# Table of Contents

1. Introduction 1  
2. Growing Economic Importance of Services - Global Trends 2  
3. Growing Economic Importance of Services - Irish Trends 5  
4. How Services Trade Liberalisation Works 10  
5. Assessing Economic Impact 13  
6. Costs of Implementation 17  
7. Conclusion 18  
8. References 20
1. Introduction

The Directive on Services in the Internal Market\textsuperscript{1} (hereafter ‘Services Directive’) is potentially one of the most important and wide ranging economic reform proposals for Europe in recent years. This submission aims to provide the Irish trading-context for - as well as estimating the impact of - the Services Directive. In 2008, Forfás provided input to the Regulatory Impact Analysis (RIA) being undertaken by the Department of Enterprise, Trade and Employment. This report is a refresh of the submission to take account of the most recent services trade, employment, and national accounts data. The estimated nominal benefits have increased as a result of the new data, but the broad conclusions of the submission remain unchanged. In order for Ireland to reap the potential benefits of liberalisation in the services market within the European Union it is necessary to remain competitive, ensure the development of foreign languages and inter-cultural skills, as well as meeting the demands for the skills required in a services economy.

The importance of services in modern developed economies cannot be overstated. Services now account for the bulk of economic activity, both in the OECD and in Ireland. This increased importance of services worldwide is due to a number of factors:

- High-earning consumers tend to spend a greater proportion of their income on services;
- More complex and sophisticated lifestyles in developed economies demand more services;
- Advanced technologies stimulate the demand for new and improved services, and facilitate their delivery; and
- Developed business models incorporate more service elements, and often rely on outsourced service provision.

Ireland has established itself as a leading service economy. In Ireland today, two out of every three workers are employed in services, and the sector contributes well over sixty percent of value added in the economy. Ireland has also established itself as one of the world’s top exporters of services. In per capita terms, we punch well above our weight: in 2008 Ireland was the 11\textsuperscript{th} largest exporter of services worldwide and accounts for 2.6\% of all services exports.

In this context, increased trade liberalisation in services generates significant opportunities. At the European level, the creation of a single market for services will result in significant export opportunities for Irish service providers and will give Irish consumers access to a large number of services at competitive prices. The overall effect will be to enhance Ireland’s competitiveness. It will also enhance the EU’s competitiveness by creating the necessary economies of scale for European service providers to challenge competitors from other countries.

\textsuperscript{1} Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market
2. Growing Economic Importance of Services - Global Trends

Throughout the developed world, the services sector accounts for the bulk of economic activity, in terms of both employment and value added. Services are also increasingly internationally tradable and account for a growing proportion of total world trade.

Services: over 70 percent of OECD employment

A process of structural change has taken place worldwide, where the dominant element in the structure of every developed economy has gradually shifted from agriculture to manufacturing and in turn from manufacturing to services. Today, the services sector accounts for over 70 percent of employment in the majority of OECD countries. Since 1988, service sector employment in G7 economies has increased by almost 40 percent, while agricultural employment fell by almost 40 percent. Manufacturing employment held up until about 1990, but has since fallen significantly (Figure 1).

Figure 1: Employment by Broad Economic Sectors, G7 1988-2008 (1988 = 100%)

Services: almost 70 percent of value added in the OECD

In the years between 1988 and 2007, value added in the services sector grew from 60 percent to almost 69 percent of total value added in the OECD (Figure 2). In 14 OECD countries, including the majority of the G7 economies, the services sector now generates more than 70 percent of total value added.

Figure 2: Average OECD Gross value added 1988 - 2007

![Chart showing percentage of GDP from 1988 to 2007]

Source: OECD in Figures, various editions.

Services: a growing proportion of world trade

Services account for a growing proportion of total world trade. Trade in commercial services\(^3\) rose from 1 percent of total world trade in 1989 to almost 21 percent in 2009. In the same period, the value of international trade in services increased by a factor of five (measured in US$) (Figure 3). A wide variety of services are now traded across borders, including finance, insurance, computer-related activities, R&D, advertising, marketing, accounting and consultancy. These sectors now account for 20 to 30 percent of value added in the total world economy, up from 10 to 20 percent in 1980\(^4\).

