

PRESS RELEASE

RAPID ROLL-OUT OF NATIONAL AND INTERNATIONAL BROADBAND TELECOMMUNICATIONS REQUIRED TO ESTABLISH IRELAND AS A HUB FOR ELECTRONIC COMMERCE.

“In Ireland we have shown an exceptional ability to effectively manage our economic affairs in the face of adversity and crises. The performance of the economy in recent years in terms of growth employment creation, public finances and increased living standards bears testimony to this”.

The Chairman of Forfás, Mr Tom Toner, made these remarks in launching the Annual Report of Forfás for 1997 today (Wednesday 29th July 1998).

Mr Toner went on to say that “we should not, however, forget that we also have the capacity to create economic crises in the first place or to inflate the impact of international economic difficulties by our own actions here in Ireland. The experience of the 1970s’ and 1980s’ bears ample testimony to this”.

The economic challenge which Ireland now faces is to build on the success that has been achieved and to sustain it. To do this we need to remember the costly lessons learned in the past. Sustainable economic growth can only be based on increased productivity across *all* sectors of the economy.

This requires prudent management of the public finances, further reductions in the national debt, a non-inflationary incomes policy, measures to increase the skills level of the work-force, and urgent action to address the emerging gaps in infrastructure provision arising from the rapid economic growth of recent years and the requirement for an improved level of services to enhance the competitiveness of the business sector. Above all it requires a renewed and well-articulated sense of national purpose and cohesion in relation to the considerable advances in further social and economic progress now possible.

Developing these points Mr John Travers, Chief Executive of Forfás said:

“It is essential that Ireland achieves a leading position in the provision of national and international broadband telecommunications services, ahead of competitor countries, in order to develop as a centre for electronic commerce and digital business and to drive future economic growth.”

Commenting on key issues for Irish business at the publication of Forfás Annual Report for 1997, Mr. Travers said the Government's decision to fully liberalise the telecommunications market from 1 December 1998 is a very welcome first step in what needs to be done in this area.

Broadband telecommunications plays a vital role in enhancing the competitiveness of advanced economies. Countries are investing heavily to enhance this competitiveness – not only in terms of basic infrastructure but also in the services, skills and pro-competitive regulatory framework which build on this infrastructure. The information technology sector (narrowly defined) is estimated to have accounted for around 40% of the growth in the US economy in recent years and is considered likely to be the main driver of economic growth over the next 10-20 years.

The availability of broadband telecommunications services comparable to those in the US and other advanced economies and at competitive tariffs offer the potential for Ireland to gain a sizeable share of the electronic commerce market, estimated to reach \$300bn by 2001. A rapid move to a standard fixed charge or flat rate for high capacity Internet access would also be of considerable benefit to the enterprise sector, as it has been in other countries.

In the indigenous sector it is essential that every business in the country develops an understanding of the digital revolution and in particular of the opportunities and threats which it presents. A

comprehensive awareness campaign must be developed to inform, educate and prepare the enterprise sector in Ireland for the significant opportunities and challenges that are being brought about by electronic commerce and as a driver of future competitiveness.

Infrastructure

Referring to infrastructural needs Mr. Travers said the economy's record growth in recent years has placed considerable pressure on all aspects of infrastructure: roads, land requirements, water and sewage, environmental protection, transportation, energy and telecommunications. In all of these areas the growth in demand has far outstripped planned provision. Urgent action is needed to meet the emerging gap in infrastructural provision which is crucial both for the attraction of new industry and the development of existing industry.

Given the Government's desire to contain public expenditure and the possibility of some curtailment in the availability of EU Structural Funds after 1999, alternative sources of finance to fund infrastructural development which would assist the continued growth of Irish industry will be required. Forfás strongly supports the decision of the Minister for Finance to urgently examine the scope for such financing and will play a full part in the advisory arrangements established by the Minister to work with the Inter-Departmental Group he has established to examine this issue.

Inflation

Mr. Travers noted that in recent months there have been disturbing signs of an increase in inflation indicated by upward changes in the Consumer Price Index and also by significant increases in property values, especially in Dublin. The growth of the economy is leading to skills shortages in some key areas, which are placing a premium on the services of workers not only in high-tech fields such as IT and software, but also in more traditional areas such as the construction sector. Growth in those sectors may be jeopardised if these inflationary tendencies continue to develop. There is also a danger of a spill-over effect on other sectors. It is essential that measures are taken to increase the supply of skills in key sectors.

