. Unlike take-overs (i.e. mergers and acquisitions), “greenfield” investments add to the total stock of employment and capital in the economy.

Figure 2: Per Capita Inward FDI Flows into EU Member States - 1998-2000 (€)



Source: Eurostat (2000), Foreign Direct Investment Yearbook

Greenfield FDI flows into Ireland in the 1990s originated mostly from export-oriented U.S. - owned MNCs. In 1998, U.S. - owned MNCs accounted for €32.1 billion of Irish industrial exports, or 70% of the total, and employed over 73,000 workers²¹. It is primarily these companies that have underpinned the remarkable expansion in trade relations between Ireland and other countries including the U.S. over the past 25 years and, particularly, in the 1990s. Ireland has also received significant direct investment flows from other European countries –

²¹ Forfás (2000), *Trade and Investment Report 2000*, p.24.

particularly the U.K. and Germany. While the related projects have tended to be smaller in size than those originating from U.S. companies, they nonetheless made a significant contribution to the development of certain Irish industrial sectors, particularly chemicals, pharmaceuticals, financial services and the retail and leisure sectors. By 1999, manufacturing companies from other EU countries alone employed over 34,000 workers and contributed over €4.7 billion to total Irish exports. The high proportion of U.S. investments in total inward investment, in comparison with those from Europe, most likely reflects the dominance of the U.S. in global FDI flows and the fact that companies from other EU states – unlike U.S.-based companies - already have full access to the Single Market.

4.2 FDI inflows into Ireland were driven by the Single European Market

It is undoubtedly the case that Ireland's proactive membership and support of the EU has been a major factor in making Ireland an attractive location for FDI, particularly from the U.S. According to recent research, successive phases of European integration (encompassing four successive rounds of enlargement and the creation of the Single Market) have been accompanied by a substantial net increase in FDI flows from both inside and outside the EU²². As discussed earlier, the largest increases in FDI were from countries outside the EU, as U.S. (and, later, Japanese) MNCs were able to take advantage of the removal of intra-EU trade barriers to produce for the entire European market from a single location or a reduced number of linked locations. This is evidenced by the rising proportion of output from MNCs based in EU countries that is exported to other EU countries. Indeed, over the last 20 years U.S. FDI has increased much more rapidly in Europe than in any other part of the world. In turn, FDI has added to the dynamic effects of the Single Market which increased average European income levels, the structure of economic activities and the emergence of agglomeration economies, particularly in the high-technology sectors.

In essence, the existence of the EU and the completion of the Single Market increased the pool of FDI available to all EU countries, including Ireland. In Ireland's case, a significant proportion of this pool was captured by a mix of supportive domestic policies which create the locational "product" for FDI, covering areas important to business development such as macro-economic management, taxation, deregulation, provision of infrastructure and R&D. The innovative approach to the marketing of Ireland as a location for FDI spearheaded by IDA Ireland and its predecessors and encompassing other areas of the public sector including those dealing with taxation, education and infrastructure was a major factor. For example, one of the key policy measures taken to boost economic activity in Ireland was to reduce the burden of taxation on the business sector. Progress in this area has been impressive. Since joining the EU in 1973, rates of corporation tax in Ireland have been reduced from a high of 50% in 1973 to a standard rate of 12.5%²³ in 2002. This has provided a significant boost to enterprise, business development and investment which, in turn, has led to substantially increased receipts from corporation tax, ahead of the trend in many other member states. For example, taxes on corporate income amounted to 4.8% of total taxation²⁴ in Ireland in 1975, compared to an average of 6% in the EU. By 1998, however, taxes on corporate income had

²² Dunning, J. (March 1997), "The European Internal Market Programme and Inbound Foreign Direct Investment", *Journal of Common Market Studies*.

²³ Under an agreed timetable included in the Finance Act 1999, the rate of corporation tax on the trading income of all firms will decline to 12.5% on 1 January 2003. The rate of 12.5% already applies to firms whose trading income (other than trading income taxed at the 10% rate) does not exceed €254,000.

²⁴ Includes social security contributions.

risen to 10.7% of total taxation in Ireland, compared to just 8.7% in the EU-15²⁵. Reduced rates of corporate taxation have enhanced the position of Ireland as an attractive investment location, greatly increased taxation revenue from the corporate sector which grew strongly because of Ireland's locational attractiveness and, thereby, provided a stimulus to economic growth and social progress.

But these domestic policies would not have borne the fruits they did were it not for the development of, and Irish participation in, the Single Market. As has been well documented and discussed elsewhere in this submission increased flows of FDI into Ireland also had substantial spin-off benefits for indigenous Irish industry, through supply linkages and the transfer proliferation of world class manufacturing technologies and management techniques to Ireland which spilt over into the indigenous sector.

4.3 Single market and EU supports have fostered closer economic integration between Ireland and the EU

There is little evidence that the geographical concentration of economic activity has increased in the EU, as was feared by "peripheral" countries such as Ireland prior to the introduction of the Single Market. This is true even in those industrial sectors that benefit from substantial economies of agglomeration and plant economies of scale. The tendency for such a drift towards the centre has been countered by a lower cost base in the more peripheral parts of the EU, stimulating significant levels of EU financial transfers, contributing to infrastructure, R&D, education/training and productivity. These EU transfers have strengthened the cost and other advantages that frequently accrue to investors locating in more peripheral parts of the EU including Ireland.

4.4 Single market spurs outward direct investment from Ireland

Ireland's success in attracting high levels of inward direct investment over the last decade has been well documented. The flow of direct investment has not, however, been all in one direction. The creation of the Single Market also removed many of the barriers to direct investment by Irish companies overseas. Although still well below inward flows, outward direct investment from Ireland has also risen sharply over the past 20 years and, particularly, during the 1990s - much of it directed towards other EU countries. This development has reflected the emergence of a growing cohort of Irish multinational enterprises. As outlined by Forfás' recently published *Statement on Outward Direct Investment (2001)*, such investment has been broadly beneficial for the Irish economy. It boosted domestic exports, employment and wages, and has been a catalyst for the reorientation of the domestic economy into higher value-added activities. Foreign acquisitions are the key mechanism used by the agri-foods sector, in particular, to access markets, brands, distribution networks and the supply of products to retailers and processors. By facilitating the acquisition of overseas R&D capabilities and technologies, outward FDI also helps Irish companies move into high-technology activities and to develop or introduce new products to the Irish market.²⁶ In practice, indigenous companies may not distinguish between domestic and foreign markets in terms of their interest in acquisitions - a survey of company leaders in 1999 revealed that the

²⁵ OECD (2000) *Revenue Statistics 1965-1999* (1998 is the most recent year for which comparable statistics are available).

²⁶ For example, the Kerry Group has transferred technologies from production facilities in the United States back to Ireland in order to generate new products and increase productivity levels in Ireland.

key reasons for their acquisitions lie in the objective of firms to increase production capacities, to increase market share and to lower costs.²⁷

²⁷ CfM Capital (1999) *1999 Acquisition Survey*, Dublin, p.15

5. Research, Development, Technology and Innovation

The closer integration of Science and Technology (S&T) policy with industrial development policy is an important feature of Irish public policy over the past twenty years and particularly over the past decade. Access to EU Structural Funds since the end of the 1980s provided a large, albeit now declining, proportion of resources for new S&T endeavours. In line with the blueprint set out in the Culliton Report (1992) on industrial policy and under the first two national Operational Programmes (OPs) for Industry, substantially co-financed by the EU the general thrust of industrial policy in the decade between 1989 and 1999 was to develop sectors characterised by high levels of innovation, quality, productivity and value-added. The Productive Sector Operational Programme in the National Development Plan, 2000-2006, indicates how current policy to develop the knowledge-base of the economy and build the level of higher value-added activities in foreign-owned industry is being implemented. In addition to this, Irish third-level institutions, researchers and companies have benefited from participation in successive EU Research and Development (R&D) programmes.

5.1 EU has provided opportunity to collaborate with European partners in leading edge research

The EU's own research and technology development programmes, i.e., the Framework Programmes²⁸ were, since 1979, and in the absence of adequate (national) government funding for basic research, a crucially important source of funding to support the growth of the Irish research base, particularly in the third-level education sector. One of the most important consequences of Irish participation in the EU Framework Programmes (Ireland has been involved in four such multi-annual programmes to date) was that it allowed Ireland to expand its research base as a precursor to current attempts to become a knowledge-based economy. Evaluation of Ireland's participation has shown that the current strength and, in many instances, the existence of large parts of the university research community in Ireland can partly be attributed to its involvement in successive EU Framework Programmes.

The benefits of participation in Framework Programmes extend beyond the financial value of the EU contribution to research costs. Programme participants from the enterprise sector find that collaborative projects give them access to a large source of research and innovation inputs from other organisations. Co-operation with other firms and research bodies in the EU exposes them to fresh ideas and methods. Furthermore, project risks are spread over a number of partners; the lead-time for developing new products can be much shorter and staff capabilities in terms of organisational and communication skills are strengthened. Overall, Framework Programmes have allowed Irish industry to raise its technological capabilities on a broad front with improved competitiveness being a long-term rather than a short-term consequence.

Over the period of Ireland's EU membership, funding under the Framework Programmes has been additional to government expenditure on R&D. Under the fourth Framework Programme (1994-1998), EU funding approximated to three quarters of all state funding of R&D in the business sector and almost half of state contributions to R&D in third-level institutions.

²⁸ The implementation and funding of the European Union's research and technology development policy is done through multi-annual Framework Programmes. The Framework Programme enables firms and research bodies in Ireland, in partnership with their counterparts in Europe and beyond, to compete for funding for specific research which the EU, following consultation with industry and research interests, considers important for its industrial competitiveness and quality of life.

5.2 EU has provided support to develop a national system of innovation

The European Commission has long been a proponent of using S&T policy as an instrument to promote economic cohesion by upgrading the capacity of less-developed regions to participate in top-class research on the basis of excellence rather than simply on the basis of geographic location. By the late 1980s, Ireland was preparing to upgrade its own S&T capability and infrastructure. This was partly in response to the impact of global recession in the 1980s which, as a small open economy on Europe's periphery, resulted in high unemployment and high inflation levels. In addition, “new growth theories”, which explain the nature of economic growth in terms of the role of technological change, aligned with positive correlations between investments in S&T and other economic indicators in the more advanced EU member states, made the case for investments in S&T, infrastructure and human capital in Ireland all the more compelling.

In the period since 1989, the EU Structural Funds, put in place as part of a range of measures to support the completion of the Single Market, were crucial in priming the development of the national S&T infrastructure in Ireland. The significant increase in the EU Structural Funds and the priority given to less-developed regions such as Ireland in the allocation of these funds was recognition by the EU of the potential threat which the Single Market posed to many economic activities in the less-developed regions of the EU.

The new S&T initiatives which commenced in 1989 in Ireland included the development of prototypal initiatives for the development of advanced strategic technologies, e.g. biotechnology; linkages between higher education and industry; technical services for industry, and S&T initiatives for regional development. The subsequent selection of research areas under the new national Programmes in Advanced Technologies, which began in 1989, built on strengths developed in Irish universities on the back of earlier EU Framework Programmes, e.g., telecommunications, advanced materials and manufacturing and opto-electronics. The following sections of this submission review the major focus of S&T spending under successive national operational programmes so significantly co-financed by the EU from 1989 to the present.

5.2.1 Upgrading national S&T infrastructure, 1989-1993

The first OP for Industrial Development, 1989-1993, was formulated at a time of high inflation and high unemployment in the late 1980s. It had as its objectives that Irish industry would increase its competitive advantage in the global market place and would address unemployment by creating 20,000 (gross) jobs per annum in industry over the period of the programme. The specific allocations under the sub-programme for S&T are detailed in the Statistical Annex, Table A5. These included: the development of new technology for industrial applications; the strengthening of applied research and development in the third level sector; and the transfer of technology to industry.

The main focus of the sub-programme for S&T was the development, through a particular set of activities known as “Measure 1”, of an S&T institutional infrastructure, most notably the Programmes in Advanced Technology (PATs)²⁹ and support for the National Micro-Electronics Research Centre (NMRC) and Technology Centres. The establishment of the

²⁹ PATs were established in the following technologies: biotechnology; opto-electronics; telecommunications; power electronics; advanced materials; and advanced manufacturing.

PATs corresponded to two key policy objectives: to raise the overall level of R&D from the low level of the 1980s, and to increase the interaction between academia and industry, particularly in order to raise innovation levels in enterprise through the use of expertise in Higher Education.

Forfás evaluations (1994,1996,1997) of the S&T programmes have shown that these targeted strategic programmes have contributed to the strengthening of key research areas in the universities such as biotechnology, software and Information and Communications Technology (ICT). They have been less successful in terms of technology transfer and their impact on industry.

Whilst the S&T Sub-Programme (1989-1993) was focused on the Irish economy as a single entity, it was considered important that the sub-programme would have a role 'in capitalising on the unique strengths of the regions and in attending to their specific weaknesses'. A significant commitment was made in the sub-programme to two technology transfer initiatives for regional infrastructure (initially 28% of the budget was devoted to this).³⁰

The Industry R&D Initiative (known as “Measure 6”), contained in the OP, supported R&D projects proposed by industry. Industry contributed 50% to the cost of each project, and the remaining 50% was provided by the Irish exchequer and co-financed by the EU.