---

\(^2\) Gross value added is the value of output less the value of intermediate consumption and is used to measure the contribution of the sector to overall welfare (GDP).

\(^3\) This category includes Transport, Tourism, Communications, Insurance, Financial Services, Computer Services, Royalties and Licences, Other Business Services, and Other Services n.e.c

\(^4\) OECD (2005), Enhancing the Performance of the Services Sector
Figure 3: Trade in Commercial Services, 1989 - 2009

Source: WTO Online Statistics Database
3. Growing Economic Importance of Services - Irish Trends

Services: two out of every three workers

Two out of every three workers in Ireland are now employed in the service sector. Moreover, the services sector has driven any recent increase in employment in Ireland: between 1998 and 2008 over 504,900 people entered employment; in this period, services employment increased by 458,800, while industry increased by 68,100 (Figure 4).

Figure 4: Structure of Irish Employment, 1998 - 2008

Source: CSO, online database

Services: high skilled jobs

As is the case internationally, the services sector in Ireland provides a significant number of high-skill jobs. In fact, a greater proportion of service sector employees are engaged in high-skill occupations than is the case for the overall economy (Figure 5). Skill levels differ considerably from sector to sector: over 78 per cent of employees in Professional, Scientific & technical activities are engaged in high-skill occupations, whereas less than 22 percent of employees in Hotels and Restaurants are in the same category\(^5\).

---

\(^5\) CSO data
The services sector in Ireland contributes approximately 65.6 percent of total value added in the economy - a relatively small change since 1998 when it was 55 per cent. This is slightly less than the OECD average.

In absolute terms, growth in services value added has been very pronounced. Between 1998 and 2008 Ireland’s total gross value added more than doubled, from €71 billion to nearly €162 billion. Two thirds of this growth was in the services sector, which increased from €39 billion to €106 billion, while gross value added in industry increased from €28 billion to €52 billion (Figure 6).
Services: an increasing proportion of Irish exports

Over the past thirty years, Ireland has risen to become the 11th highest exporter of services in the world, increasing its share of world services exports from 0.36 percent in 1980 to 2.6 percent in 2007 (see Table 1).
### Table 1  Services Exports to World by Country, 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of World Exports 2008 (%)</th>
<th>Rank 2008</th>
<th>Change of Rank since 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>14.0</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.6</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>6.3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>4.1</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Japan</td>
<td>3.9</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>3.8</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>China*</td>
<td>3.7</td>
<td>7</td>
<td>+2</td>
</tr>
<tr>
<td>Italy</td>
<td>3.3</td>
<td>8</td>
<td>-1</td>
</tr>
<tr>
<td>India*</td>
<td>2.8</td>
<td>9</td>
<td>+9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.7</td>
<td>10</td>
<td>-2</td>
</tr>
<tr>
<td>Ireland</td>
<td>2.6</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.4</td>
<td>12</td>
<td>-2</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.4</td>
<td>13</td>
<td>-1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2.0</td>
<td>14</td>
<td>+1</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>2.0</td>
<td>15</td>
<td>+1</td>
</tr>
</tbody>
</table>


In the ten years from 1999 to 2009, the contribution of services to total Irish exports doubled, from 20 percent to 47 percent. Computer-related services account for 34 percent of total services exports, and Insurance and Finance services between them account for 19 percent (see Figure 7).
The overall Irish trade balance in 2009 was broadly similar to 2002 (Table 2), but the make-up of that balance changed markedly in the intervening years: the deficit in the balance of services trade has steadily improved, while the surplus in manufacturing trade has shrunk.

**Table 2: Irish Balance of Trade, 2002 - 2009**

<table>
<thead>
<tr>
<th>€m</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise</td>
<td>35,443</td>
<td>32,605</td>
<td>31,422</td>
<td>28,219</td>
<td>25,032</td>
<td>19,811</td>
<td>23,820</td>
<td>32,647</td>
</tr>
<tr>
<td>Services</td>
<td>-13,781</td>
<td>-11,090</td>
<td>-10,201</td>
<td>-9,302</td>
<td>-6,798</td>
<td>-1,121</td>
<td>-5,371</td>
<td>-4,957</td>
</tr>
</tbody>
</table>

Source: CSO database direct, accessed April 2010
4. How Services Trade Liberalisation Works

At the wider international level, service trade was not the subject of trade negotiations prior to the beginning of the World Trade Organisation’s (WTO) Uruguay Round in 1986, and the General Agreement on Trade in Services (GATS) was inspired by similar trade liberalisation goals as its counterpart in merchandise trade, the General Agreement on Tariffs and Trade (GATT). To understand how services trade liberalisation works, it is useful to consider how services trade are delivered internationally and how liberalisation is thought to impact on an economy.

