Press Release **1st December 2003**

NCC calls for a "Budget for Competitiveness"

Launch of Annual Competitiveness Report and Competitiveness Challenge

The Government should avoid inflation-fuelling increases in customs and excise duties, VAT and publicly administered prices in the forthcoming budget, according to the National Competitiveness Council (NCC) at the launch of its reports, **The Annual Competitiveness Report 2003** and **Competitiveness Challenge 2003** today (1st December 2003). Only by doing this can Government help to bring and maintain the rate of inflation below 2.0%, in line with the euro-area average.

The NCC Annual Competitiveness Report benchmarks Ireland's performance for 128 key competitiveness indicators against 15 other advanced countries. The Competitiveness Challenge brings forward the findings from this benchmarking report and offers recommendations to Government to build national competitiveness.

Speaking at the launch of the reports, Mr William Burgess, Chairperson, NCC said, "The sharp fall in the rate of inflation in recent months is welcome, but we must not become complacent. This year's Annual Competitiveness Report shows that both the inflation rate and the price level in Ireland still remain above those of our main competitors".

The international competitiveness benchmarking shows that:

- Ireland is now the joint most expensive country in the euro area for consumer goods and services, along with Finland
- Ireland ranks 4th most expensive of 16 countries for insurance premiums per capita
- Ireland ranks 3rd most expensive out of ten countries for landfill costs
- Ireland ranks 3rd most expensive of nine countries for industrial electricity costs

According to Mr. Burgess, "Ireland's immediate economic policy priority must be to further slow the growth of prices and costs. There is no automatic link between the emerging global economic recovery and resumption in strong Irish economic growth. Unless cost competitiveness is kept at the top of the political agenda, we could find that the global economic up-turn leaves Ireland behind."

Domestic Competition

According to the Competitiveness Challenge, driving down the cost of doing business in Ireland requires not just a pro-competitiveness budgetary policy, but also more domestic competition. Market entry by new firms and a high degree of rivalry between existing firms pushes companies to lower costs and improve quality and service. According to the Annual Competitiveness Report Ireland ranks only 13th out of 16 countries with regard to the intensity of domestic competition (ranking of one = most competitive).

The NCC considers that Ireland's poor performance on this measure is partly because Ireland, unlike most other EU countries (including the UK, Germany and France), has no civil sanctions for infringements of competition law. This makes it difficult to ensure widespread compliance with competition law enforcement. The NCC supports the principle of civil sanctions, and has called on the Tánaiste to explore the feasibility of their introduction from a legal and constitutional perspective. Other measures that the NCC has called for to increase local competition include:

- The identification of Government regulations that restrict market access and competition
- An acceleration by the Competition Authority of its studies of competition issues in the banking, insurance and professional services markets
- Better representation of consumer interests in the policy-making process
- Examination by the OECD of the effectiveness of Ireland's competition policy regime

New Competitiveness Agenda

According to the Competitiveness Challenge, recovering Ireland's cost competitiveness must be the first, but not the sole, priority of the broader economic strategy. In order to sustain the transition to a more dynamic, enterprising and productive economy, it will also be necessary to put in place consistent policies in the areas of infrastructure, education, entrepreneurship, research and innovation, all guided by the need to support the development of higher skill, knowledge-intensive activities in which Ireland can be a significant player. According to Mr. Burgess, these topics form a "new competitiveness agenda" for Ireland.

For example, Ireland's goal of becoming a leading knowledge-based economy requires a modern and efficient telecoms infrastructure. According to the Annual Competitiveness Report, Ireland lags behind in the availability and cost of broadband communications:

- last of 13 countries for overall broadband take-up
- 13^{th} of 14 countries for broadband access
- 12^{th} of 13 countries for the cost of broadband

The Competitiveness Challenge recommends that more Government leadership is required in rolling out domestic broadband and that this should happen on two fronts:

- **Broadband Infrastructure Deployment**: The NCC recognises that increasing private sector competition among telecoms companies is, ultimately, the most important tool available to Government to accelerate the roll-out of broadband. But there is little sign that private firms are prepared to make the necessary investments and Ireland cannot afford to wait. In the short-term, therefore, more direct State interventions are required in building broadband infrastructure in key towns around the country.

- **Stimulating Demand for Broadband Services.** The Government should also take responsibility for putting in place measures to stimulate demand for broadband services to coincide with the infrastructure roll-out. To this effect, the

NCC has called on the Taoiseach to put in place a new institutional structure to accelerate the rollout of eGovernment, initially targeting the completion of a comprehensive system of e-procurement, e-payment and e-recruitment by January 2006.

Innovation

Innovation is the cornerstone of competitiveness in a knowledge-driven economy. However, patent registrations and other indicators published in the Annual Competitiveness Report suggest that companies in Ireland perform poorly in terms of product and process innovation. According to the report, Ireland ranks:

- 10th out of 12 countries examined concerning patents granted by the U.S. Patent Office per million of population
- 10th out of 14 countries surveyed for patent applications per million of population to the European Patent Office
- 12th out of 16 countries for the number of researchers per 1,000 people in employment
- 10th out of 16 countries surveyed for production process sophistication

Ireland’s poor innovation performance occurs despite high levels of employment in high technology activities (particularly electronics, pharmaceuticals and software) and high numbers of science and engineering graduates relative to other European countries.

To improve Ireland’s innovation performance, the Council recommends that:

- The Minister for Finance should include in the 2004 Finance Bill a provision for a tax credit for business R&D expenditure. Tax credits are particularly effective for large firms and for attracting mobile enterprise R&D activities; 17 OECD members, including France, the Netherlands, Spain and the UK, now provide tax credits or enhanced tax allowances for this purpose.

- The Minister for Finance should renew the Business Expansion and the Seed Capital schemes for a further three years. Both tax schemes have been important sources of finance for innovative start-ups and early stage business ventures, but are due to expire at the end of this year. Both schemes should also be reviewed to ensure that funding through these schemes is limited to risky innovative projects that would not otherwise proceed.

- The Tánaiste should direct Forfás and the Department of Enterprise, Trade and Employment to explore new ways to increase industry-university research collaboration. Close relationships between firms, universities and research institutes support innovation. The levels of R&D collaboration by Irish firms in 2001 were, however, almost the same as those reported in 1993.

- Government and agency supports for industry should be increasingly organised around clusters and sectors. There is strong evidence internationally that firms that operate within clusters enjoy a number of benefits, including the development of a common supplier base and labour pool, smoother production processes, and faster rates of innovation and product development.

Mr Burgess concluded that, “In small open economies, such as Ireland’s, competitiveness and social progress are two sides of the same coin. Only if Government and the social partners keep competitiveness at the top of the political agenda and address the challenges identified by these reports can we ensure continued improvements in living standards, public services and quality of life in Ireland”.

Ends.