IRISH BUSINESS AND EMPLOYERS CONFEDERATION

Achieving our Potential

Competitiveness Issues for Irish Business within Europe

A Position Paper for
the Lisbon EU Summit,
21 March 2003

Prepared by IBEC's Policy Advisory Group
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The Irish Business and Employers Confederation (IBEC) is the Irish member of UNICE - the leading independent organisation representing European business. UNICE's membership consists of 35 industrial and employers federations from 27 European countries, speaking for more than 16 million companies, the vast majority of which are small and medium sized.

Go to *www.unice.org/lisbon* for access to the Lisbon Competitiveness Strategy reports of the national industrial and employers federations of all fifteen Member States and for an overall UNICE report on Lisbon.

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'If we do not invest in the future, we shall fall behind'.
Romano Prodi, President of the European Commission,
14 January 2003

Introduction

In March 2000, the fifteen Heads of State and Government of the EU set a target of turning the Union by into the most 'competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and more and better jobs and greater social cohesion' by 2010. This ambitious goal, which has become known as 'the Lisbon Process', needs better delivery by all those involved if it is to remain achievable.

This report prepared by IBEC's Policy Advisory Group, highlights specific national concerns on which we are calling on the Irish Government to take appropriate action in order to assist in further developing our potential. We call on Government to prioritise issues not only within a national framework, but also in terms of the EU Presidency which it will hold in 2004.

IBEC is convinced that improving the competitiveness of business will benefit society as a whole by increasing the Government tax take, thereby increasing the pool of and available expenditure for social reform. Over the past ten years, all segments of Irish society have benefited from our economic success.

Summary

As a nation, Ireland has made real and substantial progress in recent years, particularly in terms of business development. However, we have now hit some crucial capacity constraints which are progressively hindering our ability to develop further. In this paper, IBEC's Policy Advisory Group has identified a number of those key inhibitors and has suggested solutions.

National Development Plan (NDP) delivery needs urgent and immediate attention simply to maintain our current level of competitiveness. Further infrastructural planning is needed to improve our competitiveness and build on its potential.

In addition, there are a number of key policy areas which need urgent attention with a view to reversing worrying trends and addressing potential problems in specific areas. These are inevitably not capable of a 'quick fix' solution but they nevertheless need to be acted upon now to prevent further damage to our competitiveness growth potential into the future. Those areas include:

- National Development Plan (i.e. post 2006)
- Development of Broadband infrastructure with Government support
- Review of current model of Irish electricity and gas liberalisation
- Increased education and childcare provision
- Incineration facilities
- Equitable sharing of the burden across all sectors of the economy in respect of Ireland's commitments under the Kyoto Protocol.
- Establishment of a National Housing Authority
- Development of serviced land for future housing needs, in accord with the Spatial Plan
- Rationalisation of the current Local Authority structures.
- Establishment of a Public Service Commission
- Introduction of committed and effective Regulatory Impact Assessment

Many of our infrastructural and governance structures are inherited from and are more appropriate to the less sophisticated economy of ten to fifteen years ago. As such, changing those structures which may have served us well in an earlier stage of our development, requires a clear vision for the future and strong leadership.

Challenges for Ireland's Competitiveness

1. A number of factors determine the competitiveness of the Irish economy. Government policy, specifically in relation to taxation, infrastructure, labour, education and industrial and social policy, is the key domestic determinant. Factors somewhat outside our control include the impact of globalisation, and political developments. A further key factor is the level of sophistication of a company's operations and how it integrates into the overall regulatory environment in Ireland. A nationally determining factor is the level of infrastructural support, particularly in terms of attracting and keeping foreign direct investment. It is in this area that we face some of our most serious challenges.

2. Irish competitiveness has diminished in the recent past and there are a number of urgent and immediate challenges for us if we are to prevent further slippage. EU enlargement will mean increased competition for us in attracting foreign direct investment in particular, while also affording opportunities for advancement and increased trade for Irish based companies. The extent to which we will be able to avail of the opportunities from EU enlargement will be largely determined by how competitive Irish companies are.

3. Despite some significant advances in recent years, Competition policy in this country still has a long way to go. It continues to require strong advocacy at Government level.

4. Ireland's process of Social Partnership is going through significant change and faces many new challenges to its future survival. The existence of this system of pay determination has been important for us internationally in promoting Ireland as a stable environment for business. The new Agreement, which is pending ratification by the relevant parties, is of a shorter duration than its predecessors, and we must be concerned about the potential impact that a return to "free for all" bargaining could have on our international attractiveness for foreign direct investment. Into the future there is a challenge for all social partners to develop innovative ways to protect this process, while at the same time reflecting the competitive imperatives of our economy.

5. As forecast by the OECD in its country report on Ireland in the year 2001, Ireland's infrastructural deficit is already biting. Given the tight budgetary conditions now being experienced, there is a need to identify and develop greater private funding arrangements to complete the current National Development Plan. There is also a pressing need to plan further infrastructural improvements to follow current National Development Plan (which is due to expire in 2006) in the context of the National Spatial Strategy.

6. A recent Forfás study found significant increases in prices across a broad range of services in the Irish economy. Consumer price inflation in Ireland is the highest in Europe, with consumer price levels and average house price inflation the second highest in the EU. Tackling inflation is a priority issue if we are to regain our competitiveness.