Four modes of international delivery of services are identified by the WTO:

**Mode 1 — Cross border trade:** The provision of a service from the territory of one Member into the territory of any other Member:
- Management consulting - studies, reports, business plans, financial advice;
- Information and communication technology - Internet service provision;
- Marketing - market research, advertising, articles;
- Consulting engineering - feasibility studies, drawings;
- Health - telehealth;
- Education and training - e-learning, distance learning;
- Transportation - courier services, other transportation services.

**Mode 2 — Consumption abroad:** The provision of a service in the territory of one Member to the service consumer of any other Member:
- Tourism and travel-related services - tour operators, hospitality industry, business tourism, agri-tourism, eco-tourism, edu-tourism;
- Education and training - conferences, seminars, study tours, foreign students;
- Legal - client seeks legal advice in local market therefore travels to the market.

**Mode 3 — Commercial presence:** The provision of a service by a service supplier of one Member, through commercial presence, in the territory of any other Member:
- Financial services - banks, investment companies, insurance brokers;
- Construction engineering - project offices to manage local infrastructure projects;
- Information technology - local offices set up to service local clients;
- Distribution - shipping, warehousing, logistics.

While the nature of international services trade liberalisation in a WTO context will differ from the EU situation (different services will be covered and impacted differently), the ‘modes of supply’ typology applies to both.
Mode 4 – Presence of natural persons: The provision of a service by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member:

- Arts and Culture - film industry - actors, directors, production crew, performers;
- Construction - architects, trades people;
- Education and training - trainers, professional speakers;
- Environmental - consultants, specialists;
- Geomatics - mapping, oceanography;
- Recreational and sporting - coaches, trainers, promoters.

The Statistics Division of the WTO Secretariat estimates the share of individual modes in world services trade as covered by GATS to be:\n
- Commercial presence (Mode 3) - 50 percent
- Cross-border trade in services (Mode 1) - 30 percent
- Consumption abroad, mostly tourism (Mode 2) - 15 percent
- Presence of natural persons (Mode 4) 1-2 percent of total services trade.

While the nature of international services trade in the WTO context is likely to differ greatly from the context of EU internal market measures, these estimates of the importance of the various modes of services trade are likely to be broadly indicative of the forms of services trade within Europe.

It is in the context of these modes of delivery that governments discuss the opening up of international services markets. The open trade policies pursued by successive Irish governments have undoubtedly brought benefits to the Irish economy. Nonetheless, it does not necessarily follow that further trade liberalisation will be unambiguously positive for all companies or industries. There are various ways in which further services trade liberalisation may impact on the Irish economy. Given the current shape of the EU services industry, further trade liberalisation could have five major impacts on Irish firms, Irish consumers and Irish welfare:\n
- Irish firms exporting services will gain easier access to EU country markets where they currently face significant non-tariff barriers. This is the export penetration effect of further trade liberalisation.
- Irish firms supplying services to consumers on the Irish market will face greater competition from firms in other European countries. This greater competition will come from the removal of non-tariff barriers which currently protect the home market advantage of Irish firms. However, what will be pain for Irish firms will be a gain for Irish consumers, who will enjoy lower prices and a wider variety of goods as a

---

8 For a similar typology, see Matthews, A. (1994).
consequence. This is the import penetration effect of further services trade liberalisation. Taken together, the export and import penetration effects overall will have a positive welfare effect on the Irish economy arising from the reallocation of resources away from protected import-competing sectors towards more competitive exporting sectors. This reallocation of resources leads to a gain in allocative efficiency for the whole economy, although there could be adjustment difficulties for individual firms as they face the new challenges and opportunities.

