

Press Release

RENEWED FOCUS NEEDED ON COSTS

- NATIONAL COMPETITIVENESS COUNCIL.

Ireland must continue to focus on its cost performance in areas where costs place us at a competitive disadvantage to many countries, the National Competitiveness Council (NCC) says in its *Report on Costs*, published today (30, June 1999).

The Council, which was established by the Government under the Partnership 2000 Agreement, in May 1997, is required to report to the Taoiseach on key competitiveness issues for the Irish economy together with recommendations on policy actions required to enhance Ireland's competitive position. Forfás, the policy and advisory board for industrial development in Ireland, provides the research and administrative support for the Council.

The report focuses on the cost environment for business in Ireland, which represents an important element of overall competitiveness. It points out that the significance of the cost environment varies across different sectors and that this cost environment is particularly important for low margin labour-intensive sectors. It highlights areas where costs are putting Irish enterprises at a competitive disadvantage.

Some of the main cost comparison findings from research undertaken for this report are:

- Labour costs in Ireland are below the OECD average but are significantly higher than those in some countries with which Ireland is competing for trade and for foreign investment;
- Employers' PRSI costs in Ireland are higher than social insurance costs in the UK, (at most wage levels up to £38,750 per annum), but lower than those in most other EU countries;
- Despite the country's small population, gas prices in Ireland are ranked among the lowest in Europe whilst other energy costs are middle ranked;
- Telecommunications costs in Ireland remain relatively expensive;
- The cost of industrial and office accommodation is amongst the most expensive in Europe;
- Liability insurance costs are significantly greater than in the UK. The comparison is even more adverse with European countries that have state funding for industrial injury compensation;
- Credit margins on loans for small business remain high.

The report proceeds to identify a number of the required responses to the findings of the cost analysis.

From a company perspective :

- There is a need for wage moderation coupled with alternative rewards systems, and for actions to achieve continual improved productivity through, for example, increased flexibility, better working practices, training and upgrading of skills;
- The take-up of information and communications technology by companies needs to be accelerated;
- Market re-orientation and company restructuring remain important ways of continuing to improve competitiveness.

From a policy perspective :

- Future partnership agreements must be capable of accommodating the challenges posed by a rapidly growing economy within the new framework for policy and for business which arises from EMU. They must provide greater flexibility through, for example, the identification of innovative reward mechanisms such as, performance payment systems, skill based pay and gain sharing;
- Significantly increased investment in infrastructure to eliminate bottlenecks and provide for future growth has a key role to play in reducing costs;
- Balanced regional development will also help reduce cost pressures;

- The focus of tax policy should be maintained on stimulating enterprise and encouraging innovation and investment in a way which does not increase the cost base of enterprises;
- The process of deregulating utilities such as electricity, gas and transport should be accelerated in order to further reduce costs;
- A Compensation Board/Arbitration System, separate to the courts, for deciding on compensation in cases where parties agree to arbitration as an alternative to the courts, should be established with the aim of reducing liability insurance costs for enterprises.

The Chairman of the National Competitiveness Council, Mr Brian Patterson said that the *Report on Costs* focused exclusively on the role of costs in ensuring the sustainability of Ireland's economic growth. "While enduring competitive advantage depends on a very broad range of factors – costs alone can make the difference between success or failure."

Mr Patterson said that the report, based on both detailed international comparisons of Ireland's cost structure and plant level data from the food, teleservices and software sectors, highlights areas where Ireland's cost-competitiveness must be strengthened. "It also highlights factors such as globalisation of international trade and investment flows and rapid technological change that are leading to a much sharper competitive environment for Irish enterprise both now and increasingly in the future", he added.

“The key message is that the costs of doing business in Ireland including labour costs, taxation, energy and insurance costs and the cost of finance for small business must be continuously monitored and action taken to ensure they remain competitive with our major competitors”, said Mr Patterson.

The report also includes recommendations on the appropriate responses at both company and public policy level. According to Mr Patterson, the Partnership approach to economic and social policy holds the key to improved cost competitiveness. “It is essential that the climate of consensus under Social Partnership be sustained, as it alone provides a successful working model for long-lived competitiveness success for Ireland.”

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