

Note for NCC Meeting 89

Meeting: National Competitiveness Council No 89
Venue: O'Callaghan Mont Clare Hotel, Dublin 2
Date: 8:30 – 10.30, Thursday 16th February 2017

Members Present:

- Professor Peter Clinch, Chair
- Pat Beirne, Chief Executive Officer, Mergon Group
- Kevin Callinan, Deputy General Secretary, IMPACT Trade Union
- Micheál Collins, Senior Research Officer, University College Dublin
- Declan Hughes, Assistant Secretary, Department of Jobs, Enterprise and Innovation
- Danny McCoy, Chief Executive Officer, IBEC
- Sean O'Driscoll, President, Glen Dimplex Group
- Martin Shanahan, Chief Executive, IDA Ireland
- Julie Sinnamon, Chief Executive, Enterprise Ireland
- Margot Slattery, Country President Sodexo Ireland and Northern Ireland, Sodexo
- Ian Talbot, Chief Executive, Chambers Ireland
- Patrick Walsh, Managing Director, Dogpatch Labs
- Jim Woulfe, Chief Executive, Dairygold

Advisors

- Kathleen Gavin, Department of Education and Skills
- John McCarthy, Department of Finance
- Conan McKenna, Department of Justice and Equality
- Ray O'Leary, Department of Transport, Tourism, and Sport
- John Shaw, Department of the Taoiseach

Apologies

- Brid Cannon, Department of Agriculture, Food and the Marine
- Jane Magnier, Joint Managing Director, Abbey Tours
- Cathriona Hallahan, Managing Director, Microsoft Ireland
- Dave Walsh, Department of Housing, Planning and Local Government
- David Moloney, Department of Public Expenditure and Reform
- Patricia Cronin, Department of Communications, Climate Action and Environment
- Isolde Goggin, Chair, Competition and Consumer Protection Commission

Secretariat

- Marie Bourke
- Eoin Cuddihy
- John Maher



<p>89.1 Introduction</p> <ul style="list-style-type: none"> ▪ The Chair welcomed the new Members to the Council and thanked those members stepping down from the Council for their contribution. 	No action
<p>89.2 Minutes from Meeting 88</p> <ul style="list-style-type: none"> ▪ The minutes from meeting 88 were approved. 	No Action
<p>89.3 Matters Arising</p> <ul style="list-style-type: none"> ▪ Marie Bourke noted the following: <ul style="list-style-type: none"> ○ The publication of Ireland’s Competitiveness Challenge on 15th December 2016; ○ Ireland’s Productivity Performance Report and Bulletin published on 1st February 2017; ○ NCC’s Submission to the Action Plan for Jobs 2017 (Report included a Chapter on “Enhancing Competitiveness”; and ○ Chair’s letter to the Taoiseach regarding arrangements for dealing with the challenges and importance of continuing with the Action Plan approach. 	No Action
<p>89.4 Scoping for Brexit Benchmarking</p> <ul style="list-style-type: none"> ▪ An overview of the Council’s draft Report entitled “Benchmarking Competitiveness Performance – Ireland and the UK” was given by Eoin Cuddihy. <ul style="list-style-type: none"> ○ Ireland’s public finances relative to the UK are very positive as evidenced by current bond yields. As a non-euro member, the UK is not constrained by the Stability & Growth Pact and its effect on productivity-enhancing capital expenditure. ○ The structural shift in the exchange rates between the euro and both Sterling and the Dollar have significant implications particularly for indigenous exporters in Food and Manufacturing. ○ As a percentage of total EU exports Ireland accounts for more than 20% of the EU’s exports in Telecommunications & ICT and Business Services. The UK accounts for a large proportion of total exports in Financial Services, Pensions and Insurance. ○ Ireland is more trade-reliant on the UK than the UK is on Ireland. Efforts continue amongst State Agencies to further diversity market destination of exports. ○ Ireland has maintained a remarkably strong performance in FDI. Globalisation and technology development mean the composition of FDI economic activity is in a process of constant transformation and the future strength of inward investment depends on Ireland’s ‘fundamentals’. ○ Despite recent growth in the Irish labour market, employment and participation rates are higher in the UK and have not yet rebounded to pre-recession levels in Ireland. 	Incorporate Council feedback into final Draft prior to presentation of the Report to MJEI, submission to Government and subsequent publication.



