

Minutes for NCC Meeting 93

Meeting: National Competitiveness Council No 93
Venue: O'Callaghan Mont Clare Hotel, Dublin 2
Date: 8:30 – 10.30, Thursday 8th March 2018

Members Present:

- Professor Peter Clinch, Chair
- Pat Beirne, Chief Executive Officer, Mergon Group
- Micheál Collins, Assistant Professor of Social Policy, University College Dublin
- Cathriona Halahan, CEO/Managing Director (Ireland), Microsoft
- David Hegarty, Assistant Secretary, Department of Business, Enterprise and Innovation
- Fergal O'Brien, Director of Policy and Chief Economist, Ibec
- Jane Magnier, Joint Managing Director, Abbey Tours
- Ian Talbot, Chief Executive, Chambers Ireland
- Julie Sinnamon, Chief Executive, Enterprise Ireland
- Jim Woulfe, Chief Executive, Dairygold

Advisors

- John Conlon, Department of Employment Affairs and Social Protection
- Kathleen Gavin, Department of Education and Skills
- Conan McKenna, Department of Justice and Equality
- Sinead McPhilips, Department of Agriculture, Food and the Marine
- John Shaw, Department of the Taoiseach
- David Walsh, Department of Housing, Planning Community and Local Government

Apologies

- Kevin Callinan, Deputy General Secretary, IMPACT Trade Union
- Isolde Goggin, Chair, Competition and Consumer Protection Commission
- Sean O'Driscoll, President, Glen Dimplex Group
- Margot Slattery, Country President, Sodexo Ireland
- Martin Shanahan, Chief Executive, IDA Ireland
- Patrick Walsh, Managing Director, Dogpatch Labs
- Patricia Cronin, Department of Communications, Climate Action and Environment
- John McCarthy, Department of Finance
- David Moloney, Department of Public Expenditure and Reform
- Ray O'Leary, Department of Transport, Tourism, and Sport

Secretariat: Marie Bourke, Teodora Corcoran, John Maher



93.1 Presentation on Patterns of Firm Level Productivity in Ireland

Luke Rehill, Department of Finance presented on the Department of Finance's research findings on firm level productivity which were being published on March 8. The Department's analysis is based on the OECD Multiprod model Firm Level productivity in Ireland. It uses confidential firm-level data to generate non-confidential aggregate statistics which can be used for cross country analysis

The Council's own analysis in 2017 set out how Ireland's productivity performance is built upon a narrow base of mainly foreign owned dominated sectors, (ICT and pharma-chem manufacturing). Mr Rehill outlined how the Department's research moves on from macro, and sectoral, analysis to firm level analysis and explores the dynamics that drive the main channels for aggregate productivity growth. The presentation highlighted how:

- The pace of growth in both labour and multifactor productivity has been on a downward trend throughout the 2000s.
- In some high value-added sectors, a small group of firms are the dominant source of productivity growth. This is in keeping with the highly-concentrated nature of Ireland's economy, as evidenced by the share of value add, employment, and aggregate productivity accounted for by the largest and most productive firms, and cross-country comparisons of indicators of market concentration.
- The variation in productivity across manufacturing and market services is driven by variation in firm level productivity within individual sectors, for instance pharmaceuticals and chemicals in manufacturing, rather than productivity differences between sectors. This reflects a high degree of firm heterogeneity amongst firms within given sectors. This is high compared with other OECD countries.
- Despite Ireland's high productivity levels, significant dispersion in the productivity between frontier and laggard firms exists. Dispersion generally higher in services than in manufacturing. The research suggests that the top 10 per cent of firms account for 87 percent of value added and 73 percent of employment in manufacturing. In services the contributions to value added and employment from the largest firms is higher than manufacturing, with a share of approximately 94 and 87 percent, respectively.
- The allocation of resources in manufacturing appears highly efficient in Ireland compared with other countries, however, when foreign dominated sectors are excluded from the analysis, the efficiency of resource allocation is significantly lower.
- Firm entry levels have a negligible impact on aggregate productivity growth, and the generally negative impact of exit. The negligible impact of entry can be related to the fact that the analysis focus on year on year changes, while the contribution of new entrants takes time to materialise.

Department of Finance Slides to be circulated to Members.

Department of Finance/ESRI to be invited to present to the Council again in 2018 to discuss the findings of the research and potential policy challenges.

The NCC will continue to benchmark Irish performance and examine the drivers of productivity performance from a policy perspective.

<p>Roundtable discussion on productivity</p> <p>A roundtable and Q &A discussion followed. Among the overarching issues discussed were:</p> <ul style="list-style-type: none"> ▪ The diverging performance between laggards and frontier firms and how this gap might be bridged ▪ Potential for greater analysis of the findings at sub sector level and by traded sectors ▪ Irish performance relative to the OECD average and countries Ireland is competing with and structural issues in the economy relating to the concentrated sources of Irish productivity performance ▪ Further uses of the data <p>The Chair concluded by thanking Mr Rehill for the presentation. It was agreed that the NCC must continue to focus on this issue both in terms of benchmarking and policy analysis. Subject to DOF approval the slides would be circulated by the Secretariat and the Council would return to the issue at a future meeting.</p>	
<p>93.2 Minutes from Meeting 92</p> <ul style="list-style-type: none"> ▪ The Chair welcomed the new members of the Council: David Hegarty, Assistant Secretary, Department of Business, Enterprise and Innovation and Fergal O'Brien, Director of Policy and Chief Economist, Ibec. ▪ The Chair thanked the outgoing members of the Council and outgoing secretariat staff for their contributions. ▪ The minutes from meeting 92 were approved. 	No action
<p>93.3 Matters Arising</p> <p>Marie Bourke noted the following:</p> <ul style="list-style-type: none"> ▪ The publication of Ireland's Competitiveness Challenge 2017 in December 2017. 	No action
<p>93.4 Draft Costs of Doing Business in Ireland 2018</p> <p>A presentation on the draft report Costs of Doing Business in Ireland 2018 was given by Teodora Corcoran. The report builds upon a series of Costs reports undertaken in recent years, concentrates on costs that are largely domestically determined and focuses on benchmarking relative to competitor countries in the OECD/Euro area and given the economic implications of Brexit, a particular focus on the UK. Policy issues will be considered in the Competitiveness Challenge.</p> <p>Developments in labour, property, transport, credit costs, services and the wider cost environment were the focus of the presentation as follows:</p> <ul style="list-style-type: none"> ▪ Labour cost growth is modest but positive (certain sectors are experiencing more rapid growth than others). It remains vital that increases in labour costs are underpinned by productivity 	On foot of comments from members and advisers, and the outcomes from a series of meetings with relevant stakeholders, the report will be revised and presented to the Council for electronic sign-off. The Report will be submitted to the Management Board of DBEI and will also be presented to the SOG and Cabinet Committee. It will then be submitted to Cabinet for

