

Continued Success in 2005 leaves us well placed to address future challenges

Launch of Forfás Annual Report 2005

"Ireland's economy continues to perform well in an increasingly globalised world economy. In this fast changing economic environment we must continue to adapt and innovate and build partnerships across industry, education and government. Continuing to grow our international trade in goods and services will require strong collaboration between government, the business community, the education system and the entire workforce so that we improve productivity, succeed in innovation and provide the highest quality education." said Eoin O'Driscoll, Chairman of Forfás, launching its Annual Report today (Thursday 29 June 2006).

Ireland's strong economic performance of the past decade continued in 2005, GNP is estimated to have grown by 5.4 percent, twice the OECD average and employment is expected to exceed 2 million for the first time this summer. Investment in research through SFI, HEA and the Research Councils is transforming the research culture in our third level institutions and increasingly stimulating R&D investment by enterprises such as Sigmoid Biotechnologies, Celtic Catalysts, Wyeth, Microsoft and Xilinx,.

To maintain our high GNP per capita (€31K last year) and low unemployment (currently 4.2 percent) we must work to ensure that Ireland continues to provide an operating environment in which internationally trading business can flourish.

Over the past few years, Ireland's growth has been largely driven by increases in consumer and Government spending and strong growth in the construction sector. But this growth has also seen a rapid rise in Ireland's cost base as consumer prices and pay costs have risen more rapidly than the EU average.

"As a small open economy we need to address these challenges and take steps to ensure that we continue to capture the opportunities that globalisation also presents" said Martin Cronin, Chief Executive, Forfás, "Recognising that exports will continue to be a vital determinant of our long term economic growth, we need to continue to build success in worldwide markets, through increased international trade in products and services."

This means being successful in a number of areas. High-value manufacturing activities have been and will continue to be an important factor in Ireland's economic success. Services show significant potential for growth and Ireland has demonstrated its ability to grow its international trade in services. In addition, locally trading services companies now face intense competition from global players, but the internationalisation of services also provides opportunities for local service companies of scale to trade internationally through acquisitions, franchising and other forms of outward direct investment. We need to foster each of these strands of our development.

Overview and Outlook

According to the Forfás Annual Report, we continue to witness a shift in the profile of enterprise as we build a more knowledge intensive economy with growth in exports and

employment in the more modern sectors of medical devices pharmaceuticals, life sciences financial services, internationally traded services and software.

Total investment in R & D by continues to climb strongly with a 7.3 percent increase in nominal terms over 2003, with the main driver being increasing R&D activity performed in the higher education sector, with investment of €491.7 million in 2005. Indications are that the business sector performed R&D has regained momentum in 2005 and these findings should be confirmed in the forthcoming 2005 Business R&D Survey.

The BMW region has increased its overall share of jobs created in agency-supported companies, now standing at 28 percent compared with 20 percent in 2000, reflecting the strong strategic emphasis place on regional development by the agencies.

Forfás continues to contribute to the development of strong public policy, focusing on policy areas with the greatest scope for impact on enterprise in Ireland. Four policy areas have been prioritised on the basis of contribution to building national competitiveness.

- **Advancing Coherent and Dynamic Enterprise Development Policies**
- **Capturing the Economic Benefits from Public Investment in Research**
- **Improving Framework Conditions for Innovation and Enterprise Development**
- **Human Capital Development to Support an Innovation-driven Economy**

Within each of these policy areas, Forfás will undertake further policy research during 2006 that will focus on increasing our understanding of the issues and challenges outlined above, and formulating policy actions to address them.

Advancing Coherent and Dynamic Enterprise Development Policies

Working closely with its sister agencies, Forfás provided advice on Ireland's enterprise needs to ensure that Ireland continues to respond effectively to the challenges and opportunities we face.

During 2005, Forfás worked with the Department of Environment, Heritage and Local Government, other Government Departments and Local Authorities to identify actions required to further stimulate the development of the gateway towns identified in the NSS. The report will be published mid 2006 and the implementation of its key recommendations will require proactive collaborative effort across business, education, national and local government. During 2006, Forfás will build upon this work and, together with the agencies, focus efforts on supporting increased networking between industry, education and local communities to build sectoral clusters of scale.