- Hourly labour costs in Ireland are above the UK and Euro area but recent growth rates in Ireland are below those in the UK.
- Recent commercial property price increases in Dublin have been higher than comparable increases in the UK.
- Corporate tax rates are competitive in Ireland but the gap with key trading partners is narrowing. Headline VAT rates are higher in Ireland than the UK and more reduced rate VATs rates exist. Headline CGT and corresponding Entrepreneur's Reliefs are more favourable for businesses in the UK. Marginal income taxes in Ireland are competitive at lower wages levels but high for individuals earning the average wage or above
- Irish labour productivity levels improved considerably in the past five years and growth rates of Irish (GDP) productivity per hour work in 2014 exceed those in the UK. However, shifts in the composition of employment and the influence of the FDI sector dominate Ireland's performance. Increasing productivity across all sectors and occupations, particularly in the indigenous domestically trading sector remains a significant challenge
- Analysis by the World Bank shows that Ireland has a relatively supportive environment for starting a business compared with many of our international competitors including the UK.
- Interest rates charged for SME loans are lower, and credit risk premiums on SMEs loans over loans to larger firms are narrower, in the UK than in Ireland.
- As a percentage of total Government Expenditure, Ireland spends more than the UK on primary, pre-primary but less on tertiary education. Irish PISA proficiency scores have improved since 2009 and only in the area of Science are Irish students outperformed by their UK counterparts.
- General Government capital expenditure in Ireland declined significantly as a result of the crisis and remains relatively weak compared to the equivalent spending in the UK.
- Except for BERD spending in 2014, where both Irish and UK levels were the same, the UK spent more than Ireland in every R&D category in 2015.
- Irish weighted average electricity prices are lower than arithmetic prices in the UK. The reverse is the case for gas prices.

A discussion on the draft report, its findings and related issues followed. A number of issues were considered in detail. In particular:

- The structural shift that contemporary economic forecasting models would now need to adjust for in light of Brexit was highlighted. Corporate Migration and the on-shoring of IP are having a significant impact on the level and nature of economic activity in Ireland. This potentially impacts the competitiveness of traded-sectors in Ireland



and as a consequence the competitiveness of non-traded sectors is possibly jeopardised due to potential 'crowding-out' effects. Wage development across the economy need to be linked with productivity improvements.

- The effects of a direct causal relationship between corporate migration and the on-shoring of Intellectual Property with increases in wages and commercial rents was also considered. The on-shoring of Intellectual Property is likely to continue over the short and medium-term.
- The need to consider the nature of the large increases in corporate tax receipts and divert these to capital spending on infrastructure was suggested. The work of the CSO's Economic Statistics Review Group charged with the measurement challenges inherent in providing a comprehensive picture of the highly-globalised Irish economy was commended. There may be more GDP volatility to come in the short term and GDP figures could possibly reverse. It was considered that it would be useful to have the CSO present to the Council on the National Accounts.
- Various Council Members noted the importance of the Report's Executive summary and foreword which will be important in summarising the detailed and statistical nature of the report with the need to ensure policy addresses long-standing infrastructural deficits, the importance of attracting FDI and responding to cost challenges with the UK.
- Given the benchmarking within, the Report needs to clearly set out the urgent need in light of Brexit to tackle obstacles to improving Irish competitiveness. In particular it was noted that:
 - Ireland's competitiveness weaknesses need to be highlighted to assist in formulation and implementation of optimal policy responses.
 - Other competitor countries' policy responses to Brexit will also affect Ireland's growth prospects and competitiveness.
 - Formally addressing inherent competitiveness weaknesses, for example, infrastructure, marginal taxes and Capital Gains Taxes, will ensure that when Ireland is planning for the economy Post-Brexit its process will be in as good a position as possible.
 - Without EU limitations (state aid, tax, planning) the UK could become even more competitive
 - In relation to interest rates on SME loans the differential between Ireland and comparator countries is wider when the allowance for tax deductions are included.
 - On energy prices the chapter needs to reflect the price of ensuring security of supply in Ireland.
 - The need for Northern Ireland figures to be included in the analysis, if available, was noted by some Council members.

Request a presentation from the National Accounts section, CSO at the next NCC meeting, 20 April 2017.



<ul style="list-style-type: none"> ○ It is important that an appropriate balance is struck in how the Report is structured between taking a sectoral view and a macro-level view, as there are huge competitiveness issues at sectoral and firm level for Irish industry. ○ Current wage demands of 3-4% are not in line with the current level of consumer price inflation which is a concern to those businesses on tight margins which will face difficulties post Brexit. ○ More detail on Trade and Consumer price implications of Brexit would be useful. ○ The comparison of Ireland and UK in terms of education, and third level education, is difficult, given the differences in funding models in both countries. Ireland's performance in regard to education is good as opposed to mixed and the gap is not in systems performance, where our rankings have improved, but rather in investment in third level. 	<p>The Secretariat to revise the draft report to ensure that the comments and concerns of members with regard to key issues on trade, export and market diversification, the vulnerability of our exporting sectors (particularly agri-food and manufacturing); fiscal sustainability; costs; and talent are reflected.</p>
<p>89.5 NCC Communications</p> <ul style="list-style-type: none"> ▪ The Chair outlined a series of competitiveness advocacy meetings over the last year with Ministers, the appearance this week with the Oireachtas Select Committee on Budgetary Oversight, his presentations to the Cabinet Committee on Economy, Trade and Jobs and various meetings with the OECD, the European Commission and presentations to key stakeholder groups. 	<p>No action</p>
<p>89.6 Any Other Business</p> <ul style="list-style-type: none"> ▪ The Chair asked the members to note the meeting dates for the rest of 2017. The next Council meeting is scheduled for 20th April 2017. 	<p>No action</p>