5.2.2 Encouraging more innovation in companies, 1994-1999

Whilst continuing to support the development of infrastructure, the second Operational Programme for Industrial Development, 1994-1999, (see Table A6 of the Statistical Annex for details) focused more heavily on the development of R&D capabilities within indigenous companies. The primary objective of the second OP was to increase the quantum of R&D activity in Ireland³¹. The allocation of funding to the support of R&D in companies represented over 43% of the projected budget for the S&T sub-programme and was seen as the main policy instrument to stimulate in-company R&D.

Support for Basic Research in the third-level sector was also included in the second OP, albeit at the modest level of just over €4 million per annum. The second OP for Industry also included a Food Sub-Programme which provided support for R&D conducted by food processors and support for research conducted by Teagasc and similar institutions. Similarly, the OPs for Agriculture, Food and Forestry, Fisheries and the Environment all had specific R&D measures, some of which were of direct relevance to industry.

5.2.3 Supporting knowledge creation for a knowledge-based economy, 2000-2006

The opening statement of the Productive Sector OP of the National Development Plan, 2000-2006, contains a number of recognisable policy objectives and pillars for R&D *viz*:

- Attract and embed FDI in the Irish economy,
- Develop a competitive indigenous sector,
- Commit to R&D and innovation, and

³⁰ Government of Ireland (1989) *Promoting Development and Structural Adjustment in Ireland under the CSF (Programme for Industrial Development 1989-1993)*, Stationery Office, Dublin, Section 7.5.

³¹ Government of Ireland (1994) *Operational Programme for Industrial Development, 1994-1999*, Stationery Office, Dublin.

- Commit to human resource development and marketing.

Support for Research, Technology Development and Innovation (RTDI) is one of the priorities identified in the Productive Sector OP. In contrast with previous OPs, all sectoral RTDI initiatives are now covered by a single RTDI “sub-programme”. Details of the Industry RTDI measures are outlined in Table A7 of the Statistical Annex.

The most striking feature of support for R&D under the National Development Plan is that, for the first time, the Government, without EU co-funding, will allocate a very significant level of support for strategic basic research. This amounts to 32% of the total RTDI for Industry budget and will be channelled through the Technology Foresight Fund (see Table A7 in the Statistical Annex for a breakdown of spending on R&D under the NDP).

Table 3: Funding of S&T in Ireland, 1989-2000 (€m)

	<i>Total</i>	<i>EU</i>	<i>Government</i>	<i>Private Sector</i>
S&T sub-programme, OP for Industry, 1993 (5yrs)	387.8	140.6 (36.3%)	193.9 (50%)	53.3 (13.7%)
S&T sub-programme, OP for Industry, 1999 (6yrs)	502	269 (53.6%)	56 (11.2%)	177 (35.2%)
RTDI for Industry, Productive Sector OP, 2000-2006 (7yrs)	2,430.89	230.95 (9.5%)	1339.18 (55%)	861.77 (35.5%)

Source: Forfás, 2001

The change in balance between the different *types* of measures and the *sources* of funding between the current OP and previous ones is evident from Table 3 above. The most striking feature of Table 5 is the low level of dependence on EU support under the current sub-programme relative to previous OPs.

The development strategies set out in successive Community Support Framework programmes from 1989 onwards in Ireland and their outturn were notably successful as a number of EU Commission evaluations have shown both generally and in the case of their R&D support components.³² EU structural funds were used to support effectively the long-term economic growth process and the R&D base. In the period 2000-2006, the Government has decided to focus EU funding on specific areas where there has been a spending gap in Irish policy compared to the EU average and/or where EU support has been invested in successful measures to be continued under the Productive Sector OP. The areas concerned are mainly those of collaborative R&D partnerships between industry and the third-level sector and innovation in business/firms. It is however, highly unlikely that the significant level of government support for science and technology, and R&D in particular, included in the National Development Plan, 2000-2006, would ever have been contemplated without the demonstration effects and learning process associated with the series of funding initiatives by the EU for R&D activity in Ireland over the past two decades.

³²For example, Deloitte & Touche (1994) *An Evaluation of the Science & Technology Sub-Programme, 1989-1993*, Dublin.

6. Competition and Regulation

6.1 EU membership has led to more competition on the Irish market

Ireland's membership of the EU has led to significant improvements in the competitive environment. The removal of barriers to trade in the Irish market and the consequential increased trading activity has encouraged more competition and benefited consumers in terms of lower costs and increased choice. Moreover, with competition principles firmly enshrined in the Treaty of Rome, there was an inevitable strengthening of competition law in Ireland. The Competition Act (1991) was a vital step in translating the key principles of competition set out in the EU Treaties into a strong foundation for the growth of competitive markets in Ireland.

6.2 Market liberalisation was significant in the energy, telecommunications and aviation sectors

As well as improving competition in general, EU action yielded specific benefits to Ireland in the utilities and aviation sectors. At the EU level, the 1990s saw a focus on the liberalisation of utilities, which had hitherto been largely state-owned monopolies. There was a determination to introduce competition in order to remove inefficiencies, reduce costs, stimulate innovation and improve quality. The energy sector is one example of this. Under EU rules, member states were required to open up their national electricity markets. Directive 96/92/EC of 19 December 1996 established market rules in the key areas of generation, transmission and the distribution of electricity; the organisation and functioning of the market; and access to the market. The market to be opened was defined in terms, first, of larger users, with the markets for medium and for small users to be opened three and six years respectively after February 1999. Belgium and Ireland were allowed the option of an extra year before the first phase of liberalisation was to begin i.e. this should take place in 2000. Thus, Ireland responded by opening up around 30% of the electricity market to competition in February 2000. Because of specific institutional constraints, however, this has not yet translated into widespread consumer choice and lower costs. Full liberalisation is to be introduced by 2005. Moreover, since 1995, gas consumers with annual usage above 25mcm/year and, since August 2000, all power generators irrespective of size, have been able to choose their gas supplier and transport gas through the Bord Gáis network.³³

In the telecommunications sector, similarly, Ireland committed itself to opening its markets on foot of EU rules by 1 January 2000. Ireland's original derogation from the EU timetable was, however, set aside by the government in order to improve the market as soon as possible. Full competition in a number of telecommunications markets in Ireland was introduced on 1 December 1998. This resulted in a dismantling of the traditional state-owned monopoly in the provision of telecommunications services.

Aviation is the sector where the most significant changes have been brought about as a result of EU-induced improvements in the regulatory regime. Increased competition on routes in and out of Ireland has resulted in lower fares and improved services, benefiting consumers and improving Ireland's attractiveness as a business and tourism location.

³³ OECD (2001), *Regulatory Reform in Ireland*, Paris.

The financial services sector has also been the subject of a number of regulatory initiatives at EU level, which have benefited consumers and encouraged cross-border trade in financial services. Other sectors likely to be liberalised in the future as a result of action at EU level include the postal services.

More generally, progress towards a common system of corporate governance, especially through the development of the concept of the European Company, will help to improve the working environment for business across Europe. The introduction of European Economic Interest Groupings (EEIG)³⁴ was a first step of this kind. The formation of the eu.domain is an important step towards extending this principle into the domain of e-Business. If successful, this will be a significant tool for Irish businesses in the EU market.

³⁴ This allows for the establishment of an association between companies or legal bodies, firms or individuals from EU countries that enables them to do business across national boundaries in the EU.

7. Labour Market

The Irish labour market has changed dramatically as a result of EU membership. Direct EU funding in the areas of regional, social and structural policies has been a major stimulus to growth in employment. Employment growth also facilitated the significant reduction in Irish unemployment levels, which reached a peak in 1987 of 16.6%. Membership has also influenced developments such as the growth in female labour participation, improvements in education and human capital investment, and increased skills mobility.

7.1 EU membership has influenced the reform of employment, social and equality policy in Ireland

The shape of much of Irish employment and social policy has been influenced by EU membership. EU employment initiatives and social policies have had major impacts on equal pay legislation, social protection, social inclusion, equality in the labour market between men and women, equal opportunities and anti-discrimination in Ireland. Labour standards, including health and safety statutes, the modernisation of work, changes in working time, and the development of social dialogue have all been influenced by decisions taken at EU level. Improvements in working conditions, moves to integrate the disabled into the labour market, social rights at work, and more flexible work-patterns including those which facilitate efforts to combine family life with working life, have all resulted from EU initiatives. These changes have enhanced the quality of life in Ireland.

EU social policy has been responsible for promoting equality between women and men and increasing the participation of females in the labour market. The gender balance of the labour market has improved dramatically, and in recent times, female employment has been far more buoyant than male. Females' share of total employment as recorded in labour-force statistics increased from less than 20% in 1972, to 29% in 1981, and to almost 41% in 2000. In line with these developments and with EU trends, there has been a significant change in the pattern of work-time, with an increase in the incidence of part-time work. Part-time work more than doubled its share of total employment since 1985 - it increased from 6% of the total in 1985 to 16.8% of the total in 2000³⁵.

7.2 Free movement of labour provides impetus for growth and development

Membership of EU gave Irish workers unlimited access to the EU labour market. Although traditionally emigration from Ireland was directed towards the U.K. and U.S., emigration to EU member states increased significantly during the late 1980s and early 1990s. Free movement of labour provided a cushion for Ireland during the 1980s, a period of low output growth and spiralling unemployment levels. Increased skills mobility and student mobility has benefited the economy since then, and provided the impetus for further economic growth and development in the 1990s. Expanding firms found they could recruit among the well-educated Irish working abroad, who brought back to Ireland with them additional skills and international experience.

³⁵ Data is only available from 1985 onwards. CSO (1985) *Labour Force Survey* and (2000) *Quarterly National Household Survey* (Q2). In comparison, part-time employment in the EU increased from 14% of total employment in the EU in 1991 to 18% of the total in 2000, EU Commission (2001), *Employment in Europe 2001*, Directorate General Employment and Social Affairs, Brussels.

7.3 Substantial increases in education levels and investment in human capital

As a member state of the EU, Ireland has benefited from the European Social Fund (ESF) which supported national efforts in the areas of education and training. There has been a dramatic expansion in its educational system over the past three decades, giving rise to a gradual increase in the human capital of the workforce. The role of EU in supporting the “new economy” and the information-society, with particular focus on the development of lifelong learning, use of ICT, and actions oriented towards Small and Medium Sized Enterprises (SMEs) have also had positive impact on the competitiveness of the economy.

7.4 Improvements in labour market structures, social and economic cohesion

EU guidelines that call on governments and social partners to adopt or strengthen a partnership approach in order to improve the level and quality of employment have had a marked impact on the success of the model of social partnership which commenced in Ireland in 1987. Ireland's own model of partnership was influenced by those developed in other EU states but it was also shaped to Ireland's unique developmental needs and structures.

The European Social Fund contributes to the objective of social and economic cohesion in the EU. Particular attention is given to integrating marginalised groups into the economy and society. In Ireland, one of the principal effects has been to increase the use of active labour market policy to tackle unemployment. Ireland is one of the leading countries in the share of national income devoted to active labour market policies. It operates a wide range of programmes catering to a diversity of target groups among the unemployed and other socially-excluded groups. The general aim of labour force policy is to encourage the integration into the labour market of people facing the greatest risk of exclusion. The significant decline in the unemployment and long-term unemployment from levels of 14.7% and 8.5% respectively in 1991 to 4.3% and 1.2% respectively in 2001,³⁶ shows that the labour market policies adopted in Ireland with EU support and based on models found throughout the EU but adapted to Ireland's needs have clearly worked well.

7.5 Labour market policy benefits from peer review

In line with provisions of the Amsterdam Treaty, the “Luxembourg process”³⁷ introduced in 1998, created a mechanism of “peer review” of best national practices in fighting unemployment and promoting the creation of new jobs in each EU member state. Peer review involves a process of reviewing and co-ordinating the employment policies of the member states and the production of EU employment guidelines and (annual) National Action Plans. These Guidelines were adopted by the EU Commission in 1998 in consultation with the member states. They rest on four pillars: entrepreneurship; employability; adaptability; and equal opportunities. The guidelines are translated into national policy by the National Action

³⁶ Data refers to August 2001, the most recent date for which comparative data is available. See CSO (2001) *Quarterly National Household Survey (Q3)*. Note that these figures are not seasonally adjusted. For discussion of employment trends in 2001 see, ESRI (December 2001) *Quarterly Economic Commentary*.

³⁷ The inclusion of an Employment Title in the Treaty of Amsterdam, 1997, was a crucial step in the development of the EU policy on employment. The principal aim of the peer review process is to achieve convergence in member states' employment policies and to develop policy targets which can be jointly set, verified and regularly updated.

Plans prepared by each of the member states and reviewed by the Commission and Council. The results of these reviews are published each year in the EU's joint report on employment. This process of co-ordination and peer review allows Ireland, and all the member states, to learn about the effectiveness of labour market programmes and policies in other countries, and to use the experiences of others to design active labour market policies suitable for an Irish context. Irish programmes that have benefited from this process include those aimed at reducing regional unemployment, promoting lifelong learning and exploiting the job creation potential of the services sector.