Improving Framework Conditions for Innovation and Enterprise Development

Key pieces of work undertaken during 2005 include the National Competitiveness Council's Annual Competitiveness Report and Competitiveness Challenge 2005; benchmarking studies in the areas of broadband and waste management, and a review of Ireland's dependency on oil that highlight issues of critical importance to enterprise and Ireland's competitiveness.

Improvements in productivity have a key role to play in increasing our competitiveness, and can assist in strengthening the industrial base that has developed in Ireland. Productivity in itself is a complicated concept and is a strategic policy area which Forfás, through the NCC, will be focused on over the coming year. The objective is to inform policy development that will have an impact on a range of sectors throughout the economy.

Human Capital Development to Support an Innovation driven Economy

In the face of global competition and relatively high domestic costs, many businesses in Ireland are still caught in a trap where they require ever higher skills and struggle to

achieve higher levels of value added. Forfás will continue to support the work of the EGFSN to provide policy advice that helps create the type of workforce we will need in the future, a workforce with higher skills levels, operating in a dynamic and flexible labour market and a culture of continuous learning and technology adoption. During 2006 Forfás and the EGFSN will support the Department of Enterprise, Trade and Employment in the development of a National Skills Strategy and develop more pervasive education to support innovation-driven enterprise.

Capturing the Economic Benefits from Public Investment in Research

To prosper Irish companies need to expand their involvement in international markets. Success in international markets hinges upon developing innovative solutions based on understanding customer needs, on a strong research and development culture and on the ability to adapt technologies to the development of new products and services. Ireland's research culture requires the involvement of businesses themselves. The recently published Strategy for Science, Technology and Innovation 2006-2013 is clear about the types and levels of supports that must be provided to the most significant drivers of our economic well being. The development agencies have a role to play in stimulating a transformational change to company attitudes to R&D. During 2006, Forfás will play a significant role in supporting the continued focus of R&D investment and efforts, and will review the potential for Ireland in the areas of health and nanotechnology in particular.

Statistical Overview

Expenditure by Agency-Supported Firms

In 2004 overall output of agency assisted firms in manufacturing and internationally traded services increased by 3.8 percent while direct expenditure in the economy increased marginally by 0.8 percent. Direct expenditure totalled €34.2 billion made up of payroll costs (€10.9 billion), Irish raw materials (€13.5 billion) and expenditure on Irish services (€9.8 billion).

Corporation tax payments

Total corporation tax yield from all sources was €5.5 billion in 2005, a slight increase in real terms on the previous year. It is estimated that agency supported firms accounted for €2.8 billion (51%) of the total corporation tax paid in the economy.

Employment

Total full time employment in companies under the remit of IDA Ireland, Enterprise Ireland, Shannon Development and Údarás na Gaeltachta amounted to 298,372 in 2005 an increase of 2,879 on the previous year. There are now 50,016 more people employed in agency assisted manufacturing and internationally traded services companies than in 1996.

Expenditure on Research and Development

Total expenditure on research and development continued to climb strongly in 2005, rising to an estimated €1,910 million in 2005. This represents a 7.3 percent increase in nominal terms compared to 2004 and an estimated 4.8 percent rise in real terms.

Business Expenditure on Research and Development (BERD)

R&D performed by the business sector climbed to an estimated €1.15 billion in 2004 representing a 7.0 percent rise in nominal terms over 2003.

Research and Development in the Higher Education Sector (HERD)

Expenditure on R&D performed in the higher education sector increased strongly in 2004 and 2005. It rose to €491.7 million in 2004, a 23.5 percent increase in nominal terms from 2003. Expenditure in 2005 is estimated to be around €550 million backed by further increases in funding from Science Foundation Ireland, Enterprise Ireland, the Programme for Research in Third Level Institutions and from other State sources.

Government Expenditure on R&D

R&D performed in the government sector declined to an estimated €135.1 million in 2005 a fall of 2.5 percent compared to 2004. This represented a 0.10 percent of GNP.