- The impact of liberalising trade in services is fundamentally different to the impact of traditional tariff liberalisation in one important respect. Tariff barriers reduce allocative efficiency in the economy but they also yield government revenue to offset the higher costs borne by consumers. Barriers to trade in services generally are purely cost-increasing. As there is no tariff revenue accruing to the home country government as a result of these restrictions, any reduction in domestic prices if liberalisation leads to supplies being sourced in more competitive third countries can only have a positive effect on domestic welfare. We refer to this as the trade efficiency effect of further trade liberalisation.

- Fourthly, many of the measures envisaged in the Directive, while necessary for the successful completion of the internal market for services, will also have a very substantial affect in both increasing the level of competition within the Irish economy, and reducing the level of unnecessary and unwarranted administration. This will clearly have substantial benefits for Irish consumers and businesses, even in the absence of any change in the ability of foreign service providers to trade in Ireland, or the ability of Irish service providers to access EU markets. This is referred to as the regulatory reform effect of further services trade liberalisation.

- Finally, the effects of trade liberalisation highlighted above represent static effects. Static effects result in a once-off jump in the level of national income, though the country continues enjoying this higher income every year. However trade liberalisation may also set in motion effects which only play out over time. Such effects are referred to as dynamic effects of further services trade liberalisation. The key development in theoretical economics to explain the importance of trade and other issues is endogenous growth theory, which highlights a number of channels whereby trade liberalisation may promote development. A simple example is where the static effects are positive and result in a higher level of domestic GDP. If this permits higher levels of domestic investment, then there can be successively larger increments to GDP over time. Trade liberalisation may also influence the location of foreign investment. For example, easier access to foreign markets may encourage more foreign firms to set up in the domestic economy. Trade liberalisation may also raise the long-run rate of productivity growth in the economy, by increasing access to foreign knowledge. Because these dynamic effects are cumulative, their importance can quickly outweigh the economic significance of the static effects of trade liberalisation.
5. Assessing Economic Impact

The nature of barriers to services trade, as opposed to goods trade, makes assessment of the economic consequences of services liberalisation notoriously difficult, whether at global (WTO) or regional (EU) level. For example, in 2005 Forfás in conjunction with Trinity College Dublin produced a study of the economic consequences of WTO trade-liberalisation scenarios for Ireland. This paper acknowledged the complexity of impact assessment regarding services trade liberalisation stating: “to model service liberalisation requires quantitative estimates of trade barriers. However, unlike the case of agriculture and manufacturing, in services these barriers tend be qualitative rather than quantitative in nature. Such barriers include the existence of national monopolies in service sectors, restriction of certain activities to domestic firms or regulation on the establishment and operation of foreign service providers”.

Consequently, impact studies typically employ simulation estimates of barriers to trade in services, often calculating tariff equivalents of the barriers using a gravity model approach. Applying the result of a sample of these studies to the Irish services economy (see Table 3 below) can provide us with a reasonable guide as to what the impact on Ireland of implementation of the Services Directive might be.

**Table 3: Ireland’s Services Economy**

<table>
<thead>
<tr>
<th>Service Sector</th>
<th>Gross value added 2008 (€m)</th>
<th>Total Employment Q1 2010 ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>15,884.40</td>
<td>266.2</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>3,783.20</td>
<td>123.6</td>
</tr>
<tr>
<td>Transport, Storage, Communications</td>
<td>7,951.80</td>
<td>166.9</td>
</tr>
<tr>
<td>Financial intermediation*</td>
<td>16,547.20</td>
<td>84.8</td>
</tr>
<tr>
<td>Real estate, renting, business activities*</td>
<td>30,052.10</td>
<td>183.8</td>
</tr>
<tr>
<td>Public Administration etc.</td>
<td>7,702.50</td>
<td>107.2</td>
</tr>
<tr>
<td>Education</td>
<td>7,627.60</td>
<td>146.1</td>
</tr>
<tr>
<td>Health &amp; Social Work</td>
<td>12,223.40</td>
<td>233.9</td>
</tr>
<tr>
<td>Other community, social and personal service activities</td>
<td>4,619.60</td>
<td>99.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>106,391.80</strong></td>
<td><strong>1,411.5</strong></td>
</tr>
</tbody>
</table>

Source: CSO data. * CSO data reports ‘financial, insurance and real estate activities’ as one. In table 3, Forfás have allocated one fifth of this value to real estate activities. In addition, ‘professional, scientific and technical activities’ and ‘administrative and support service activities’ are included in the figure for ‘real estate, renting, business services’.