7. Insurance costs have escalated to worrying levels, thus further threatening the competitiveness of Irish business. While insurance costs are an international issue, the high cost of claims here exacerbates the problem for Irish business, particularly for smaller companies, for those trading in tight markets with higher risk portfolios and for exporters.

8. Ireland has adopted European and OECD models of market liberalisation in order to develop and improve our economic performance. The model, as applied here, requires closer examination in terms of its overall appropriateness to Irish circumstances.

9. Rising unemployment in the private sector and significant numbers of redundancies (particularly in 2002 where levels of redundancies were at their highest since 1987) have been masked by increases in public sector employment. The real effect of these job losses will be felt from this point on (2003) as budgetary constraints mean that the public sector will not be in a position to increase employment.

10. The Benchmarking process is a major challenge for competitiveness. It is absolutely essential that the agenda for change in work practices and improvements in productivity, which are to be given in return for pay increases, be delivered in real and measurable terms. Without delivery on productivity, benchmarking will merely serve to damage our competitiveness.

Ireland's Competitiveness Rankings

1. International Peer Review

The OECD report on regulatory reform in Ireland 2001, made a number of observations and recommendations. It stated that:

'Ireland experienced spectacular growth of well over 10% in 2000 due to the confluence of several one-off factors which are now disappearing. The forces of growth are firmly embedded in the economy through favourable demographics, rising human capital formation and a high rate of technology-oriented investment. The authorities have created a favourable business climate for growth and this policy will need to be refined as Ireland moves up the value-added chain. This will require continued reforms to improve the efficiency of the public sector as well as the quality of regulation and to develop competitive markets more fully, notably in the network industries. Policies need to be refined so as to sustain the growth process. If this is done, the standard of living could continue to improve at an impressive pace in the coming years'.

Some of its more focused commentary included:

In relation to NDP delivery;
'it will be critical to organise tenders so as to attract more overseas civil engineering enterprises into the process; and to the extent that foreign supply is not adequately forthcoming, a slower rate of spending might be required to avoid money simply dissipating in higher costs'.

On spatial planning;
'A problem with the infrastructure programme is that it is coming before the government has decided a national spatial strategy to ensure more balanced territorial development than at present, and this in many ways could pre-empt choices….it is important to realign the NDP at its mid-term review in 2003 with

On transport;
'the general impression remains that too little has been done too late so that infrastructure policy will have to become oriented to supporting the urban system which has just sprung up.'

On local government;
' Many areas such as maintenance of social housing and water supply are serviced by a fragmented local government sector. This fragmentation does not enable economies of scale to be achieved while the absence of market competition has implications for the quality and cost of other services.'

On electricity;
'the regulator for the sector might be overburdened with a number of non-competition objectives assigned to it including promoting energy efficiency. These responsibilities will need to be reviewed, particularly when broader measures are undertaken to deal with environmental issues.'

IBEC agrees with this commentary and, while aware of government efforts to improve competitiveness, believes more committed and harder hitting reforms need to be undertaken to enable us to arrest the slide in competitiveness during this economic downturn, without losing the significant advantages of recent years.

This OECD Report on regulatory reform in Ireland was valuable, and we have seen some change since its publication. It is imperative that the momentum for reform continues and strengthens. A review of the current status of our sectoral reforms recently published by the OECD, concludes that there is still much to be achieved in the gas, electricity and professional services sectors. While we did have what the OECD referred to as a 'window of opportunity' in early 2001 within which to effect these changes relatively painlessly, that window has now closed. The problems remain and they become even more crucial for future business development.

We need to benchmark our competitiveness against other developed countries in order to assess what the priorities should be in dealing with the harsher economic circumstances facing us. The National Competitiveness Council Competitiveness Report 2002 provides us with a useful review of some areas of activity. However, we also need on going, external, overall peer review in order to ensure a coherent national approach, benchmarked against other competitor countries.

There are a number of annual international competitiveness reports which peer review up to 80 countries including Ireland. While the extent of the reliability of these indices has been questioned, in some respects they are nevertheless a good overall comparative indicator of the level of growth within the countries surveyed. Given their usefulness to investors and others making cross-country comparisons, they serve as a valuable alternative view to national critiques in determining government responses to current crises.

The World Competitiveness Scoreboard for 2002 scores Ireland as 10th of 49 countries, having slipped back from 7th position last year. Our ranking was 5th in the year 2000. The Report indicates that 'high fliers such as Singapore, Hong Kong and Ireland lose three ranks each and pay the price of a huge turnaround in economic performance'.

Ireland has slipped in the rankings of all four indices of the World Competitiveness Report for this last year, with the biggest drop in the infrastructure ranking. Those indices are:

- infrastructure
- government efficiency
- business efficiency, and
- economic performance

The Global Competitiveness Report has two principal rankings: the Growth Competitiveness ranking and the Current Competitiveness ranking. While our Current Competitiveness ranking is 20th, an improvement from last year's ranking of 22nd our Growth ranking is not as healthy. The latter ranking aims to measure the capacity of a national economy to achieve sustained economic growth over the medium term, and Ireland's ranking was a disappointing 24th of 80 countries for the year 2002. This is from a ranking of 11th of 75 countries for the year 2001 and constitutes a sharp fall, given the fact that we were ranked 1st of 53 countries in 1997.