8 Agri-Business

The impact of EU membership on Ireland's agricultural sector as a whole will be covered in more detail by other agencies that are understood to be making submissions to the Forum - these include the Irish Farmers Association, the Irish Co-Operative Organisation Society, An Bord Bia, and the Irish Dairy Board. Given the policy mandate of Forfás, the focus of this submission is limited to agri-business (food, drinks and tobacco) and trade in the agri-food sector (which includes food, and tobacco as well as trade in live animals and commodities).

8.1 Agri-food remains a key sector in the national economy

The agri-food sector (primary agriculture and agri-business) has undergone considerable change as a result of EU membership. In 1999, the agri-food sector as a whole, contributed 10.5% to GDP, to 10% of total exports and to 11.5% of employment. The guaranteed prices of the Common Agricultural Policy (CAP) constituted a major proportion of Irish farm incomes from 1973 onwards and led to increased output in sectors such as livestock and milk. Between 1975 and 1990, aggregate farm income increased by an average of 8.8% per annum in nominal terms, but declined by an average of 0.9% annually in real terms.³⁸ The high dependence on EU transfers can be seen in the large share of direct payments to producers as a percentage of aggregate farm income. This increased from 4.5% of total farm income in 1975 to over 56% of the total in 1999. The net transfer from the EU agriculture budget (receipts less payments by the Irish Exchequer) to Ireland was €1,444 million in 1999. This was over half of the total public expenditure of 2,598 million made by the Department of Agriculture, Food and Rural Development in 1999.

The contribution of the agri-business to the economy has declined in the 1990s as GDP in the economy as a whole has grown faster than total Gross Value Added in agriculture, food and drinks. As indicated in Table 4 below, it contributed 6.6% of GDP and to 3.3% of total employment (or 54, 400 persons) in 1999.³⁹

Table 4: Role of Agriculture and the Agri-Food Industry in the Irish Economy, 1999

	<i>Primary Agriculture</i>	<i>Food, Drinks and Tobacco</i>	<i>Total Agri-Food Sector*</i>
GDP	3.9%	6.6%	10.5%
Employment	8.2%	3.3%	11.5%
Exports	6.0%	4.0%	10.0%

*Agri-food includes agriculture, food, drinks and tobacco

Source: Department for Agriculture, Food and Rural Development (DAFRD) 2001

The statistics presented in Table 4 somewhat disguise the degree to which agri-business is embedded in the national economy. Both Irish-owned and foreign-owned companies in the sector source most of their raw materials, labour and service inputs in Ireland. In its *Annual Business Survey of Economic Impact 2001*, Forfás reports that, in 2000, the expenditure of companies in the agri-business sector on materials, labour and services in the Irish economy amounted to 81.1% of their total sales. This was significantly above the average figure of

³⁸ DAFRD (2000), *Agri-Food 2010*, Agricultural Structures, Annex 2

³⁹ As reported in the CSO (2000) *Quarterly National Household Survey* (Q4). This figure is higher than the employment figure of 47, 000 reported in the CSO (1999) *Census of Industrial Production*.

65% for Irish-owned manufacturing companies and of 29% for foreign-owned companies operating in Ireland.

8.2 The Common Agricultural Policy encourages diversification of exports

Since Ireland joined the EEC in 1973, as Table A8 of the Statistical Annex shows, the U.K share of total agri-food exports (live animals, food, drink and tobacco) has fallen significantly, from 70% of the total in 1972 to about 31% of the total in 2000. The U.K. remains Ireland's most important export market for agri-food. It accounted for €2,150 million of total agri-food exports of €6,853 million in 2000. Exports to other EU markets have also increased significantly as a result of guaranteed market access provided by the CAP. The rest of the EU accounted for 40% of agri-food exports in 2000 compared to 15.5% in 1972. The EU's system of export subsidies for exports outside the EU has also encouraged a diversification of Ireland's agri-food exports to non-EU countries. They accounted for 25% of agri-food exports in 2000 compared to 9% of the total in 1972. The high share of trade between Ireland and non-euro countries also means that exports are significantly exposed to international currency fluctuations.

8.3 EU membership stimulates the commercialisation of agri-business

Ireland has made some progress in commercialising its agriculture and developing an export-led agri-food sector within the generally non-commercial orientation of the CAP. This progress may be seen in the expansion of Irish food processing companies into the EU market. For example, some 35% of the turnover of the top major Irish dairy processors is generated by operations in the rest of the EU market. Some 15% of turnover is in the U.S. market and 11% in the rest of the world (outside the U.S., EU and Ireland).⁴⁰

The EU has also encouraged the modernisation and development of the agri-food sector as a whole through its agricultural and structural funds. For example, the Food Sub-programme of the Operational Programme for Industrial Development 1994-1999, co-financed by the EU, allocated some €742 million to increase competitiveness in the food industry.⁴¹ Support for capital investment, Research, Technology and Innovation, marketing and human resources is to be further supported by the allocation of _358 million in the National Development Plan, 2000-2006 to the food sector.⁴²

Despite their recent expansion and amalgamation, Irish food processing companies are still generally small compared to their international competitors. Further restructuring and rationalisation is likely as the sector seeks to maintain and enhance its competitive position and to take advantage of increasingly liberalised global markets. EU enlargement and further market opening in the WTO trade negotiations, launched in November 2001, will both expand potential markets and increase competition. These developments reinforce the need to enhance competitiveness, increase market access and to continue the shift in the orientation of the Irish food processing companies to the supply of quality foods to niche markets.⁴³

⁴⁰ Comhlámh (2001) *Ireland: The role of the CAP and Ireland's role in Europe*.

⁴¹ Reviewed in DAFRD (1998) *Report of the Food Industry Development Group*.

⁴² DAFRD (2000) Summary of the Initiatives for the Food Sector in the National Development Plan 2000-2006

⁴³ See DAFRD (1998) *Report of Food Industry Development Group* and (2000) *Agri-Food 2010*, which identify fur key challenges to the sector: competitiveness, market access, quality and food safety.

9 Ireland's International Role and Profile

9.1 A voice and a role in shaping EU policy

Drawing up a balance sheet of Ireland's EU membership since 1973 is complicated by the difficulty in distinguishing between the impact of EU membership and other influences such as domestic policy decisions and international economic developments on national development. While the economic impacts of membership are far-reaching, as outlined in previous sections, it is arguable that the political implications are more profound. Membership has given Ireland the means and the opportunity to have some influence on the evolution of the European Union and its policies. Ireland's successful management and use of EU financial transfers has served as a model for other countries in Europe and elsewhere, seeking to replicate Ireland's transition over the three decades of EU membership from a developing economy to a developed economy. In demonstrating a capacity to help shape EU policies to successfully develop its economy and society as a member of the EU, Ireland's international profile and influence has gained immeasurably from EU membership.

At a broader political level, the shape of much of Irish public policy has been influenced by EU membership. As outlined in earlier sections, this influence has ranged from equality policy to environmental protection, R&D, competition, social policy, education and training and macroeconomic policy. It has, *inter alia*, facilitated the introduction of new regulatory structures, shaped the Irish model of social partnership and promoted a culture of competition in Ireland. A key to the successful adaptation to EU membership and economic success in the 1990s has been the development of strong supportive national policies. This is most evident in the preparations for EMU and the efficient use of EU financial transfers which took place within a coherent strategic framework provided by social partnership and successive national development plans.

9.2 Traditionally high levels of popular support for EU membership

Ireland has changed much as a result of EU membership and has contributed to change within the EU. Conscious of the political and economic advantages of EU membership for Ireland, successive Irish Governments have shown a strong commitment to the integration process. As the Government's White Paper on Foreign Policy⁴⁴ states:

Ireland has been a full participant in the process of European integration for a generation. We have benefited enormously from membership of the European Union, and have, at the same time, contributed constructively to the Union's development. Irish people increasingly see the European Union not simply as an organisation to which Ireland belongs, but as an integral part of our future. We see ourselves, increasingly, as Europeans.

..... However, Ireland's membership of the European Union has always been about more than free trade and financial transfers, important as these may be. The period of our membership of the Union has coincided with an increase in national self-confidence, a strengthening of our identity and an increase in our international profile.

⁴⁴ Department of Foreign Affairs (1996) *Challenges and Opportunities Abroad, White Paper on Foreign Policy*, Dublin, pp. 69-71.

9.3 A new juncture in Ireland's relationship with the EU

While the benefits of EU membership have been widely perceived in Ireland, these benefits have largely been seen to pivot around the issue of financial transfers to Ireland rather than around the wider economic, cultural, political and institutional issues that have been discussed in earlier sections of this paper. Ireland is likely to become a net contributor to the EU budget over the next decade because of the successful economic policies it has pursued within the EU. This is a wholly positive outcome and should be seen as such. The new member states in an enlarged EU will, undoubtedly, become serious competitors for Ireland in areas where Ireland has carved out a niche and a successful competitive position within the EU (e.g. within the areas of FDI and flexible economic development policies). In the context of these two sets of factors alone, the debate about EU membership in Ireland needs to become considerably deeper and to encompass the wider issues discussed in earlier sections of this submission. A more broadly-based intellectual case for Ireland's membership of the EU, and the role it can play through that membership, needs to be more widely understood, articulated, communicated and debated. Forfás sees the work of the National Forum in Europe as being highly important in this regard.

The achievements already made, the prospects in hand and the fundamental changes taking place in the European Union itself mean that Ireland's relationship with the EU will undergo a sea-change in the next decade. The EU will remain a fundamentally important framework for political and economic cooperation between Ireland and other member states and between Ireland and non-EU countries. The challenge for policy-makers will be to achieve a change of approach to Ireland's relationships with the EU from one of financial and conceptual dependence to that of taking greater responsibility for participating more fully in the initiation, evolution and shaping of EU policies generally. This will need to be done and articulated not simply from the perspective of national self-interest, though this will be essential, but also within the perspective of the wider geo-political and economic objectives which lie at the heart of the European Union.

The fifth round of EU enlargement that is now in progress, comes at a time when the relationship between Ireland and the EU is in a stage of transition. Rapid economic growth, significant social change, greater national self-confidence, a new era of peace in Northern Ireland and a greater and welcome willingness to engage in fundamental debate on EU policies in Ireland are chief among the factors that are shaping a new and more mature relationship from Ireland's perspective. The following Section of this submission to the Forum highlights the main challenges and opportunities that EU enlargement presents for Ireland.

Section Three: Challenges and Opportunities of Enlargement

10 Macro-Economic Issues

10.1 Enlargement will increase the economic weight of the EU in the global economy

EU enlargement will provide opportunities for growth, competition and employment. The inclusion of the CEECs and the other enlargement candidates in the EU will increase the economic significance of the EU in the global economy and in global institutions such as the WTO. While the economic impact on the EU will be small in the short-term, the candidate countries will undoubtedly reduce and close the economic gap with the present EU member states over time and, in doing so, support growth in the enlarged EU as a whole. This will give greater weight to the EU voice in international economic and financial institutions. It will also increase the need for further EU policy co-ordination and new decision-making structures and make the task of consensus-building more complex. It is inevitable that enlargement will give rise to radical changes in the present institutional framework of the EU and make more difficult the task of smaller EU member states in influencing the evolution of EU-wide policies.

10.2 Little immediate impact on the euro area

Once the candidate countries join the EU, their exchange rate policies will be a matter of common EU concern. They will have to meet convergence criteria, EU budgetary disciplines and co-ordinate macro-economic policies as participants in the EMU.

Enlargement will increase the potential membership of the eurozone. Membership of the eurozone is not an essential requirement for countries that join the EU and is not likely to be achieved by the candidate countries in the medium-term. However, pressures for an eventual enlargement of the eurozone of eleven members are inevitable.⁴⁵ The candidate countries have very different monetary and exchange rate regimes, ranging from currency boards to fixed exchange rates tied to external anchor currencies. Many of the candidate countries, such as Hungary, have tied their national currencies directly to the euro or to a basket of currencies including the euro. Given the progressive and lengthy steps involved in participating in EMU and in the eurozone, the new members of the EU will have time to wait for real economic convergence to take place before making decisions on membership of the eurozone. This means that the immediate impact of enlargement on the euro will be small. However, the linking of national currencies of many of the candidate states to the euro and the gradual spread in the international use of the euro will enhance the benefits that Ireland already derives from eurozone membership. These include the simplification and reduction of transaction costs, price transparency across a wider range of goods, services and assets, and increased opportunities for partnership among SMEs across the eurozone.

The introduction of notes and coins from 1st January 2002 will further boost intra-EU trade and investment, the restructuring of enterprise, mergers and acquisitions and also add further to the attractiveness of the European area as a location for inward investment flows. This will be to Ireland's advantage, provided that the fundamental competitiveness of the economy is maintained and enhanced.

⁴⁵ See EU Commission (2001), *Enlargement Argumentaire*, Brussels, pp.12-31 for enlargement and EMU. The candidate countries will participate in the multilateral surveillance and economic policy co-ordination procedures that are part of EMU once they join the EU.