*Forfás / TCD (2005), page 19.*
As some services are explicitly excluded from coverage by the Directive (e.g. financial services, road / rail transport, healthcare etc.) calculations of impact on Ireland are based on adjusted totals from those reported in Table 3 above. Having removed the employment and gross value added associated with financial intermediation, health / social work, and public administration services, and adjusted the gross value added and employment associated with education and transport services, the totals used for gross value added and employment calculations in this study are €74 billion and 1,069,075 respectively.10

Copenhagen Economics produced the most extensive economic impact assessment of the Services Directive in 2005. This study employed an analytical framework linking legal changes to economy-wide effects, and relies on detailed barrier data from 275,000 businesses of various sizes across the EU. The study predicts enhanced productivity, higher employment, increased wages and lower prices, with SMEs benefiting greatly, as barriers which mainly protect the large incumbent firms from competition and allow them to keep prices artificially high are reduced, making it easier for smaller firms to enter markets.

According to the research by Copenhagen Economics, the expected economic impact of the Services Directive is for gross value added in EU services sectors to increase, at a conservative estimate, by 1.1 percent11. Net employment in services is expected to increase by 0.5 percent and average economy-wide real wages by 0.4 percent. The study also forecasts that the Directive will reduce average prices for services. For example, for regulated services such as legal and accounting services it forecasts an average reduction of 7.2 percent. Higher wages and lower prices will increase consumption in the EU, which in turn will lead to increases in demand for both goods and services.

If these estimates are applied to the Irish services economy, gross value added in services could be expected to increase by €816 million per annum, net employment in services could be expected to increase by over 5,300 while average real wages in the services economy could increase by €93 million per annum12.

The predictions made in the Copenhagen study can, the authors say, be regarded as conservative, as statistical limitations and data shortages meant only about 2/3 of the economic activity covered by the Services Directive was covered by the study.

10 For education services, the assumption is made that the Directive applies to 40% of services, based on employment data for public versus private provision. Thus gross value added is assumed to be €3 billion and employment 58,440. Regarding transport services, the assumption is made that the Directive applies to 15% of services, based on employment and gross value added data for land/water/air/cargo transport services versus travel and tourism services. Thus gross value added is assumed to be €1.2 billion and employment 25,035 for transport services.

11 Copenhagen Economics (2005), page 32.

12 CSO Data: Wages and Salaries in Services Sectors, €23.2 billion, 2007. Note- wages data refers to NACE categories G-O and thus covers all transport services but not education services.
Further analysis undertaken in 2005 investigated how the Services Directive could lower the intra-EU heterogeneity in product market regulation for services, and what effect this would have on bilateral trade and investment in the Internal Market for services. An overarching result of the research is the conclusion that heterogeneity in regulation is a burden both for exporting and investing. By reducing the heterogeneity in barriers to competition, trade and investment, the research estimates the Directive could increase intra-EU commercial services trade by as much as 62 percent of the largest EU countries, which may gain between 40 and 50 percent on intra-EU services exports. When applied to CSO data for 2008, this would see the value of Irish services exports rise by €13-16 billion per annum. In addition, this study employed empirical results to show that the size of bilateral Foreign Direct Investment (FDI) stocks is seriously affected by the heterogeneity and intensity in regulation. Having investigated the effects on the bilateral FDI stocks from the Services Directive, the researchers found that intra-EU FDI stock could increase by between 18 and 36 percent. This is due to less heterogeneity in barriers to competition, less heterogeneity in State control and lower levels of FDI restrictions in destination countries. For Ireland, the model predicts relative increases in FDI stocks of 22 percent for inward investment and 23 percent for outward (ODI). Applying these gains to CSO data from 2008 indicates an increase in FDI of €21 billion and €19.6 billion for ODI.