These data again indicate considerable slippage in terms of Ireland's perceived competitiveness and point to the need for direct and hard-hitting reforms simply to arrest the current decline. To date, there has been no national strategy to address this disturbing trend.

The report also makes a number of interesting observations about the Irish economy. It essentially states that we are outperforming our current competitiveness commenting that we are a high-income country which 'continues to enjoy a level of prosperity that exceeds its micro-economic fundamentals'. It goes on to say that 'Ireland's foreign direct investment inflows have been extraordinary and are probably unsustainable' and attributes our over-performance to a boom in foreign investment. These messages need to be taken seriously.

2. How is Ireland performing on the "Lisbon indicators"?

Overall, Ireland ranks on average 7th out of the 15 EU Member States in the list of 100+ "structural indicators", published by the European Commission on 14 January 2003 (these indicators are grouped into six broad areas).

Ireland's performance varies across each set of indicators, from 5th in the General Economic Background section (GDP, government deficit, inflation etc.) to 10th under the Social Cohesion indicators.

For the purpose of arriving at the average of 7th place, we have given each of the six areas covered by the indicators equal weight. Overall, we believe it is fair to say that the "tiger economy" must do better, taking account of this benchmarking exercise against the rest of the EU-15.

BENCHMARKING IRELAND'S PERFORMANCE ON THE LISBON INDICATORS AGAINST THE OTHER MEMBER STATES

General Economic Background indicators (7 in total)	5th
Employment (7 in total)	5th
Innovation and Research (7 in total)	9th
Economic Reform (17 in total)	7th
Social Cohesion (7 in total)	10th
Environment (13 in total)	9th
Overall Ranking of Ireland in Year 3 of the 10-Year Lisbon Strategy	7th

We do not intend to reprint any of the tables recently published by the Commission, and agree with the analysis and research on which they are based. However, IBEC considers that the graph reproduced by the Commission for the total wealth of each Member State, that of GDP (per capita in Purchasing Power Standards) is not fully reflective of the real situation in Ireland. The predominance of FDI in the Irish economy leads to a significant distortion between the country's GDP and GNP figures.

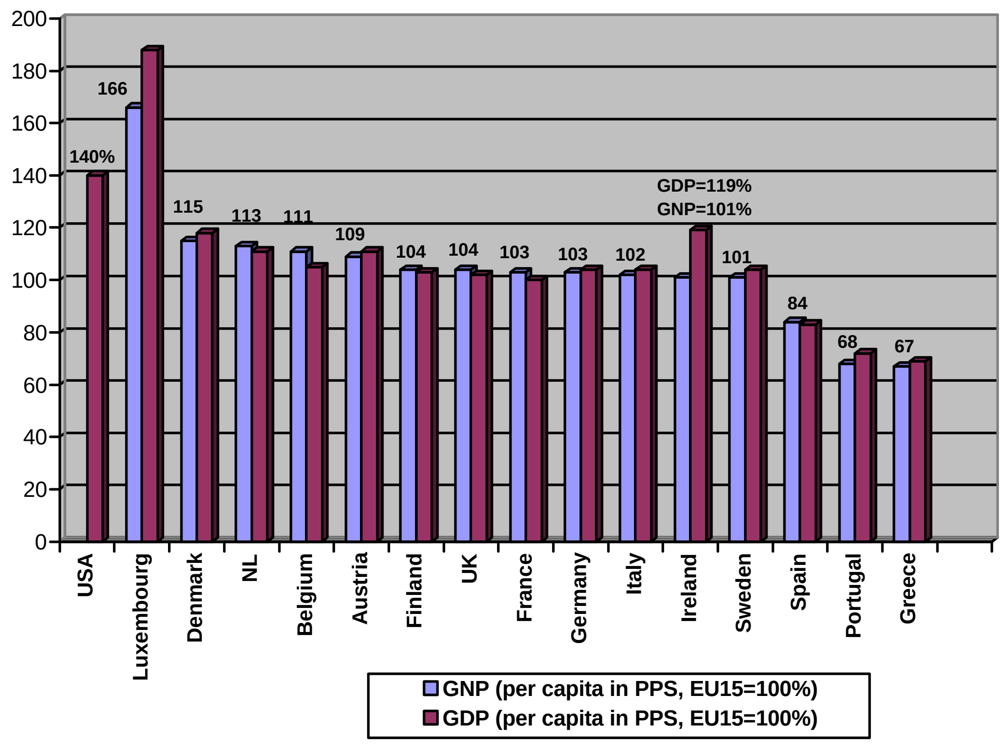
In most other Member States, the difference between GDP and GNP figures is not significant. While Ireland figures second in the GDP table, at 120% of the EU average, in GNP terms, Ireland only ranks 11th in the EU-15 (see graph below).

This means that, in economic terms, Ireland can be considered a junior member of the second richest group of Member States - whose GNP ranges from 104% to 101% of the EU average. This is a far cry from the misguided assumption that Ireland, along with Luxembourg, is way ahead of all other Member States in terms of its economic development.