10.3 Pressure for reform of international institutions and international monetary stability

In the future, governance of the eurozone will become a critical issue from an international point of view. The need for policy co-ordination between the major international currency areas, in the interests of enhancing and stabilising trade and investment conditions, will give a strong impetus to the euro member states to develop a common approach in international fora and institutions dealing with global monetary and financial issues. Greater monetary policy co-ordination and harmonisation at EU level is likely to enhance the prospects for a further development of the Bretton Woods institutions (just as plans to complete the single market in the 1980s advanced the GATT agenda of trade liberalisation and institution-building that led to the WTO). While the ECB may take no view of an appropriate external value for the euro, the same is not true of EU member states. Given Ireland's trade and investment links outside the eurozone, a co-ordinated pursuit of international monetary stability is an important national objective.

10.4 EU transfers required to assist economic convergence in Central Europe

The relatively low level of economic development in Central Europe as a whole and the small size of Cyprus and Malta, means that, despite the large demographic impact of enlargement, its initial economic effects on the EU will be small. This gap in income between the EU and the candidate states will have the statistical effect of reducing the EU's per capita GDP. This reduction in per capita GDP and GNP of the EU will place Ireland even more firmly above the EU average. Ireland's eligibility to benefit from financial transfers under EU regional development and cohesion programmes will be further curtailed. These programmes will focus primarily on assisting economic, regional and social development in the new member states. The result will be that Ireland will become a net contributor to the EU budget in line with its relative economic development within the enlarged EU - probably from 2006 onwards.

The EU has already agreed its budget framework for the period 2000-2006 which permits spending up to a ceiling of 1.11% of EU GDP. This includes provision for spending on pre-accession preparations and provision for EU enlargement to a number of candidate countries. The pre-accession aid, fixed at an annual figure of €3,120 million, focuses on strengthening government capacities, investment in transport and infrastructure, rural development and agricultural restructuring. It is a precursor to the extension of negotiating EU Structural and Cohesion Funds to new entrants and, as was Ireland's experience of EU financial transfers for development purposes, this is expected to have significant long-term macro-economic benefits for the recipients. Although relatively modest sums are provided in the EU budget framework (2000-2006) to fund enlargement, the likelihood that a first group of candidates will not join before 2004 and that EU transfers will be gradually phased in for new members means that major increases in the EU budget are unlikely to be needed before 2006.⁴⁶

What this means for Ireland is that the medium-term outlook for Ireland's contributions to the EU is relatively certain but that Ireland can expect to be a net contributor to the EU after 2006. This change in status is in any case emerging as a result of recent rapid rate of economic development in Ireland. It represents an appropriate acceptance of responsibility by Ireland as a

⁴⁶ This of course depends on the timetable of accession, terms of accession and number of countries that will join in the period to 2006. A new political agreement on EU finances will be required for the period beyond 2006 - negotiations on this may begin much earlier than 2006.

more developed region of the enlarged EU. Proposals for further financial contributions may also arise from increased member state and international pressure on the EU to finance stabilisation measures in the broader Eastern European region, South Eastern Europe, and the Mediterranean region which are emerging as the main focus of the EU's external geo-political concerns.

11 Trade

11.1 Markets of the candidate countries are already being opened to the EU

Bilateral trade and investment relations between the existing EU member states, including Ireland, and the candidate CEECs, are currently governed by the so-called “Europe Agreements” signed in the early and mid-1990s. Trade relations between the EU and Malta and Cyprus are governed by association agreements whilst a customs union, agreed in 1996, provides the basis for trade relations between the EU and Turkey. These arrangements allow for limited market opening, principally for industrial goods, between the parties.

The Europe Agreements are the most far-reaching trade liberalisation agreements that the EU has ever signed with third countries. All in all, they initially provide a framework for the gradual economic integration of the CEECs into the EU. They provide for free trade in industrial products over a ten-year period, although the EU opened its markets more quickly than the CEECs. As a result, industrial products from the candidate countries have had virtually free access to the EU since the beginning of 1995, with restrictions remaining in only a few sectors, such as agriculture and textiles. All residual import duties on industrial products from the EU were scrapped on January 1, 2000. The Agreements also provide for gradual, albeit limited, liberalisation of agricultural trade and fisheries. Most EU (and Irish) industrial and agricultural exports now enjoy duty-free access to the applicant states.

11.2 Ireland’s trade with CEECs increases substantially

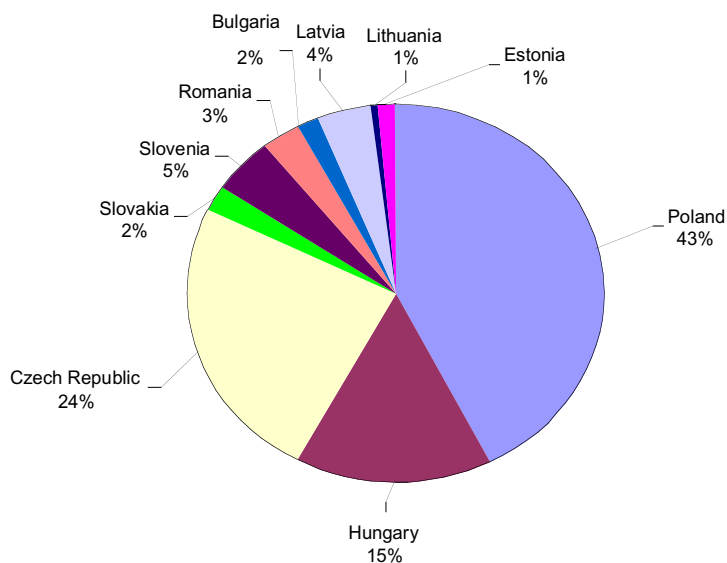
In general, all the candidate states are heavily dependent on the EU as a source of imports and exports. The EU already accounts for over 40% of exports and over 52% of imports from Cyprus and for almost half of exports and almost two thirds of imports from Malta (1999).⁴⁷ The EU accounts for over half of Turkey's trade and is the EU's sixth most important trading partner.⁴⁸ The CEECs however have greatly increased their trade with the EU since the late 1980s as they opened their markets and economies to the industrialised economies. In 1988, about 34% of their exports and 32% of their imports were with the EU compared to 67% of their exports and 64% of their imports in 1998 (Eurostat). The EU has a trade surplus with the region as a whole - see Table A4 of the Statistical Annex for details of trade with the EU and the member states. This reflects the fact that, in general, the CEECs import around 40% more goods and services from the rest of the world than they export. This imbalance reflects their need for high levels of investment to modernise their production systems.

Ireland's exports of goods to the ten CEECs have grown from €160 million in 1994 (0.6% of total exports) to €1,187 million in 2000 (1.4% of the total) as seen in Figures 3 and 4 below and Table A3 in the Statistical Annex. Overall, trade with the CEECs has grown from €283 million in 1994 to €1,830 million in 2000. Within the region, Poland is Ireland’s largest export market.

⁴⁷ For detailed breakdowns of trade statistics for the EU and the candidate states, see European Parliament (2001) *Statistical Annex*, Task Force on Enlargement, Parliamentary Documentation Centre, Brussels, March.

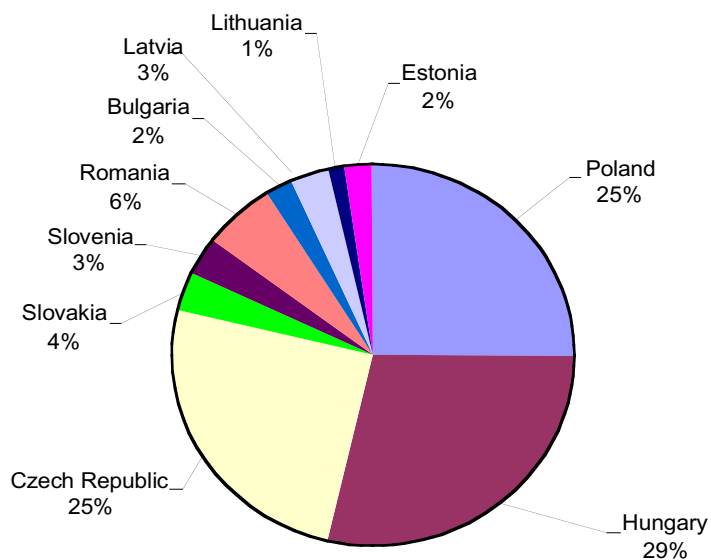
⁴⁸ Eurostat (2000) *Statistics in Focus, Turkey and the EU*.

**Figure 3: Share of Irish Trade with the CEEC-10 by Country, 1994
(Total = Euro 283 million)**



Exports = € 159.61m Imports = € 123.42m

**Figure 4 Irish Trade with CEEC-10 by Country, 2000
(Total Trade Euro 1830.2 million)**



Exports: € 1,187.3 million Imports: € 642.9 million

Source: CSO, 2001

Poland took in €361 million of Irish-made goods in 2000. Poland, the Czech Republic and Hungary together account for 79% of Ireland's trade with the region (see Figure 4). Ireland's surplus in merchandise trade with the CEECs as a group rose from €36 million in 1994 to €545 in 2000 (equivalent to 2.0% of Ireland's total trade surplus). In 1999, Ireland ran a trade surplus with every CEEC, with the exception of Hungary, Lithuania and Latvia.

11.3 Accession will improve the business climate in candidate countries

In assessing the how EU enlargement will affect Irish trade patterns, a number of factors need to be considered:

- EU accession will provide enhanced access to the markets of the candidate countries for EU exporters of services and agricultural products that are not at present covered by the Europe Agreements. For example, as the candidate countries implement EU liberalisation directives in the fields of telecommunications, gas, electricity and financial services as part of the accession process, access to these markets will be opened. New export opportunities will present themselves to European and Irish service operators;
- A range of non-tariff barriers to exports from Ireland and other countries to the region, such as technical regulations and standards, state monopolies and poor enforcement of property rights will only be eliminated when the candidate countries become fully-fledged participants in the EU's Single Market. As part of the accession process, they must develop and strengthen their administrative capacity to deal effectively with issues such as product standardisation, accreditation, certification, conformity assessment, market surveillance, the mutual recognition of qualifications, competition, the supervision of financial services and the enforcement of property rights (physical, industrial and intellectual). This will improve significantly the market potential of the candidate countries for Irish and other EU exporters. Ireland needs to monitor closely the accession negotiations between the candidate countries and the EU on these matters to ensure that the interests of Irish firms are safeguarded in this regard;
- § Formal EU accession will provide more effective mechanisms to resolve trade disputes between the candidate countries and other EU member states. Such disputes are now governed by bilateral Europe agreements. In many instances, however, these agreements have proved unwieldy in achieving the agreed liberalisation of the markets of the candidate countries, particularly where non-tariff barriers, such as standards or abuses of monopoly power are in question. EU membership will bring them within the full disciplines of EU competition rules, law and dispute settlement mechanisms and, in doing so, further facilitate market access between the member states and the enlarged EU;
- EU accession will, in the long term, bring the candidate countries closer to entry into EMU and hasten the adoption of the euro as their national currencies. This process will encourage greater macro-economic and monetary policy stability. By improving price transparency and by initially reducing and, ultimately, in the case of many countries, eliminating exchange rate risk for EU exporters, the use and eventual full adoption of the euro by the candidate countries will yield significant improvements in market access. The promotion of closer economic relations between Ireland and the candidate countries will complement efforts to strengthen Irish economic and trading relations with other euro-zone countries as a means of reducing exposure to fluctuations in the external value of the euro, particularly against sterling and the dollar;

- Significant financial transfers for cohesion and regional development purposes to the candidate countries together with the process of income convergence that should come with increasing economic integration, will raise demand in the candidate countries for EU imports. Research by Brulhart and Kelly shows that EU accession *per se* could boost trade flows between Ireland and five CEECs (the Czech Republic, Poland, Hungary, Estonia and Slovenia) by an additional 51% in 2002.⁴⁹ Although significant in itself, the trade effects of EU enlargement alone are relatively modest compared with the expected effects of (partial) income convergence between the CEECs and the EU. If per capita income levels in the CEEC-5 catch up with the average Greek and Portuguese levels by 2020, Brulhart and Kelly estimate that trade flows between Ireland and the CEEC-5 might reach 7.7% of Irish GNP, up from 1.3% in 2000. On the basis of these simulations, the main accession candidates can be expected to account for a larger proportion of Irish exports and imports than they currently do. This derives from the indirect effect of enlargement in boosting economic growth in new member states. This, in turn, would boost demand for imports in general and more technologically advanced and high quality products in particular which form an increasingly significant proportion of Ireland's export portfolio - a factor which Ireland's industrial policy seeks to further strengthen in the years ahead.

11.4 Ireland to benefit from EU enlargement and increased competition

Clearly, EU enlargement will also generate increased competition for Irish produced goods and services in both the home market and in existing EU markets. Some sectors, such as textiles and clothing, may be adversely affected. It should be noted, however, that the Central and Eastern European countries already enjoy full market access to the EU for nearly all goods and services. Moreover, these countries remain mainly involved in horizontal specialisation across labour-intensive sectors. As such, their exports, generally, at present, do not compete with Ireland's principal manufacturing exports that are targeted at the higher end of the value chain. Increased competition from the enlargement countries will increase the welfare of purchasers of goods and services in Ireland and will also help ensure that the traded goods sector in Ireland becomes more competitive generally, to their advantage in wider global markets.