improvements and are not out of line with growth rates in competitor countries.

- The average income tax rate remains competitive but the marginal income tax for single people earning the average and above the average earnings, the rate is above the OECD average and the UK rates.
- Property costs, particularly rent, remain a significant threat to sustained competitiveness – increases in commercial rents (robust growth rates) occurring alongside rapid growth in residential rents.
- The costs of diesel/petrol are higher than the Euro area average, ranking Ireland 7th and 6th most expensive in the Euro area.
- Traffic congestion shows on average, journey times in busy periods are increasing. Dublin is one of the most traffic congested cities in Europe.
- Cost of credit remains relatively high in an international context, particularly for SMEs.
- Gross childcare fees in Ireland are relatively high compared to EU and OECD averages.
- The threat posed to competitiveness by housing shortages and escalating property prices remains.
- The sustained appreciation of the euro-sterling exchange rate poses significant challenges for export competitiveness.

Ms Corcoran highlighted that as the economy continues to grow, the pressure on costs increases. Brexit also brings into sharp focus the importance of cost competitiveness. Despite improvements, Ireland remains a high cost location. Inflation is subdued largely due to currency effects but is likely to increase in 2018. Irish consumer prices in 2017 are over 20 per cent above the EU average.

Roundtable discussion

Council Members noted the draft report and discussed the findings.

- Members highlighted the significance of developments in 2017/2018 and the importance of using up to date data, particularly at a granular level. While appreciating the data driven nature of the report and the related constraints on data (availability, timeliness, international comparability) members recalled the importance of reflecting hidden and likely future costs and price developments in the report.
- Several Members raised the importance of rising labour costs relative to inflation to enterprise competitiveness and the need to ensure the report sets out current developments in the labour market as well as trends over time. The challenge of labour shortages, particularly acute in a range of sectors from med-tech to tourism and difficulties in retention were highlighted. Foreign language availability also remains problematic. Increasing labour force participation levels to alleviate labour cost pressure is an important policy message emanating from the report.

consideration prior to publication.

<ul style="list-style-type: none"> ▪ Important cost categories to business such as transaction costs, labour law compliance, costs of exporting, local authority rates, water and planning/development costs need to be highlighted. The problem of data availability, particularly regarding international benchmarking were acknowledged. ▪ Credit costs, particularly the interest rate costs associated with loans <€250,000 were mentioned as a long-standing problem which the Council needs to highlight. ▪ Insurance costs particularly in relation to costs attributable to employers remain a cost pressure point for business and need to be highlighted. ▪ While Ireland’s tax system is generally competitive Irish Capital Gains Tax rates are out of line with the UK. ▪ While energy costs are currently relatively competitive, supply constraints driven by increasing demand are likely to materialise and would represent a major threat to competitiveness. ▪ The focus in the report on costs associated with congestion, rent and property costs and childcare was highlighted by members. It was important that where possible developments at county/city level were elaborated on subject to data availability. <p>The Secretariat undertook to reflect Member’s comments in the final draft, particularly as regards identifying current pinch points which have emerged hidden costs, and competitiveness threats on the horizon.</p> <p>The Council were invited to email to the secretariat final observations as soon as possible. On foot of final comments, the report will be revised. The report will be brought to the Minister for Business, Enterprise and Innovation and the Cabinet Committee on the Economy, Trade and Jobs and Cabinet for consideration prior to publication.</p>	
<p>93.5 NCC Communications</p> <p>The Chair outlined the Secretariat’s engagement with Government prior to the publication of Ireland’s Competitiveness Challenge noted his recent engagement with stakeholders, including:</p> <ul style="list-style-type: none"> • Meetings with the Minister for Business, Enterprise and Innovation • Meeting with European Commission, National Productivity Boards on the establishment of NPBs <p>The Chair also noted the work of the secretariat delivering presentations to delegations from Lithuania and Malta on the functioning of the NCC and the new National Productivity Boards.</p> <p>Marie Bourke outlined the planned communications schedule for 2018.</p>	<p>No action</p>
<p>93.6 Any Other Business</p> <p>National Productivity Boards</p>	<p>A Memorandum for Government from the Minister for Business, Enterprise, and Innovation</p>

Marie Bourke outlined developments in respect to the Council and its proposed role as Ireland's National Productivity Board.

In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by Eurozone countries, it is proposed that the National Competitiveness Council be nominated by Government as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

[Next Meeting](#)

Members were asked to note the meeting dates for the rest of 2018. The next Council meeting is scheduled for 14th June 2018.

requesting approval for the NCC to be mandated to function as Ireland's National Productivity Board will be submitted to Government.

The Council will meet on June 14 2018