GNP/GDP FIGURES PER CAPITA OF THE 15 MEMBER STATES IN 2002

GRAPH OF STATES

Figures are from October 2002 - courtesy of DG ECOFIN



The following three boxes represent a compilation of Ireland's performances in a number of the areas covered by the Lisbon Strategy. Ireland's ranking on a selection of the most important competitiveness-related indicators, by comparison with the other fourteen Member States is in three boxes, distinguished by colour.

WHERE IRELAND PERFORMS WELL

Tax rate on low-wage earners	1st
Science and technology graduates	1st
Value of imports/exports of services (expressed as a % of GDP) - Imports/exports of goods (2nd)	1st
Value of FDI (expressed as % of GDP)	3rd
Labour productivity per employee - Productivity per hour worked (6th)	3rd
Total employment growth - Females (1st) - Males (2nd)	3rd
Evolution of gas prices for industrial users - Prices for household users (4th)	3rd
Total unemployment rate - Women (3rd) - Men (6th)	4th
Long-term unemployment rate - Females (1st) - Males (5th)	5th
State Aid	5th

WHERE IRELAND PERFORMS AVERAGELY

Value of business investment (expressed as a % of GDP)	6th
Total employment rate - Females (9th) - Males (6th)	8th
Telecommunications – cost of national calls - Calls to USA (6th)	9th
Venture capital investments	9th
Municipal waste landfilled	10th
Public expenditure on education	10th
Divergence in income between the richest 20% and the poorest 20% of the population	10th

WHERE IRELAND PERFORMS BADLY

Inflation rate	15th
Municipal waste incinerated	15th
Evolution of electricity prices for industrial users - Prices for household users (7th)	13th
Greenhouse gases emissions (meeting Kyoto targets)	12th
Early school-leavers	12th
IT expenditure (expressed as % of GDP) - Telecoms expenditure (4th)	12th
Gross expenditure on R&D - Industry funded (5th) - Government funded (13th)	11th
Patents granted in Europe - Patents granted in US (11th)	11th
Share of renewable energy	11th

Policy Issues

1. Infrastructure

In terms of the infrastructure sub-index in the World Competitiveness Report (which measures the extent to which basic technological, scientific and human resources meet the needs of businesses), Ireland ranks 23rd out of 49 countries, having ranked 15th in 2001. This indicates the need for faster reform. Each of the other sub-indices ascribes a much higher ranking to Ireland, indicating the danger to overall growth of lagging infrastructural development.

In terms of improving our infrastructural network, the report notes that 'governments around the world are continuing to improve infrastructure, upgrade financial markets, lower tariffs and reduce bureaucratic red tape. Progress in these areas is increasingly becoming a given if companies are to participate fully in the world economy'. This appears to indicate that although there are improvements in our infrastructure already taking place, they will not be enough. They are merely enabling us to catch up, and there is a need to plan further beyond our current NDP to bring infrastructure to a level that will secure our attractiveness for investment.

IBEC's Policy Advisory Group has made a number of recent recommendations to government on how the infrastructural crisis we now face can be addressed. Chief among the Group's recommendations was the establishment of a National Infrastructural Agency to oversee and co-ordinate effective delivery of our current NDP. That proposed agency could also be used to plan the next stage of infrastructural development facing us as the current NDP progresses to completion.

2. Liberalisation

The liberalisation agenda at EU level has brought considerable advantages to this country. We have seen the break-up of several State monopolies with improved and varied services now on offer with, in some cases more competitive prices than was previously the case. This has facilitated economic growth and better living standards, as commercial opportunities have been availed of in these sectors. It has also been a key factor in improved productivity in key sectors of the economy. This, in turn, facilitates foreign direct investment and facilitated entrepreneurship nationally.

However, Ireland has significant natural disadvantages that constrain the development and benefits of liberalisation to the Irish consumer as compared with our UK and continental neighbours. Despite all the advantages of modern telecommunications, we remain a small island nation on the periphery of the large European market.

We have a small and relatively dispersed population and hence there are limited opportunities for profit taking available in the Irish market, particularly in certain key sectors requiring significant sunk investment. The liberalisation process here has difficulties inherent to the Irish market and needs therefore to be considered in an Irish context rather than against a model which has worked in elsewhere in Europe.

We believe that there are attainable levels of further effective liberalisation within the Irish telecoms market for instance. However, it will not be achievable without significant State investment. With regard to electricity liberalisation we believe the model currently being followed needs review, and may ultimately be seen as unsuitable for a secure, cost-effective and sustainable supply of energy for industrial development.

Linked to the question of market liberalisation is the issue of sale of state assets. IBEC's Policy Advisory Group believes a State Assets register should be set up with a view to establishing the viability for sale of some State property and assets.

3. Foreign Direct Investment

According to the IMF World Economic Outlook published in May 2001, 17% of Irish GDP in the year 2000 was attributable to exports to the United States. There was a 37% increase in exports to the US between July 2000 and July 2001. This coincided with GNP growth of 10.7% in the year 2000, as against an average of 9% for the five years to the year 2000. This lends further credence to the assertion in the Global Competitiveness Report that our growth has been largely attributable to FDI. If the report's assertion that we are in danger of losing that investment, as our rankings on infrastructure in particular slide, then urgent attention is needed to ensure infrastructure remains a key priority of Government beyond the lifetime of the current NDP programme.