Undoubtedly, as time goes by, the industrial and export patterns of the accession countries will also start moving upwards along the value-chain as they have in Ireland in recent decades. This inevitable process will give rise to increased competition for Ireland and for other EU member states. It will require a continuing adjustment of policies in Ireland to ensure that Ireland remains highly competitive in trade and as an investment and export location. Such a requirement is, in any event, an inevitable consequence of an increasingly global economy *irrespective of the EU enlargement process*. If the EU enlargement process gives an impetus or accelerates the required policy development and adjustment process in Ireland for success in global markets, so much the better. Narrow protectionism in a wider European context is not, in any way, a realistic option for Ireland. Consequently, the correct policy stance for Ireland is to strongly welcome EU enlargement for the increased trade and investment opportunities it will provide (apart altogether from the important geo-political dimension involved) and to adjust and develop its domestic policies to take advantage of new opportunities.

⁴⁹ Brulhart, M. and Kelly, M. (1998), "Ireland's Trading Potential with Central and Eastern European Countries: A Gravity Study", *Trinity Economic Papers*, Technical Paper No. 98/15, Dublin. Their findings are based on the assumption that EU enlargement to these five countries would take effect in 2002.

11.5 Ireland to remain at the centre of a transatlantic market in industrial goods

There is increasing evidence to suggest that many U.S. companies have invested in Ireland in recent years not only to serve the single European market, but also to export to the U.S. and other markets. This process has been facilitated by the redefinition, in the 1990s, of Ireland's industrial policy to encompass a wider pro-business policy environment, including low corporate tax rates, the development of a more highly skilled labour force and the provision of improved transport and telecommunications links to both continental Europe and the U.S.. It has also been facilitated by the progressive reduction in tariff and non-tariff barriers to trade in industrial goods between the EU and the US. Accordingly, Ireland is well positioned at present as a hub for transatlantic trade in high-tech industrial goods and services. Assuming further reductions in tariff and non-tariff barriers to transatlantic trade as part of multilateral negotiations in the WTO the prospects are good that Ireland's position as a centre of transatlantic trade will be further enhanced. While the enlargement and "eastward shift" of the EU as part of the enlargement process will require significant adjustments, in investment promotion and trade development policies in Ireland, it remains the case that with such policy adjustments Ireland's position as a centre of transatlantic trade can be further strengthened.

12 Foreign Direct Investment

12.1 Candidate countries compete with Ireland for Foreign Direct Investment

The enlargement process will inevitably mean greater competition for Ireland in attracting mobile Foreign Direct Investment (FDI) flows. For the accession countries it will help create a more effective system of public administration and market regulation, encourage an effective process of privatisation, increase the availability of a skilled labour force and provide an improved social and physical infrastructure in these countries. These were the type of factors that brought so many investors to Ireland in previous decades. They have already attracted high levels of FDI to the accession candidate countries. Two-thirds of this investment is from other EU countries to the CEECs. Hungary, Poland, the Czech Republic and Slovenia have been the countries that have done best to date in attracting FDI. In Hungary, foreign-owned companies now generate some 77% of exports and 33% of GDP (2000).⁵⁰ FDI flows to the accession countries is certain to increase significantly over the coming years. This is especially so where low labour costs and proximity to core EU markets are important factors in the choice of investment location, as is the case in sectors such as engineering, food and textile industries. It is highly likely that some existing MNC activities already in Ireland will migrate to the CEECs in search of lower labour costs and to access large domestic markets e.g. Poland. In fact, this process of “migration” has already started. In this context, concerns have been expressed at the impact of the enlargement process on one of the core dynamics of Irish economic development in recent decades, i.e. FDI⁵¹. More generally, others are concerned that enlargement will increase Ireland’s geographic peripherality, in both political and economic terms, as the EU’s economic centre of gravity moves eastwards.

12.2 Greater competition with Ireland will occur even without enlargement

A number of points are worth noting in considering the impact of enlargement on FDI flows to Ireland. Firstly, it is important to stress that competition for inward flows of FDI from the accession countries is likely to intensify even without their accession to the EU. The attractiveness of these countries to MNCs reflects their emergence from a closed economic system and their integration into the global economy as well as their anticipated accession to the EU. The privatisation and liberalisation of public sector activities in both the more developed candidate countries and the former centrally-planned economies has been a key driver of FDI flows in the 1990s. Countries like Poland and the Czech Republic will attract considerable FDI flows as utilities (energy and telecommunications) and infrastructures are opened up to competition. In Hungary, on the other hand, where 80% of the economy is already privatised, new “greenfield” investments are expected to dominate FDI flows in the future. In the electronics sector, for example, the building of investment projects in Hungary are already moving on from assembly to the production of parts and the building of R&D facilities. Most CEECs also have in place a system of attractive investment incentives.

Clearly, full access to the Single Market and the guarantees of political and regulatory stability afforded by EU membership will confer further advantages on accession countries when competing for FDI. But accession to the EU will also, in many ways, limit the possibility of

⁵⁰ EBRD (2001), *Investment Profile, Hungary*, November, London. p.8. See also *Investment Profiles* for each of the countries in transition.

⁵¹ Barry, F. and Hannan, A. (December 2001), ‘Will Enlargement Threaten Ireland’s FDI Inflows?’, *ESRI Quarterly Economic Commentary*, Dublin

“unfair” competition for FDI from these countries. As EU members, they will be required to adopt, implement and enforce all aspects of the *acquis communautaire* – the body of EU law, regulations and decisions built up over the last 45 years. Already, investment and tax rules in the candidate countries are being brought into line with EU rules. In the field of the environment, candidate countries are required to strengthen administrative, monitoring and enforcement capacities, in particular, in the fields of waste, water and chemicals. In the fields of social policy and employment, the enforcement of EU occupational health and safety rules will be required and a consequential strengthening of labour inspectorates.

Accordingly, while competition for FDI flows of the nature of much of those that accrue to Ireland at present will increase with EU enlargement, this competition will take place within a structured framework of EU legislation and directives which will provide some assurance of fairness and transparency. As already indicated in the discussion of the implications of enlargement for Ireland's trade prospects, competition for FDI is inevitable irrespective of EU enlargement. The challenge for Ireland is to put in place a policy formulation and implementation framework which succeeds in adjusting domestic industrial development policies, widely defined as they have been from the early 1990s, to reflect the realities of competition in an ever-changing international context associated with the dynamic evolution of a global economy.

12.3 Ireland must retain its attractiveness as a location for FDI

The textiles and engineering industries, as well as certain labour-intensive activities in services and in the electronics industry, attracted to Ireland in the 1980s and early 1990s by low wage costs are part of an “older” generation of FDI in Ireland. They are no longer being actively targeted by IDA Ireland for inward investment. For the higher value-added areas in ICT, pharmaceuticals, biotechnology and financial services industries currently prioritised, low labour costs and geographic proximity to the main EU markets are, by themselves, of less importance. Of greater significance for these industries are the availability of highly skilled workers a supportive regulatory/political environment, a competitive utilities, transportation, communications technology, research and innovation infrastructure, a competitive cost structure and an attractive quality of life. Ireland already has certain advantages in these areas but also some significant deficiencies, which need to be addressed along the lines advocated in a number of reports by Forfás and the National Competitiveness Council.⁵²

Reduced levels of taxation, particularly low rates of corporation tax, have made Ireland an attractive location for investment and have contributed to the high rates of economic growth achieved. The increased level of economic activity, stimulated by low corporate tax rates, has also led to a higher tax take from the corporate sector in Ireland overall. Taxes on corporate income amounted to 10.7% of the total tax revenue in Ireland in 1998 compared with an average of just 8.9% for the OECD⁵³. Lower tax rates have also yielded a higher level of taxation revenue than would otherwise be the case because of the increased economic activity stimulated. It is, therefore, in Ireland's interests that the independence of the member states in the EU in the area of taxation policy is retained in an enlarged EU in order to fund economic growth and remain competitive.

⁵² See for example, National Competitiveness Council (2000), *National Competitiveness Challenge*, Forfás

⁵³ OECD (2000), *Revenue Statistics*, Paris.

12.4 Enlargement will increase the “pool” of FDI for all EU countries

Based on the experience of previous phases of European integration and four rounds of enlargement, it is likely that the entry of the candidate countries to the EU will be accompanied by substantial net increases in both internal and inward flows of FDI to the EU. Enlargement of the EU will increase the pool of FDI available to all EU countries. Accordingly, Ireland has the potential of becoming a gateway to an even bigger EU market for overseas investors provided it retains and enhances its competitiveness. Whether Ireland continues to attract as much FDI as before will depend on its ability to maintain a competitive cost structure and an investor-friendly business environment, particularly in the areas of taxation, employment, education, and infrastructure. This will require an enhanced capability in the analysis and monitoring of the international environment within which investment takes place and the ability to formulate and implement effectively policy adjustments which the international determinants of success in trading goods and services will require.

12.5 Enlargement provides opportunities for Irish companies to invest in the candidate countries

Ireland’s success in attracting high levels of inward FDI over the last decade has been well documented. As discussed in Section 4.4 above, outward FDI flows from Ireland also rose significantly during the 1990s, reflecting the emergence of a growing cohort of Irish multinational enterprises. Many Irish companies have already invested in Eastern Europe in order to access new markets, expand sales, access skilled workers and in some cases, markets further East. With accession, direct investments by Irish companies in the candidate countries are likely to accelerate further, as barriers to overseas investment fall. As outlined in a recent Forfás *Statement on Outward Direct Investment* (2001), this process will be broadly beneficial for the Irish economy, boosting domestic exports, employment and wages, and catalysing a restructuring of the domestic economy into higher value-added activities.

13 Research, Development, Technology and Innovation

13.1 Ireland can offer experience to candidates

Between 1989 and the present there has been an extraordinary increase in the scale of the funding for S&T activities in Ireland which is set to continue. However, the period of great dependence on EU funds for S&T activities in Ireland is effectively over. The recent high levels of growth in the Irish economy mean that the Government can now reinvest large amounts of government revenue in areas, such as R&D, with the objective of underpinning future economic growth. In the context of enlargement, Ireland will not be 'competing' with the candidate countries for any significant share of the next round of Community Support Framework (CSF) funds, through which support for S&T is channelled. In this context Ireland can offer the benefit of experience to the candidate countries in the effective use of EU supports to build up their national S&T infrastructure and innovation capabilities. It will also be possible for Ireland to continue to develop active collaborations with researchers and research projects throughout the enlarged EU and this will be facilitated by the additional funding that the Government has allocated to R&D activities in general.

Forfás and the Irish Council for Science, Technology and Innovation (ICSTI) has argued⁵⁴ that the allocation of funding to R&D activities is best managed within the context of the objectives and expenditure plans of Government Departments responsible for different sectoral and functional areas of the economy (e.g. industrial development, education, health, agriculture and marine development). This, in effect, is what has been happening through the additional funding for R&D support made available to Forfás, Science Foundation Ireland, Enterprise Ireland and IDA Ireland for industrial development purposes; to the HEA for educational purposes; to the Health Research Board (HRB) for health purposes; to Teagasc for agricultural and food purposes, and to the Marine Institute for marine development purposes, etc. Given the significant increase in funding that has been made available for R&D, it is essential that a new policy framework is put in place to clarify the overall connectivity between R&D and social and economic development at national, regional, functional and sectoral levels, to provide clarity of purpose in relation to the different and significant channels of R&D funding and to identify the scope for synergy in the greatly increased activity in R&D now underway. The Government White Paper on Science and Technology, published in 1996,⁵⁵ needs to be reviewed and updated in the context of these developments and the new policy challenges that will face Ireland in an enlarged EU.

13.2 CEECs build on access to EU R&D activities

With regard to the EU Framework Programmes and other EU co-operation initiatives such as PHARE⁵⁶ and TACIS⁵⁷, the candidate countries have been integrating their research systems with those of the EU on a gradual basis. The Framework Programme has had a specific programme for international collaboration with non-member countries for many years (International co-operation with third countries and international organisations - INCO). Over the period of Framework Programmes Four and Five (1994-2002), the INCO programme has

⁵⁴ See Forfás/ICSTI (1998) *Mechanisms for Prioritisation of State Expenditures on Science and Technology*; Forfás/ICSTI (1999) *Technology Foresight Ireland*, Dublin.

⁵⁵ Irish Government (1996) *White Paper on Science and Technology*, Government Stationery Office, Dublin

⁵⁶ PHARE – An EU support programme for economic reconstruction and integration for the CEECs.

⁵⁷ TACIS – An EU aid programme which provides technical assistance to the Newly Independent States of the former Soviet Union.

been expanded and modulated in line with the specific needs of the candidate countries. All of these EU initiatives have helped to sustain a minimum S&T base in these countries.

Throughout the Fifth Framework Programme, the candidate countries have participated actively on the Programme Management Committees. Their levels of participation in EU funded research projects is increasing all the time. When Framework Programme Six (FP6) commences in 2003, all of the candidate countries will be allowed to participate in the same way as full members. Historically, the S&T linkages between Ireland and many of the candidate countries have not been as strong as with, for example, the U.S.. The opportunity exists now for Irish researchers to develop new linkages and networks through the FP6 training and mobility initiatives and to engage in collaborative research projects with new partners.