The growth in property prices in Dublin in particular has for the first time in a generation begun to place home ownership out of the reach of younger members of the labour force. Moreover, property prices are reaching levels that discourage returning Irish migrant workers, whose skills and experience are an important factor in recent growth. Wage rates cannot remain unaffected by these trends. The recent measures implemented by Government in the light of the Bacon report will be important in containing this particular inflationary pressure.

The strength of sterling has also given some impetus to inflation through the higher cost of imports for consumers and companies. As the traditional instruments for controlling inflation, the exchange rate and the interest rate, will no longer be available at a national level once

EMU begins on 1 January 1999, other measures will have to be used to counter inflationary pressures. Such measures will include those which generate productivity increases and greater competition in all sectors of the economy.

Corporation Tax

Mr Travers welcomed the new regime for Corporation Tax recently agreed between the Irish Government and the European Commission. He said the new single rate of 12½%, which Forfás had advocated and developed in its *Shaping Our Future* report and which will operate from 2003, removes uncertainty especially for overseas companies considering Ireland as a location. It will also be positive for existing overseas enterprises in Ireland allowing them to plan this future growth in Ireland with confidence and for the enterprise sector in general.

The new regime will ensure that Ireland continues to be a competitive and attractive location for investment - from both domestic and foreign sources - and provides a firm basis for a continued flow of new investments into the future.

EMU

Commenting on the impact of EMU on Irish enterprise, John Travers said that the single greatest challenge facing companies was to ensure that adequate and timely preparations were made by all firms,

irrespective of size, for the introduction of the single currency, the euro.

“With just five months to go to the start of EMU all firms should be well advanced in identifying the relevant implications of the introduction of the euro on their own business operations. In particular, companies need to focus on the strategic or commercial implications for their business, especially if Irish firms are to be well prepared to take advantage of the significant new opportunities and to be well equipped to handle any challenges arising from the introduction of EMU.”

Skills

Mr Travers said that research carried out by the Expert Group on Future Skills Needs, which receives research and secretariat support from Forfás, estimates an average annual shortfall of 2200 in third level technologists up to 2003. This shortfall is made up of 900 engineering and computer science graduates and 1,300 engineering and computer science technicians.

“These high-technology skills needs must be met in a cost effective way, through conversion courses, improved completion rates, extra fulltime education places, company-based training, accelerated technician learning and overseas recruitment of qualified Irish emigrants”.

Employment

Referring to the job creation performance Mr Travers said that for the fourth successive year employment generation in Ireland achieved record levels in 1997. Employment increased by an estimated 59,000 in 1997 according to ESRI (April 1998 Quarterly Economic Commentary) and helped to reduce unemployment from 11.2% to 9.9%. Most encouragingly, long-term unemployment fell to 86,300 in the year ending April 1997 – a reduction of 16%.

Total permanent employment in companies under the remit of IDA Ireland, Forbairt, Shannon Development and Údarás na Gaeltachta reached a new record increase of 16,000 or 6.4% by the year-end. Employment in manufacturing in Ireland in the ten-year period 1988-1997 grew by 17.7%. This is an excellent performance compared to other countries, such as the UK and the USA, where manufacturing employment fell during the same ten year period by over 16% and 4% respectively.

R&D

Mr Travers said that “knowledge and know-how are central to social and economic progress in Ireland”. Recent years have seen considerable advances in this area.

The £250 million Scientific and Technological Education (Investment) Fund announced by the Minister for Education and Science in 1997 is a major advance in meeting the skills and scientific infrastructural needs of Ireland's economy. It will significantly increase S&T funding in third level colleges and also strengthen college links with industry.

Research & Development investment by business firms has also been showing significant increases and this has coincided with record levels of growth in output, exports and employment.

There are early indicators that the major national science and technology awareness campaign being undertaken by Forfás is raising the profile of a technological career among school-leavers, leading to an increase in 1997 and in 1998 in the numbers giving first preference to science and engineering courses in their CAO applications.

While good progress has been made there is no scope for complacency. Ireland still lags behind its European counterparts in relation to total R&D spending. Business expenditure on R&D, at 1% of GDP, is still below the EU average of 1.2% and Irish-owned companies account for just one third of this expenditure. The numbers of researchers and technicians in the workforce are only three-quarters of the European average and the numbers of students taking Leaving Certificate basic science subjects have fallen since the mid 1980s.

“These are issues that must also be addressed with resolution if the sound foundations for future growth are to be laid” Mr Travers said.

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