There is a worrying development for FDI in terms of the breakdown of the report's rankings into the constituent components. One of the sub-rankings is between the sophistication of business and that of the national business environment. Ireland's business development is ahead of its national business environment and the gap appears to widening. This report indicates that our ranking for business development was 17th in the year 2001, and improved to 15th in 2002. However, the quality of the national business environment ranking remains constant at 22nd. This gap suggests that we require 'significant changes in public policy to improve the environment for competition. Unless such improvements are implemented, companies will be prone to move operations or make new investments outside the country'.

The weakness of the Euro has been an advantage to Irish business. However, its strengthening could also damage our competitiveness and our ability to attract foreign direct investment. This too is a worrying development for our FDI, albeit one over which we have little influence.

4. Housing

Irish home ownership is higher than most of our European counterparts. Therefore, the importance of the housing market to the Irish economy is greater than it is in many other Member States.

House prices have however been rising due to difficulties in the availability of serviced land and other infrastructural constraints on meeting rising household inflation and living standards which have fuelled greater investment in the housing market. Housing policy is key to labour costs, to infrastructure requirements and indeed to the availability of labour.

High house prices in Ireland, particularly since the mid-1990s, have outstripped the international trend in house prices. In the Dublin area this is evidenced by the fact that average house prices are of the order of 10 times Average Industrial Earnings which compares with a level of 5 for this ratio over previous decades.

While lower interest rates improve affordability in the short term, there is a limit to which this can facilitate the acquisition of housing by those on lower incomes. Given current budgetary constraints, the State is not in a position to provide such housing at a national or at a local level. Consequently, at a certain point a significant cohort is priced out of the housing market. Inevitably this drives the demand for higher incomes to facilitate home ownership, and this has become a very significant driver of wage demands leading to a loss of competitiveness. Furthermore, the phenomenon of high house prices has driven expectations of further price increases.

Another factor evident in Ireland is the level of additional borrowing being undertaken against housing assets. This reflects similar trends for “equity release” in the U.S., the UK and elsewhere. This personal sector borrowing which is affordable at current low interest rates, may present an additional problem for the economy when interest rates increase at some point in the future. These developments have taken place while the Irish economy has performed well, both in absolute terms and in comparison with other economies in Europe and elsewhere. Salaries and incomes in Ireland have held up well, and have enabled individuals to meet their debt obligations. However, given the increasingly difficult global economic climate, we cannot expect conditions to be as benign in Ireland over the next few years as they have been over the last decade.

While there is no easy or quick solution, the establishment of a national housing authority would send a clear signal that the supply of housing is being taken seriously. Such a body would have a clear remit to ensure all the organs of Government, both nationally and locally, operated to ensure an elimination of supply bottlenecks in the housing market in future. This problem will not be solved by the State providing large amounts of additional funding, tax incentives or subsidies, as these will only add artificially to demand pressures. The problem is one of supply and perceptions thereof.

Sectoral Issues

1. Telecoms

Full and rapid liberalisation in the telecommunications market is vital to our development. Ireland has a higher level of mobile phone ownership than the average level for high-income countries as measured by the World Bank. We also have a much higher level of international calls than the average for other high-income countries.

According to the Globalisation Index for the year 2001, Ireland is the world's most talkative nation. This implies a reliance on telecommunications infrastructure and indicates that cultural factors are relevant to the importance of the telecommunications infrastructure is so important. The high level of emigration from this country has resulted in the Irish having extensive familial contact abroad. That, together with the level of foreign direct investment and the level of business communications between those multinational companies and their various trading entities throughout the world, enhances the level of usage of telecommunications here. In addition to this, Ireland has, in recent years, attracted in a number of high-profile contact centres – again adding to the growth in incoming international calls. None of these factors is likely to decline significantly in the foreseeable future, and with increased internet usage, possible strains on our telecommunications infrastructure need to be accommodated now, and future needs anticipated and planned for.

It is imperative that telecommunications development is expedited here, given our heavy reliance on it and the fact that our infrastructure lags behind that of a number of competitor nations. While our pattern of low-density population outside of the main urban conurbation around Dublin erodes much of the commercial advantage to the supply of telecommunications infrastructure, it is nevertheless necessary in order to develop the country's competitiveness, and to develop it in accordance with the Spatial Plan. Our Broad Band penetration remains low and local loop unbundling has been problematic and slow. This has presumably contributed to the increase in mobile phone usage.

This emphasises the need for broadband penetration throughout the country. Given the difficulty for commercial entities in providing the infrastructure to support this, IBEC believes that some level of public support is required in order to attract investment.

Ireland needs a clearly defined and targeted strategy to develop world-class broadband communications networks and services. Given its remote location, its low population and the distribution of that population, Ireland needs policies which will drive investment in telecommunications network and the development of broadband services. Where that investment is lacking in a market context, State measures and/or investment should be considered to create an environment for investment and competitive service offers.

The Strategy must include a combination of:

- Regulatory Measures developed within a defined policy background
- Investment incentives
- Complementary State investment targeted in areas of market failure

This will lead to quality, choice and ubiquity in telecommunications networks and services. The purpose of State support, where applicable, in this area would be to bring Ireland up to an international norm in the context of a spatial investment deficit which arises from economic, demographic and geographic features specific to this country. Not so long ago, Ireland was proclaimed as the e commerce hub of Europe. This ambition has failed, unfortunately. The Government has yet to implement the EU Directive in full. We will lose credibility with investors if this is not done quickly.