13.3 Ireland can benefit from a tradition of science excellence in the CEECs

Historically, many of the candidate countries have a strong tradition of excellence in scientific research. Thus, the opportunity exists for Ireland to tap into this resource in the form of collaborative projects or by recruiting skilled R&D personnel to Ireland.

For the candidate countries themselves – through the CSF and the Framework Programmes – the task is to develop their systems of Science, Technology and Innovation (STI), including their research bodies and their institutional and administrative arrangements so that the contribution of Science, Technology and Innovation to overall social and economic progress is fully harnessed. Ireland can play an important role in helping the accession countries in undertaking this task through its experiences in this area since joining the EEC in 1973.

14 Competition and Regulation

14.1 Competition and deregulation move up the EU agenda

Further developments in the field of EU regulation are likely with or without enlargement. The role of better regulation in achieving competitiveness was recognised at the Lisbon European Council meeting in March 2000, and efforts are continually being made to simplify EU regulations. Up to now, much of the activity of the EU has been in the area of competition policy. The issue of regulatory reform is, however, moving quickly up the agenda. Many EU countries, including Ireland, have been or, are currently being, reviewed as part of the OECD programme on regulatory reform, where member states are subjected to peer review of their regulatory processes and institutions and the level of competition in their markets. The same is true for some of the candidate countries including the Czech Republic, Hungary, and Poland. This means that a policy community is emerging in the enlarged Union that recognises the critical role of regulatory reform in enhancing national and EU competitiveness.

14.2 EU regulatory processes to be examined

There is now considerable pressure for the improvement of EU-level regulation and the processes that the Commission follows in preparing directives, regulations and other policy instruments. At the Stockholm Summit, March 2001, the Irish government, among others, proposed that remaining EU countries who had not already done so, should undergo OECD review. It was also proposed that the Commission should itself undergo the OECD regulatory review process. The enlargement process will give extra weight to these proposals and to similar proposals to examine decision-making processes which impact on business and the community in general. Until now, most attention has focused on decision-making at Council level and on issues such as unanimity as opposed to majority voting, the weighting of majorities and the role of the European Parliament. However, any streamlining of decision-making at ministerial (i.e. Council) level will lead to closer scrutiny of the means by which the proposals themselves are arrived at. This scrutiny could lead to better decision-making, with better consultation processes, more transparency and more accountability, leading to a more favourable business climate.

14.3 Enlargement will make harmonisation of regulations more likely

A significant increase in the number of member states will also create additional pressures for harmonisation of regulations. The regulatory regimes for industries and services in Central and Eastern European countries are at a much less advanced level than in the existing EU member countries. Apart altogether from the *acquis communautaire*, they are likely to seek to introduce models of regulation based on those in the current EU member states. In view of the effort and resource implications in developing and perfecting individual regulatory regimes, there may be some impetus at EU Commission level to harmonise regulations and, perhaps, even to unify them, in a number of fields. In such an evolution, Ireland will need to ensure that the harmonisation process does not proceed further than reform of the regulatory process. Otherwise, Ireland could be disadvantaged as the special needs of the Irish economy may be overlooked.

14.4 Business will also encourage further harmonisation of market regulations

Further pressure for harmonisation can be expected to come from business. In the first place, as the internal market expands, firms will be increasingly reluctant to accept different regulatory environments for their products and services in different parts of what is, essentially, a single market area. This is particularly the case in sectors such as transport and logistics, electricity, gas, services and telecommunications, which have not yet been fully liberalised in the EU.

The mergers and acquisition activity that was foreseen, and indeed promoted, as part of the creation of the Single Market will continue, fuelled by the addition of the new members and use of the euro both within the EU and even at a wider international level. Already, mergers in the utilities sector, in particular, and also in financial services, are leading to the creation of very large companies with trans-Union and global operations. The complexity of modern business operations and technologies and the resulting need for business development strategies, which transcend national boundaries, will impel more co-ordination in regulation at the EU level. This provides the opportunity to improve the quality of regulation through providing increased resources to regulatory institutions. This will enable them deal more effectively with the trans-national reality of modern business and it may, in time, even lead to the merger of many of these regulatory institutions themselves.

The emergence of larger companies at EU level which gain economies of scale and of operations in key sectors, such as telecommunications, energy and financial services, should generate competition in the Irish market leading to lower costs and better services. The achievement of these benefits will depend on a light, efficient and effective regulatory regime in Ireland which facilitates and encourages this competition and ensures that the larger commercial entities that will arise from the process of trans-Unionisation and globalisation now underway do not inhibit competition or gain supernormal profits.

15 Labour Market

In the long-term, enlargement of the EU will create new economic and employment opportunities by creating a more stable economic environment, greater access to a larger EU market, increased flows of FDI and an intensification of intra-industry trade. However, due to the uncertainties related to enlargement, there are mounting concerns in some EU member states that accession may have a number of undesirable distributional effects due to the disparities in income levels, living standards, and labour market conditions between the EU and the CEECs in particular.

15.1 Labour markets of the CEEC-10 – the current situation

Employment growth in the candidate countries over the past few years reveals different patterns ranging from a buoyant 6% growth in employment in Slovenia (1994-2000) to zero growth in Poland and a fall of over 3% in the Czech Republic. In general, however, employment growth has been sluggish. High levels of unemployment persist as a consequence of accelerating structural changes, privatisation of large state enterprises, and increasing competition from abroad. Many of the CEECs have experienced an increase in unemployment to levels often well above 10%. The average unemployment rate for the CEEC-10 was 12.5% in 2000. This masks substantial regional differences in unemployment rates which range from 3.7% around the Prague area to a high of 31% in certain areas of Bulgaria (Severozapaden). Young people, in particular, are suffering from high unemployment, often standing at more than twice the national average. By creating greater exposure to external competition, the process of EU integration could, in the short-term, lead to a rise in unemployment in the candidate countries in specific sectors.

Most of the candidate countries face demographic challenges similar to the current member states, including an ageing population and a decreasing population of working age. The issue of a mismatch between the skills available in the labour force and those in demand is also a difficulty, as demand for highly skilled workers remains unsatisfied in a number of countries while workers with low or obsolete skills face serious problems in securing employment. Low mobility and flexibility create further barriers to industrial restructuring and shortages of skills and the absence of a flexible workforce discourage certain foreign investors.

National employment policies in the candidate countries are already aimed at addressing these issues. These policies place a particular emphasis on education and training. There are widespread efforts, for example, to reduce dropout rates and to raise completion rates in education, to better align training and education with the needs of the labour market and to retrain the unemployed. Positive results are already being observed with greater returns to human capital investment and increased enrolment in secondary and tertiary education. Efforts are also underway to review social welfare systems.

Employment policies in the candidate countries will have an important impact on the nature and speed of the convergence process between these countries and the EU. In turn, this will influence the effects of enlargement on the labour markets of the existing member states including that of Ireland, not least, through the impact of migration.

15.2 Mass migration to Ireland is unlikely

Under the EU Treaties and legislation, the free movement of persons is one of the fundamental freedoms of the EU. This confers rights of access to employment, residency and equality of treatment for nationals of the member states across the EU. The free movement of labour in the enlarged EU is a politically sensitive issue because of the lower wages and income levels that obtain in the candidate countries, and particularly in those CEEC states that border EU member states. Because of the large disparities in incomes and living standards between the CEECs and the existing EU member states, there are fears within neighbouring EU states that an unwanted wave of migration from the CEECs will occur after enlargement and that this will undermine wages and conditions of employment.

Research studies indicate that such fears are exaggerated.⁵⁸ These studies reach three common conclusions: (1) the number of east-west migrants will be relatively small; (2) policy can make a difference to migration flows in that, for example, the development of growth nodes within Poland or Hungary can reduce emigration; and (3) the impact of migration will be influenced by geography and sectors. The greatest effects are likely to be seen in Germany and Austria, and in sectors such as agriculture, construction and services. A recent research study commissioned by the EU concluded that, if the 10 CEECs entered the EU with full rights to freedom of movement as of 2002, there would be an additional initial flow of 335,000 migrants a year into the present EU. About one third, or 120,000 of these would join the labour force.⁵⁹ This compares with total annual immigration into the EU of some 800, 000 in recent years.⁶⁰ The number of people migrating is expected to halve over the following ten-year period as per capita incomes converge. About two-thirds of these migrants are expected to flow to Germany and some 10 per cent to Austria.

The EU's agreed position on the free movement of workers in an enlarged EU is that the existing EU member states will have the option of implementing a five to seven year transition period before workers from the new member states can move freely in the enlarged EU. Hence, the migration flows predicted above may be much smaller in practice. Accordingly, and given the expected concentration of migration in other member states, Ireland is highly unlikely to witness large migration flows from the new CEEC entrants. On the contrary, in a situation in which Ireland is expected to need migrant labour in the medium-to long-term, some movement of labour from the accession countries to Ireland will be of benefit.

15.3 Gap in income differentials will narrow in the long-term

Enlargement will entail the integration of economies with very different levels of income. At present, all the CEEC-10 countries have lower average income per capita and productivity levels than the EU average. A large gap in wages and per capita income is likely to persist in the short-term. There are, however, many other factors influencing the decision to migrate such

⁵⁸ See Bruecker, H. and Boeri, T (2000) *The impact of Eastern enlargement on employment and labour markets in the EU member states*, Final report, European Integration Consortium (DIW, CEPR, FIEF, IAS, IGIER) for Directorate for General Employment and Social Affairs, EU Commission; Salt, J. (1999) *Assessment of possible migration pressure and its labour market impact following EU enlargement to Central and Eastern Europe*, London, UCL. A number of German research institutes have also carried out studies of potential migration e.g. Ifo, DIW and WIFO. Estimates vary depending on assumptions used, methodology and timespan in question. Most predict that migration will be highest in the first 2-3 years after accession to the EU.

⁵⁹ Bruecker, H. and Boeri, T (2000).

⁶⁰ EU Commission (2001) *The free movement of workers in the context of enlargement*, Information Note, March.

as language and cultural differences, geographical proximity, political and economic conditions and skills. Many of these serve as barriers to migration. This is supported by recent evidence from the EU, which suggests, that despite the large gap in per capita income and wages between the EU and the CEECs, recent immigration from the CEECs to the EU has been surprisingly low. Almost 300,000 persons from the candidate countries are legally employed in the EU, equal to some 0.2% of the labour force.⁶¹ Improvements in economic conditions and prospects, education and social welfare systems should reduce the gap in income differentials in the long-term and thus reduce the pressure to migrate.

15.4 Ireland will benefit from a greater pool of human resources

It should also be emphasised that the migration that does occur within an enlarged EU will have many positive effects on the labour markets of the existing member states of the EU, including that of Ireland. The addition of labour resources as a result of migration will increase the EU-15 labour force and create a greater pool of human resources. For a country such as Ireland that has experienced significant labour shortages in the recent past, migration may well provide a welcome solution to problems such as insufficient labour and skills mismatches in key sectors. According to the ESRI, Ireland will need to rely on migrant labour in the medium to long-term to sustain growth in the labour force.⁶² This is particularly important given that migration in the short-term is expected to occur mainly among young technical and professional workers because real income differentials between countries in eastern and western tend to be larger at the higher rather than the lower levels of skills. Further, employees from the CEECs are on average, significantly younger than other foreign workers, with almost 70% of the workers aged between 25 and 44 years. Ireland should, therefore, benefit from access to a greater pool of labour resources of young working age people, which in turn should support the growth capacity of the economy in specialised sectors. The benefits of increased access to the human resource pool of the enlargement countries will be further enhanced in Ireland's case by the emerging process of “outward direct investment” among a number of Irish-owned medium and high-technology industries with high-skills intensity and relatively high growth. Such a development would have long-term benefits for wages and employment in Ireland.

15.5 Some future challenges to social policy and social and economic cohesion

The issue of transitional periods for the free movement of workers has dominated EU debates on labour movement in an enlarged Union. Undoubtedly, in order to give effect to the free movement of workers, enlargement will also lead to significant labour market-related challenges for both the EU and the candidate countries. These concern issues such as the co-ordination of social security schemes (so as to protect the rights of migrant workers and their families), anti-discrimination measures, health and safety standards, and the recognition of educational and professional qualifications. To the extent that these are part of the *acquis communautaire*, or body of EU law and policies, these issues are being addressed in the accession negotiations between the EU and each of the candidate states.

⁶¹ EU Commission (2001) *The free movement of workers in the context of enlargement*, p.29. This figure does not include non-documented migrants and workers.

⁶²ESRI (2001) *Medium-Term Review, 2001-2007*, Dublin. The latter estimates that net immigration is currently 20,000 people per annum (p. 70). It predicts, in its benchmark scenario for economic growth that net immigration will be between 12,000 -15,000 per annum between 2001-2007 much of which is necessary to underpin economic growth (p.71). See also FÁS/ESRI (2001) *Manpower Forecasting Studies: Estimating Labour Force Flows, Job openings and Human resource requirements, 1990-2005*, Dublin.

16 Agri-Business

The impact of EU enlargement on Ireland's agricultural sector and on the agri-food industry will be covered in more detail by other agencies and organisations that are understood to be making submissions to the Forum (including the Irish Farmers Association; the Irish Co-Operative Organisations Society; An Bord Bia; and the Irish Dairy Board). This section outlines some of the issues facing the agri-food sector.