2. Energy

Electricity prices to industrial consumers have risen by on average of 20% over the last 18 months. Ireland is 2nd highest out of 8 major economies for industrial electricity prices for medium/high capacity users.

Gas transportation charges have risen by approx. 60%, over a 1999 baseline, primarily to cover the cost of infrastructure provision. Transportation charges generally constitute 25-40% of the delivered price of gas in Ireland. Clearly, increases along these levels impact on the competitiveness of Irish industry.

A cost/ benefit analysis from a price competitiveness perspective of further market liberalisation, as agreed by EU Energy Ministers in November 2002, should be conducted by the CER as a priority. The costs associated with further market liberalisation and duplication of functions will have to be borne over a small consuming base, owing to the size and scale of the Irish energy market.

The worst result for all would be the establishment of the entire regulatory infrastructure to enable competition (at very high cost) without actual competition taking place.

In terms of the energy utilities, IBEC is asking the Government to explain what benefit is to be gained from the privatisation of the natural monopoly elements of Ireland’s vertically integrated utilities (i.e. the wires of ESB and pipes of BGE.)

3. Environment

Irish business has considerable concerns over increasing energy costs, and in particular, the current proposal for an energy tax to encourage CO^2 reductions. Overall pollution indicators are generally favourable towards Ireland, aside from a worrying problem with waste.

Irish business supports the need for incineration to be part of an integrated approach to waste management here. Our landfill sites are no longer a viable option in themselves and are not adequate for certain types of waste. We pay significantly more to have our waste exported abroad for treatment and this is not sustainable. Like other modern economies, we should be in a position to manage our own waste effectively.

The impact of policies aimed at achieving climate change objectives will undoubtedly lead to an upward pressure on energy prices, from the costs associated with measures such as emissions trading, negotiated agreements and carbon energy taxes.

It is vital for the cost competitiveness of Irish business that appropriate climate change proposals are implemented in a coherent manner and at absolute minimum cost. Most importantly, all sectors of the economy should bear the burden with regard to their respective emissions of carbon. Where possible, the Government should favour voluntary arrangements.

4. Agriculture

The competitiveness of our agricultural sector is key to our overall performance, given the level of our agricultural exports. Rising levels of discontent amongst the farming community, and the lack of stability that generates for the sector, need to be addressed.

The Irish Food and Agricultural sectors account for 12% of Irish GDP and probably even more importantly, 20% of Net Export earnings. For this sector to continue to grow we must strike the right balance between the increased scale of production required to compete with food products produced at lower cost levels internationally and the desire to maintain the maximum numbers of people involved in farming.

In effect this means a combination of measures geared towards allowing those full time farmers who can compete efficiently to increase their production, while also facilitating part time farming solutions where appropriate.

5. Manufacturing

Ireland's manufacturing sector has grown considerably in recent years. Our manufacturing output is well above the EU average and is largely due to the success of strategies for attracting foreign direct investment. It has also been the main driver of our economic growth in recent years.

Indigenous manufacturing industry has not however done so well. That is partly due to the level of competition being faced from competitors in low-cost economies. Textiles, for instance, have suffered considerably as companies have gone to countries offering lower cost bases. Steep labour cost increases have impacted negatively across the indigenous manufacturing sector in recent years. The office, accounting and computing machinery industries have fared badly in recent years, as has the radio, TV and communication equipment industry.

Part of this may be due to the current global slowdown in these areas – however, World Bank statistics indicate that the deterioration in the competitiveness of these sectors in the Irish context had started well before the global slowdown began. The great success in recent years of the multinational manufacturing sector in Ireland masks the difficulties in the indigenous manufacturing sector and Government policy has tended to concentrate on encouraging and developing the multinational sector more so than the indigenous sector.

Indigenous Irish manufacturing is key to our future development, particularly as foreign direct investment is ultimately mobile and susceptible to the attractions of other developing economies. While labour costs in Ireland have been rising relative to other EU countries, the sector is also vulnerable to the vagaries of exchange rates. It is also a sector that has to compete for labour and investment with its high technology counterparts.

Particular sectors have their own particular problems, such as the food processing sector being exposed to the problems of foot and mouth in the UK, the BSE crisis and farmer disquiet.

We believe the Government now needs to concentrate on policies to develop the indigenous manufacturing sector. This essentially means encouraging small and medium sized enterprises operating in the lower skilled sectors to grow and take advantage of the opening markets in the EU.

Public Service Reform

Ireland's proportion of expenditure on the public service is high. While there have been some initiatives to reform the public service they have not been enough, nor have they shown sufficient overall momentum to promote change within it. There have been areas where there have been significant improvements, in particular the Revenue Commissioners. However, many of the Departments with whom business interacts have little reforming zeal. Chief amongst this inefficient public service spend is the administration of the country's Local Authorities.

The Benchmarking process needs to yield productivity gains across all areas of the civil and public service. We believe that in many Government Departments there is considerable potential to contract out services currently being provided by those Departments to the private sector. This will result in a more efficient use of expenditure, as competitive tendering will invariably bring improvements. It also should have the effect of reducing the public service pay bill.