Enlargement is also likely to place significant additional financial demands on EU funds given the reliance on agriculture in the CEECs and their development needs and the undoubted pressure that will occur over time to extend the EU's system of direct income supports to them. This may lead to a reduction in EU transfers to Ireland's farming sector, which as section 8.2 above indicated, is very dependent on the EU as a source of income. Primary agriculture also plays a more important role in the economies of countries like Poland and Hungary where it accounts for 3% and 4% of GDP respectively compared with an average of some 2% of GDP for the EU-15 (2000). Some 2.7 million people or 18.8% of Poland's labour force is engaged in agriculture.⁶³ The generally high levels of dependence on agriculture in the economies of the candidate states is likely to lead over time to a reduction in CAP transfers to Ireland and further pressure for higher contributions to the EU budget in the future to support agriculture in the CEECs.

16.1 Opportunities to access niche markets in CEECs

EU enlargement will provide further impetus to Irish food processing companies to expand internationally with a view to penetrating and consolidating their position in increasingly liberalised markets. This may lead to further consolidation on the domestic market in Ireland. Research and market development work by An Bord Bia and the Irish Dairy Board indicate that some market opportunities exist for Irish food exporting companies, particularly in niche areas (such as prepared foods and specialised dairy products). The candidate countries are generally well supplied in the food sector from internal production. All except Hungary and Bulgaria have become net importers of food products with processed foods accounting for the greater proportion of these imports. The EU is the main supplier of food products for the CEECs. While the competitiveness of the agri-food sector varies across commodities, products and countries, almost all require substantial investments to meet EU health and veterinary standards. The cost and quality of raw materials, the levels of technology and strength of distribution systems vary between individual countries. Hungary, for example, has a well-developed agri-food industry, which accounts for 17% of industrial production (2000).⁶⁴ This suggests that the indigenous agri-business sectors in most of the CEECs will face a tough competitive challenge from their counterparts in the existing EU member states in the short to medium-term.

⁶³ EU Commission (September 2001), *EU and Enlargement*, Directorate General for Agriculture, p.4.

⁶⁴ European Bank for Reconstruction and Development (2001), *Investment Profile, Hungary*, November, p.18. See also Poulisqueu, A. (2001) *Competitiveness and farm incomes in the CEEC agri-food sectors*, Study for the EU Commission, Directorate General for Agriculture.

16.2 Stimulus to outward direct investment

Significant investment has been made by MNCs in large retail outlets and in production bases in the CEECs. Strong, well-known European brands such as Nestlé, have already succeeded in establishing high market share in these countries. However, as international retailers move more in the direction of "own brands" in the future, there may be greater opportunities for Irish exporters of products such as coatings, fish, and some prepared foods to exploit market needs. Investments in the region by Irish food companies, a process that has already started, will also help to increase market penetration in larger markets further East.

16.3 Irish companies need to develop new approaches to international markets

Irish exporters to enlargement countries will operate, especially in the initial years of EU enlargement, in a challenging market of relatively low consumer prices, strong retail competition and the need to invest strongly in supply infrastructure or networks. These factors will combine with the inherent difficulties associated with Ireland's distance from markets in these countries. These factors suggest that the enlargement countries represent difficult markets for Irish companies at present and will continue to do so for the foreseeable future. However, as the economies of these countries develop and as consumer incomes increase, opportunities will arise to meet demand for increased consumer choice less driven by price, particularly for niche food products.

As Ireland is a substantial net exporter of beef and dairy products in particular, and also has a relatively high dependence on CAP market supports, enlargement will have pronounced implications for these sectors. These will include pressure on the EU agricultural budget and increased competition from the enlargement countries in traditional markets such as Germany and France. These developments suggest that in future, both industrial support agencies and the major players in the agri-food business will need to take a more proactive role in consolidating the market position of Ireland's agri-food business in their key European markets. New approaches to market access, such as mergers and acquisitions and access to local distribution assets will need to be considered in this context.

17 International Role and Profile

17.1 Enlargement is set to alter EU agenda

Enlargement will inevitably mean an extension of the EU's geo-political agenda to include the concerns and interests of the new accession countries, particularly those in Central and Eastern Europe. It will also mean some adjustment of certain key elements of the existing EU agenda to reflect the position of the accession countries once they become member states of the EU. These adjustments will be required, for example, in the area of macro-economic management following the introduction of the euro, market liberalisation in financial services, enhancing competitiveness and developing a knowledge-based economy (in line with the Lisbon objectives, March 2000). The enlarged Union is likely to be called on to play a greater role in the areas of foreign and security policy, and in justice and home affairs. The constantly increasing global reach of economic issues and the broad agenda of trade under the aegis of the WTO will also exert pressure on the EU to engage fully and in a cohesive way in international economic affairs.

These developments hold important consequences for Ireland in dealing with an expanding EU agenda. These include the need to develop an enhanced capability to engage in the shaping of policy within an enlarged EU as an intrinsic responsibility of membership as well as from a national interest perspective. At operational level, there will be a need to allocate additional resources to deal with an extended agenda of policy co-ordination and regulation issues and to establish an extended range of communications networks with the enlargement countries.

17.2 New concerns and interests to be accommodated in the EU

Enlargement will entail the extension of existing policies and legislation to the candidate states. As with previous enlargements, new concerns and interests may have to be accommodated within existing EU policies or new policy instruments may have to be developed. For example, the recent accession of the European Free Trade Association (EFTA) states⁶⁵ saw a stronger emphasis on higher environmental standards and special measures to accommodate their agricultural concerns including the depopulation of certain rural areas. The previous accession of Spain and Portugal meant that social and economic cohesion were given a stronger position in the formulation and development of EU policies. The accession of Central European states can be expected to give rise to shifting EU policies for regional development and cohesion purposes to the needs of the enlargement countries to facilitate their "catch-up" with existing member states. In terms of external policy, the security of the external frontiers of the enlargement countries including systems of customs control, immigration policies and related security issues will become a significant area for policy and operational consideration.

17.3 Ireland to benefit from openness to new ideas, cultures, trade and investment

Enlargement of the EU will also open a rich panorama of ideas, cultures and trade and investment opportunities in the enlargement countries to Ireland. It provides an opportunity to enhance the positive international profile of Ireland that has already resulted from Ireland's membership of the EU and to broaden Ireland's presence and influence in the candidate countries and more widely. These opportunities can give rise to strong social and economic

⁶⁵ These are Austria, Finland and Sweden (who left the European Free Trade Association to join the EU in 1996). EFTA now comprises Iceland, Lichtenstein, Norway and Finland.

benefits in Ireland - making it culturally more interesting and diverse, socially more egalitarian and economically stronger and more competitive.

Ireland has much to contribute to shaping policy in the enlarged EU. Given its particular experience of "catching-up" with other EU economies, the efficient management of financial transfers and development of social partnership, it offers a model of successful adaptation and management of EU membership over the last two decades and more. Politically, membership has demonstrated the benefits of a rules-based system to small states such as Ireland and the significance of membership in increasing the voice and influence of small states in international affairs.

EU membership has not reduced Ireland's capacity to act as an "honest broker" in international relations, particularly in peacekeeping and in deepening its ties with developing countries. On the contrary, Ireland's particular experience of peacekeeping and conflict-resolution are very relevant to the security challenges facing the enlarging European Union. Arguably, there is an even greater need for Ireland's distinctive voice on these matters to be heard as the EU enlarges to encompass member states facing the type of development challenges which Ireland faced on accession to the EEC in 1973. Economic success and the gathering pace of development of a knowledge-based society in Ireland also provide the country with a strong credibility in working to enhance the social and economic development status of less-developed countries, including those of an enlarged EU. In terms of Ireland's own external relations, enlargement of the European Union provides an opportunity for the Government to take account of the totality of Ireland's external relations and interests in the EU incorporating the political, economic and security spheres. A continuing challenge will be to balance Ireland's political and economic interests in closer integration within the EU with its strong ties to the U.S., the U.K. and the developing world.

Section Four: Conclusions

18. Conclusions

The European Union represents a new model of regional/international co-operation which aims to balance the interests of sovereign nation-states with the reality of new transnational systems of production, distribution, international finance and security, all of which have an increasingly global reach in many important respects. The EU is an evolving model of international co-operation, the ultimate shape of which is not fully known or pre-determined. But, by any standards, it has already achieved enormous success as a force for social and economic advance and stability in a once volatile continent. As a member state of the EEC since 1973, and even before then, the stability engendered by European integration has greatly enhanced the overall social and economic development of Ireland.

The enlargement of the EU along well thought-out, structured lines, to encompass additional liberal democratic states which share a common vision of social and economic progress with that of the present member states of the EU is a natural stage in the evolution of the EU. It is strongly in Ireland's interests to support such an evolution and to help shape it in a way which provides a framework for geo-political and economic stability and transnational co-operation within which Ireland can pursue its own national interest and enhance the living standards of its people.

EU membership has benefited Ireland's economy and the enterprise sector component of it enormously. Enlargement of the EU will further enhance the prospects for economic growth and inject a new dynamism and stimulus for innovation into the European economy. This will be of significant benefit to small open economies such as that of Ireland. It will also provide increased opportunities to achieve a further diversification of trade and investment and enhance Ireland's capability to achieve an essential increased integration with the global economy.

18.1 EU membership has been strongly positive for Ireland's economic, social, and political development

Ireland's economic development, public policies and the orientation of trade and investment have been positively influenced by membership of the EU. Ireland's overall position within the EU has, since accession in 1973, been transformed from that of a small, weak economy that was heavily dependent on one market (the U.K.) and on agriculture, to one of the most open and advanced economies in the world with per capita levels of economic wealth that are now above the average of the EU-15. EU membership has been a major part of this economic transformation. It has provided opportunities and support for Ireland to "catch-up" with the more advanced EU economies in terms of economic development. It has helped to ingrain the disciplines of competition in the traded goods and services sectors in Ireland at a time when international competitiveness has become the *sine qua non* for social and economic progress in many countries. It has helped to provide the essential stability of macroeconomic policies and it has been a source of new ideas and approaches to public policy and market regulation which have been highly positive for social and economic development in Ireland.

18.2 Pressure for further adaptation and convergence of public policy

This submission highlights the extent to which the influence of the EU is now deeply embedded in national policies including highly important areas such as macro-economic management, labour market policy, competition and environmental policy, telecommunications, agriculture and R&D policy. It underscores the importance of supportive

public policy to make effective use of EU policy ideas, disciplines and assistance to enhance competitiveness, innovate and develop the Irish economy. The emergence of new regulatory approaches, further market opening and new decision-making procedures, which are expected to occur with or without enlargement, will place new demands on the formulation and implementation of Irish public policy.

18.3 EU transfers have a long-term impact on economic growth and competitiveness

EU financial transfers played an important part in Ireland's catch-up with other EU economies since accession. An obvious short-term effect was to stimulate demand. Arguably, their long-term effects were even greater. The effective use by the Irish authorities of the financial resources transferred from the EU provided for a substantial upgrading of physical infrastructure and human capital in Ireland. This is generally well understood as far as improvements to the physical infrastructure and supports for education and training are concerned. Less well known, perhaps, is the contribution of the EU to the development of a culture of R&D in Ireland. Here, the mix of financial supports, opportunities to develop research networks and build co-operation between industry and universities through participation in EU programmes played a key role in developing Ireland's R&D base. This, combined with the integration of science and innovation in national industrial policy, has created a critical base for future competitiveness. This is carried forward in the National Development Plan 2001-2006, the major part of which will be financed directly by the national exchequer.

18.4 Successful combination of social partnership, macro-economic discipline and EU regulation assists economic and social development in Ireland

The Irish model of social partnership, itself influenced by European models, has been a positive underlying factor in the successful development of social and economic policies in Ireland for most of the past 15 years. The introduction of EU legislation in areas such as equality, health and safety and working time has improved working conditions in Ireland. The recently established process of peer review of labour policies has been advantageous to Ireland and to other EU countries in highlighting best practices and transferring knowledge and learning about the most effective labour market policies. The Irish model of social partnership and national development plans, alongside the EU approach to medium-term financial programming, have contributed greatly to achieving an essential stability in macro-economic policies, the sound management of public finances including a significant reduction in the government deficit and national debt.

18.5 Ireland's success as an EU member can benefit candidate countries

In political and cultural terms, Ireland has contributed to, and benefited greatly from, EU membership. Ireland has successfully steered EU affairs under successive Presidencies. It has contributed to the development of cohesion policies and demonstrated through successful management of EU financial transfers their efficacy in promoting socio-economic development and convergence. Membership too has coincided with an increase in national self-confidence. The return of immigrants to Ireland in the 1990s, encouraged by these developments and reinforcing them, may be replicated by similar patterns of immigration into the accession countries in the future.

EU membership has increased Ireland's international profile and, with it, expectations from the global community of nations of Ireland's continued support for small states, in particular developing states, international peace-keeping and the development of a rules-based international order. The anticipated enlargement of the EU to Central and Eastern Europe, Cyprus and Malta draws further attention to Ireland as a model of successful membership of the EU and, in a changing international security environment, to the particular contribution it can bring to building international peace and security.