Regulatory Impact Analysis will assist in reducing the burden of regulation on business and should be implemented without delay. This will in turn reduce the level of bureaucracy which has been excessive in some areas in particular. Also there is a need to review externally public service provision in order to ensure that it feeds into the competitiveness process and does not hinder it. The reviews undertaken in recent years have been internal and lacked the necessary external element that will help drive the process of public service reform more efficiently.

We call on the Government to set up a Public Service Commission Review Group made up principally of external users of the public service. This could, we believe, be done as part of the benchmarking process. Currently public service pay accounts for approximately 48% of current public expenditure and this does not take benchmarking into account.

It is imperative therefore that a better and more efficient management of the public service is achieved in order to ensure value for money for taxpayer's contribution to the services they require, but do not get.

Local Authorities

IBEC believes that significant gains could be made if Local Authorities were to be rationalised and encouraged to contract out many of their services to competitive tendering. We believe that Ireland is too small a country to have so many Local Authorities and that there are significant cost savings to be achieved by rationalising to a handful of regional authorities. There is a need to direct more attention to the measurement of outcomes.

Governance and Compliance

The recent corporate scandals of Enron, Worldcom and others have focused on the ease with which accounting rules can be circumvented and concealed. The competitiveness of European and Irish business in particular will be impacted upon if the credibility of their corporate governance structures is questioned. While IBEC would not welcome further regulation of business, we do welcome the Audit and Accounting Bill which will strengthen both the responsibility of auditors, and provide better regulation of the accountancy professions.

We also believe the Irish model is one of the strongest in terms of public oversight of the accounting process within Europe. While we also have some difficulty with the proposed requirement on companies operating here in Europe and on the American stock exchanges to comply with the Sarbanes-Oxley requirements, we nevertheless believe that some strengthened and comparable level of comfort is required for European shareholders and the European public.

IBEC believes that we should support voluntary initiatives to improve corporate governance within the European Union and is supportive of improved oversight of accounting standards in this country.

The Legal System

Legal issues affecting business competitiveness are:

- Lack of consolidation of legislation and reliance on legislative provisions which are piecemeal and often difficult to source

- Over reliance on legal advice largely because of legislative complexity, and a lack of cohesion and accessibility

- Despite the welcome introduction of a Commercial Court, as originally suggested by IBEC's Business Law Council, the system, involving as it does, barristers and solicitors, becomes cumbersome and costly when dealing with complex issues or litigation. In most instances, its necessity is open to question

- IBEC is concerned that legal costs are unnecessarily high primarily due to a lack of competition within and between the two branches of the legal profession. We welcome the Competition Authority's lengthy study into the legal and other professions and hope its recommendations are strong enough to address these concerns in the immediate future

There are a number of structural improvements to the legal system required to improve our competitiveness:

- Reform of the legal professions
- Reform of the Courts to include longer Court days and a radical review of Court procedures with a view to eliminating unnecessary bureaucracy and delays
- Review of legal costs and structures, in particular the necessity for the current role of the Taxing Master
- Consolidation and simplification of legislation. Given that good regulation and its satisfactory enforcement is key to achieving compliance and to ensuring rules for fair trading are observed, it is imperative that our legal structure is modernised. Our legal system is different to most of our European neighbours, being based on the common law tradition and in many respects, entrenched in antiquated rules that frustrate modern business practice. IBEC is heartened to see some efforts at reform being proposed, but believes a much stronger approach is required.

Demographics and competitiveness

Europe's population is ageing. However, Ireland's population bubble of retirees will occur later than most of our European counterparts. The problems raised by the decreasing cohort of workers versus retirees will stretch social welfare and health systems and cause pension difficulties right across Europe.

Part of the solution towards avoiding serious problems when this occurs is to increase the levels of participation in the workforce and encourage people who are willing and able to continue working past retirement age to do so. In that way increased taxation and personal savings will help alleviate the demographic problems facing all of Europe. It is in our best interests therefore as a nation to encourage higher labour participation rates by women and to discourage where feasible early retirement.

It is also necessary that we promote much higher awareness of the need for pension provision and pension planning. IBEC supports the government's National Reserve Fund – however, given the level of monies accumulating in the fund, we believe that very strong governance and review is necessary to ensure it is sensibly managed.

We suggest that a review of the governance of the National Pensions Reserve Fund be undertaken within the next two years. In this review, consideration should be given to whether the Fund should invest in infrastructural projects such as toll roads, and other public transport initiatives. This, if properly managed, could be an effective investment vehicle yielding significant returns in future years. It would also facilitate faster infrastructural development, which is urgently needed here.

Also, while we support the policy of increasing pension coverage from 50-70% within the next few years, we doubt whether that is realistically achievable, particularly given the current falls in equity markets.

It is certainly not achievable without a more concentrated encouragement to workers to save for retirement. Given the current debate about the adequacy of pension investments, and bearing in mind recent stock market falls, IBEC believes greater tax advantages should be explored with a view to incentivising savings over the long term.

1. Employment

Ireland has traditionally been one of the poorest performers in Europe in terms of employment. We have held either the ranking of the worst employment rate or the second worst employment rate for most of the 70's and 80's and early 90's. Our recent boom has seen substantial improvements in this area through a range of measures. One of these has been tax reform, which has reduced the tax burden on the lower-paid, thus incentivising the take-up of lower income jobs in particular. Tax has also been at the core of incentivising foreign direct investment which in turn contributed to the rise in employment rates. It is important in the Irish context in particular that tax policy should incentivise business if we are to maintain the growth in employment. This notwithstanding, we know that higher female participation rates can impact on the birth rate, which has the potential to be a major consideration for an ageing population. In view of this, the provision of adequate and affordable childcare facilities will continue to be a key requirement well into the future.

One of the more pressing constraints on the Irish labour market is that of childcare provision and the need for an off-set against income tax of childcare fees for working parents. IBEC has consistently highlighted the need for improved social infrastructure including childcare and we re-iterate it here. It is notable in this regard that Irelands employment strategy has been repeatedly criticised for poor childcare provision as a constraint on our labour market. There have been some significant investment commitments made under our National Development Plan and we are concerned that they be implemented in full, and that specific structural weaknesses such as pre-school and after-school care are urgently addressed.

2. Education

Another key concern in maintaining our current, relatively high level of employment is education. Our unemployment rates have fallen from 15.1% in 1992 to 3.7% in 2001. Investment in education and a reasonably large pool of well-educated and mobile young people contributed to this. However, with rising employment skills shortages have become apparent in certain sectors and a crisis in education has developed, or has at least become more acute as system failures become apparent. The second level dropout rate is amongst the highest in Europe. Literacy levels also need urgent attention.

Ireland's expenditure on education is considerably less than the average of the OECD countries, and is particularly poor in primary and secondary level education. Our spend in primary education is just 70% of the average, whereas the spend on secondary education is just 75% of the average. While up-to-date figures are not available at the moment, preliminary reports suggest that this rate is actually falling further and that in the year 2000 just 4% of GDP was spent on education. While there has been an increase in third level education take-up from the mid to late 1990s, unless the increasing drop-out rate from second level is addressed, our current advantages, which derive from a well-educated and well-skilled workforce, will be a serious issue for Irish business and more particularly for inward investment.

Another issue at second level is the lack of language training. Ireland still compares poorly with our European neighbours in terms of foreign language teaching, the lack of which is becoming more acutely felt as Ireland becomes increasingly integrated into Europe.

While Irish business is playing its part in developing and assisting with educational programmes specifically geared for business needs, this in itself cannot address the educational deficit now becoming apparent. Increasing the investment in education, at primary and second level in particular, is now becoming an urgent issue for business planning in Ireland. Unless we have better and broader delivery of educational services at these levels, future competitiveness and our growth competitiveness potential will suffer considerably. We call on the Government to make education a priority and within education to address the issue of teacher productivity within the benchmarking process.

Conclusion

Bearing in mind that the 2004 exercise to review progress on the Lisbon Strategy takes place during the Irish EU Presidency, IBEC strongly urges the Government to take a leading role amongst its EU counterparts now, with a view to putting real momentum back into the Lisbon Strategy. In particular, government should continue to promote entrepreneurship, an improved EU regulatory framework, innovation (including the Community patent) and biotechnology, as it did in the run-up to the Barcelona Summit.

Above all, competitiveness must be restored in Ireland and in the rest of the EU, through real delivery on the various targets and deadlines that were agreed at the Lisbon (March 2000), Stockholm (March 2001) and Barcelona (March 2002) Summits. Otherwise, jobs will continue to be lost in Ireland and Europe.

Through the recent economic boom we have made significant advances and have caught up on many of our European neighbours in terms of living standards, wages and competitive access to services. Much of this is down to sensible Government policies and the benefits of some market liberalisation being seen in practical terms by the average Irish consumer.

Underpinning the Celtic Tiger phenomenon has been our membership of the EU, and Ireland and Irish business remain committed members of the European Union, and strong supporters of the process of enlargement. While our share of the enlargement benefits may be small, we must act prudently to maximise our future opportunities.

It is important, however, that our domestic policies continue to strengthen our relatively new-found gains and enhance our ability to compete within Europe with economies much larger than our own. IBEC continues to be supportive of the social partnership model which has served us well since 1987. We endorse current competition policies and urge that they continue and be consolidated. We are asking our government for better infrastructure, regulation, public services, health and Local Authority service provision. With these in place we will be more competitive as we make the transition to being net contributors to the European Union.

Finally, it must be remembered that the Lisbon league tables can in many senses be considered a ranking of 2nd Division teams, since according to the 2002 World Competitiveness Report, half of the ten most competitive economies in the world are not EU countries (i.e. USA, Singapore, Switzerland, Canada, and Hong Kong).

Therefore, even to come top of the league of Lisbon indicators, as Sweden, Finland and Denmark do, is not in itself a sure sign of success, given the weakness of the current opposition within the Lisbon league.

On the other hand, to come 7th, as Ireland currently does, indicates there is alot more work to be done if the country is to regain competitiveness that has been lost since the late-1990s. The task ahead for Ireland and for Europe is to get back into the premier league.

In terms of getting decisions, allocating resources and setting priorities, we urge Government to request the National Competitiveness Council, taking into account the business realities set out by IBEC, to explain in detail what practical steps need to be taken to improve Ireland's competitive position.

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