18.6 It is in Ireland's interest to support the economic convergence process within an enlarged EU

Enlargement will bring further pressure for the adjustment of EU policies and its budget to the needs and interests of the new member states. In particular, given the gap in economic development between the new accession countries and the present member states of the EU, pressure for financial transfers to the new members will increase. This occurs at a time when Ireland will, due to its economic success, become a net contributor to the EU budget. As Ireland's own experience suggests, EU cohesion policies are critical to economic convergence and the successful economic integration of less developed states within the EU. Ireland is now in a position to support such a convergence process in the new accession states. The impact of this on Ireland's financial contributions to the EU will not be known until a new framework for the EU budget is agreed for the period after 2006. The existing framework is expected to accommodate the initial costs of enlargement. Given that such financial transfers and their operational disciplines have proved so beneficial to Ireland since its accession to the then EEC in 1973, their extension to the new accession countries in the years ahead will further strengthen the EU to the benefit of Ireland and other member states.

18.7 Enlargement generates broad economic benefits

This enlargement round of the European Union is broadly welcomed as a process that will further stabilise the wider European economy, and promote economic growth and prosperity. This boost to the European economy offers opportunities to Ireland to benefit from the free movement of goods, services, capital and persons in a market of over 480 million persons. It is expected that enlargement will also enhance the role of the euro in the global economy and generate pressure for greater international co-ordination of monetary policy. This would support Ireland's interests, as a small, open, economy in promoting greater stability in the European and global economy.

18.8 Enlargement boosts Ireland's trade and outward direct investment

EU enlargement is expected to open up the market for Ireland's exports of goods and services to the enlargement countries, albeit from a small base. Already, the trade and investment patterns of these countries have been re-oriented towards the EU. Foreign investment in the candidate countries has increased greatly in anticipation of enlargement. Ireland can expect further competition in existing EU markets from the enlargement countries including for FDI. These countries already offer advantages in attracting low-cost, labour-intensive industries and some are moving into high value-added activities. The former is part of the traditional stock of Irish investment, but is declining in importance as Ireland moves into higher value-added activities. Ireland must continue to invest in its physical infrastructure and human capital in order to retain its competitiveness. The ability to attract FDI and expand market share depends on the ability to maintain a competitive cost structure, and an enterprise-friendly business environment, particularly in the areas of taxation, employment, education, and infrastructure.

However, the enlargement countries will be important markets for Irish outward direct investment in areas such as services and agri-food and sources of labour for outsourcing activities.

18.9 Enlargement is a major support to political and economic security in Europe

This fifth round of EU enlargement is part of the on-going evolution of the EU and its adaptation to changes in a fast-moving international political, security and economic environment. By creating more stable conditions for political and economic development, it opens up opportunities for further economic growth and prosperity. It is also expected to generate greater competition. It takes place against the broader challenge to develop a competitive, knowledge-based economy in the EU and in Ireland. The EU has provided the context for the transformation of Ireland's economy and enterprise base – its pending enlargement is a means to harness Ireland's growth potential to a broader set of influences and to safeguard the achievements already made. In this context, the objectives of the candidate countries, from Central and Eastern Europe in particular, to consolidate their democracies, develop their economies and secure peace in Europe as a whole through EU membership are in line with Ireland's interests as a small, open economy.

In conclusion, it is clearly in the interest of Ireland's economic, social and political development that it continues to integrate closely with the EU, including an enlarged EU.

Statistical Annex

Table A1: Breakdown of Ireland's Receipts from the EU Budget 1973-2001 (€m)

Year	FEOGA Guarantee Section	FEOGA Guidance Section	European Social Fund	Regional Developme nt Fund	Cohesion Fund	Other	Total
1973	47.1	-	-	-	-	-	47.1
1974	81.0	-	4.6	-	-	0.6	86.2
1975	129.8	0.8	5.1	2.3	-	2.3	140.2
1976	129.5	3.3	5.8	10.8	-	4.7	154.1
1977	311.2	9.4	10.4	10.8	-	5.7	347.5
1978	464.2	12.3	24.5	14.1	-	4.7	519.8
1979	503.5	23.5	36.6	32.4	-	75.9	671.8
1980	483.9	40.4	59.3	58.9	-	69.3	711.8
1981	386.8	53.2	57.5	69.3	-	76.8	643.6
1982	437.2	75.7	92.9	83.9	-	74.8	764.5
1983	560.8	80.9	117.7	73.9	-	90.7	924.0
1984	818.5	62.6	107.0	82.8	-	29.6	1100.5
1985	1062.3	70.9	179.4	96.5	-	24.1	1433.2
1986	1122.4	59.2	161.8	97.9	-	14.6	1455.9
1987	935.3	86.2	245.7	111.0	-	15.1	1393.3
1988	1064.7	81.8	161.0	164.9	-	2.9	1475.3
1989	1223.3	97.4	176.0	143.4	-	4.7	1644.7
1990	1633.8	119.2	163.2	285.8	-	8.6	2210.6
1991	1694.3	182.0	470.7	434.1	-	13.8	2794.9
1992	1414.0	187.2	352.1	564.5	-	14.1	2531.9
1993	1627.6	159.9	395.7	589.7	52.8	25.4	2850.9
1994	1490.3	166.2	351.8	223.0	86.7	20.1	2338.1
1995	1460.5	181.4	325.3	454.7	129.5	17.5	2568.9
1996	1732.6	191.2	319.2	377.2	174.1	21.8	2816.2
1997	1929.7	210.6	344.1	452.3	206.6	36.6	3179.9
1998	1618.7	235.7	397.6	596.8	143.4	23.9	3015.9
1999	1723.0	106.3	265.5	265.0	290.0	29.1	2678.9
2000	1681.4	34.7	220.6	513.2	152.2	0.0	2602.1
Total	27767.1	2531.7	5051.0	5809.2	1235.3	707.5	43101.9
2001*	1650.7	70.1	275.5	907.1	335.2	27.3	3265.9

*Estimate

Source: Department of Finance, 2001, Budgetary and Economic Statistics.

Table A2: Ireland's Receipts from and Payments to the EU Budget (1973-2001) (€m)

Year	Receipts	Payments	Net Receipts	% of GDP
1973	47.1	5.7	41.4	1.2%
1974	86.2	7.0	79.2	2.0%
1975	140.2	12.4	127.7	2.6%
1976	154.1	17.0	137.1	2.3%
1977	347.5	28.1	319.5	4.4%
1978	519.8	58.5	461.3	5.4%
1979	671.8	76.9	594.9	5.9%
1980	711.8	112.9	598.9	5.0%
1981	643.6	133.8	509.8	3.5%
1982	764.5	173.6	590.9	3.5%
1983	924.0	234.5	689.5	3.6%
1984	1100.5	257.1	843.4	4.0%
1985	1433.2	270.8	1162.3	4.9%
1986	1455.9	305.1	1150.8	4.6%
1987	1393.3	324.0	1069.2	4.0%
1988	1475.3	314.6	1160.7	4.0%
1989	1644.7	362.6	1282.1	4.0%
1990	2210.6	359.2	1851.4	5.4%
1991	2794.9	442.1	2352.8	6.5%
1992	2531.9	448.7	2083.1	5.5%
1993	2850.9	575.8	2275.1	5.5%
1994	2338.1	641.9	1696.2	3.8%
1995	2568.9	689.2	1879.7	3.8%
1996	2816.2	687.1	2129.1	4.0%
1997	3179.9	652.0	2527.9	3.8%
1998	3015.9	989.4	2026.5	2.6%
1999	2678.9	1051.0	1627.9	1.8%
2000	2602.1	1075.0	1527.1	1.5%
2001*	3265.9	1193.6	2072.3	

*Estimate

Source: Department of Finance, 2001, Budgetary and Economic Statistics

Table A3: Ireland's Merchandise Trade with the 10 Applicant CEECs (€m)

	<i>Imports</i>			<i>Exports</i>		
	1994	1999	2000	1994	1999	2000
Poland	67.7	87.0	103.1	52.8	252.4	361.0
Hungary	9.1	243.5	292.8	34.8	162.1	224.4
Czech Republic	20.7	56.4	108.7	48.1	196.0	346.6
Slovakia	3.2	9.8	17.5	19.0	26.3	47.4
Slovenia	1.5	5.8	13.3	0.3	33.3	44.2
Romania	4.3	10.5	32.6	4.3	27.0	74.7
Bulgaria	1.4	5.6	6.0	4.2	19.0	34.8
Latvia	9.3	29.6	38.7	1.8	10.7	16.6
Lithuania	1.3	6.6	14.3	1.3	7.9	12.1
Estonia	1.3	6.5	15.7	3.2	9.8	25.6
Total	119.7	461.3	642.9	169.8	744.6	1187.3

Source: CSO, Trade Statistics, 2001

Table A4: EU Trade with 10 CEECs by EU Member States, 2000 (€m)

<i>_ Millions</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>	<i>Balance</i>
Belgium/Luxembourg	4884	3033	7917	1851
Denmark	2047	1603	3650	444
Germany	50901	37468	88369	13433
Greece	2152	1010	3162	1142
Spain	3226	1639	4865	1587
France	10175	5209	15384	4966
Ireland	1257	510	1767	747
Italy	17462	9937	27399	7525
Netherlands	6657	4241	10898	2416
Austria	10651	6918	17569	3733
Portugal	327	301	628	26
Finland	3682	1166	4848	2516
Sweden	4282	2324	6606	1958
UK	6562	4550	11112	2012
Total	124265	79909	204174	44356

Source: Eurostat, 2001, External Trade

Table A5: Projected allocations¹ for Science & Technology Sub-Programme (1989-1993) (€m)

<i>Measures</i>		<i>EU</i>	<i>Gov.</i>	<i>Private</i>	<i>Total</i>	<i>%share of total</i>
1	Programmes in Advanced Technologies (PATs)	50.8 38%	68.6 52%	12.7 10%	132.1	34%
2	Higher Education Industry Linkages and Innovation	19.3 31%	25.8 41.5%	17.1 27.5%	62.2	16%
3	Technology Services to Industry (services)	17.8 28.7%	24.1 38.7%	20.3 32.6%	62.2	16%
4	Technology Services to Industry (infrastructure)	7.9 33.6%	15.6 66.4%		23.5	6%
5	Regional Infrastructure	44.8 41.6%	59.8 55.5%	3.2 2.9%	107.8	28%
	TOTAL	140.6 36.3%	193.9 50%	53.3 13.7%	387.8	100%
6	Industry R&D Initiative (pilot)	14.5 50%		14.5 50%	29	(7.5%)

¹ This Table is based on *projected* budget allocations announced by Government at the outset of each sub-programme. The reason for adopting this approach is that it reflects more closely the policy and planning emphasis of the
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ration at

the time than might an examination of the final outturns.

Source: Forfás, 2001

Table A6: Projected Allocations¹ for Science & Technology Sub-Programme (1994-1999) (€m)

<i>Measures</i>		<i>EU</i>	<i>Gov.</i>	<i>Private</i>	<i>Total</i>	<i>% Share of Total</i>
1	Industry R&D Initiative	109 50%		109 50%	218	43.4%
2	Industry/Third Level Co-operation Services	127 53.6%	42 17.7%	68 28.7%	237	47.2%
3	Human Resource Development	12 63%	7 37%		19	3.8%
4	Research Support	21 75%	7 25%		28	5.6%
	Total	269 (53.6%)	56 (11.2%)	177 (35.2%)	502	100%

¹ This Table is based on *projected* budget allocations announced by Government at the outset of each sub-programme. The reason for adopting this approach is that it reflects more closely the policy and planning emphasis of the administration at the time than might an examination of the final outturns.

Source: Forfás, 2001

Table A7: Projected Allocations for Industry Research, Technology, Development and Innovation (RTDI) in the National Development Plan (2000-2006) (€m)

<i>Measures</i>	<i>EU</i>	<i>Govern ment</i>	<i>Private</i>	<i>Total</i>	<i>% share of total</i>
Competitive RTDI	153.89 29%	19.48 3.7%	358.07 67.3%	531.4	21.8%
National Collaboration	76.12 32.7%	136.8 58.9%	19.41 8.4%	232.3	9.6%
R&D Capability		260 35%	484.29 65%	744.29	30.65
International Collaboration		38.5 100%		38.5	1.6%
Innovation Management		48 100%		48	2%
Researcher Training		57.7 100%		57.7	2.4%
Technology Foresight Fund		778.7 100%		778.7	32%
Total	230.01 (9.5%)	1339.18 (55%)	861.77 (35.5%)	2430.89	100%

Source: Department of Enterprise, Trade and Employment, 2000

Table A8: Ireland's Exports of Agri-Food 1972-2000 (€000s)

Total Agri-Food Sector		US		UK		Rest of EC/EU		Rest of World	
		Value	% of Total Agri-Food	Value	% of Total Agri-Food	Value	% of Total Agri-Food	Value	% of Total Agri-Food
1972	368,394	14,787	4%	263,443	71.5%	57,073	15.5%	3,091	9%
2000	6,853,507	284,978	4%	2,150,418	31%	2,738,129	40%	167,998	25%

Note: Agri-food includes live animals, food, beverages and tobacco. In 1972, agri-food accounted for about 45% of total exports (€822,200). In 2000, it accounted for about 8.3% of total exports (€82, 980,000)

Source: CSO, Trade Statistics, 1972 and 2000

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