The March 2008 edition of the ECSA Austria Publication Series reported research intended to supplement previous studies, using a simple econometric approach to estimate the economic effects of the Services Directive through two channels: (i) the trade channel via the principle of “free movement of services”, and (ii) the FDI channel via the principle of “freedom of establishment for service providers”. According to this research the Services Directive could raise employment by 400,000 in the EU-25 and increase real GDP by around one percent in the medium to long run. For Ireland, the research posits an increase in employment in the order of 3,700 to 7,300 and an increase in value added to €670 million based on data for the Irish services economy in 2006.

Also in 2008, Copenhagen Economics produced simulations on the likely impact on the UK economy following implementation based around an analysis of four key sectors - regulated professions, business services, distributive trade and construction services. In this analysis gains to the economy from the Directive are driven by two mechanisms:

- Further opening of the services market allows for easier foreign (and domestic) entry into the service sectors covered in the analysis. This increases the level of competition in these markets, resulting in lower prices and spill-over effects on the rest of the economy.

- Firms experience lower administrative costs leading to higher productivity and higher cross border trade and growth in the domestic services market.

---

14 CSO Data: Services Exports to EU27 countries in 2008: €32.6 billion (excludes exports of transport, insurance and financial services)
16 CSO Data: EU27: FDI €95 billion, ODI €85 billion.
Overall, it shows that implementing the Services Directive will increase UK welfare (GDP) by 0.4-0.6 percent per year and create up to 0.3 percent extra jobs\textsuperscript{18}. If the impact on Ireland’s services economy were in the order of those estimated in the UK study then implementing the Services Directive across the EU will increase Ireland’s welfare by €460-€700 million per year and create some 2,300 new jobs\textsuperscript{19}.

When assessing the results obtained in the various studies outlined a number of factors must be taken into account. In addition to a variety of analytical techniques being applied, different versions and aspects of the Services Directive are analysed. Consequently, all estimates should be treated with a degree of caution, as they are merely indicative in nature. As was shown in the Czech Republic, re-running of analysis on different versions of the Directive can produce very different results.

Perhaps the most important point to be cognisant of when considering these studies is the often static nature of the effects under analysis. Under Finland’s EU Presidency in 2006, available studies on the impact of the Directive were reviewed. First, it was found that the measures in the Directive will generate more intra-European trade in services, more foreign direct investment in services sectors, and lower prices of services. Consumption and income will increase, and possibly also employment in Europe. Second, it found that while the static gains estimated in various studies are considerable in themselves, what is even more important for the economic future of the EU is the longer-term effects on future welfare. Dynamic effects potentially have a larger and longer-lasting impact on the European economy, although they will materialise less quickly than the static gains of service-market. These effects include new market entry by firms based in other EU countries, new competitive selection and productivity growth, an increased role of SME firms in exports, intensified knowledge spill-overs, stronger innovation by incumbent firms, and increased FDI in liberalised services markets which will also increase average productivity\textsuperscript{20}.

Therefore estimations or gains to Ireland based on previous European studies could underestimate the boost to output, welfare and employment from the Directive. While most studies take account of broad effects in the economy, they can often ignore the effects of more competition on productivity and innovation in the long term.

\textsuperscript{18} Copenhagen Economics (2008), pages 7-8.
\textsuperscript{19} GDP data for 2001 is used because the model is calibrated to that year.
\textsuperscript{20} Netherlands Bureau for Economic Policy Analysis (2006)
6. Costs of Implementation

Although not the primary focus of this submission, it would be an oversight not to mention some of the costs that will undoubtedly be associated with the transposition and implementation of the Directive in Ireland. Foremost among these costs will be those associated with establishing and maintaining the ‘Point of Single Contact’. Points of Single Contact are facilities through which service providers and recipients will be able to access information relating to service activities, and through which providers will be able to complete, including remotely and by electronic means, all relevant procedures and formalities associated with access to and the exercise of service activities. There will also be a cost associated with arrangements to facilitate administrative co-operation between the various bodies responsible for the supervision of service providers in Member States. These costs will be borne by the State (e.g. government, local authorities, State bodies) but will be offset by the welfare, output, investment, employment and wage gains to the wider economy. Some costs may also arise in the case of non-State bodies (e.g. professional bodies that regulate the activities of the professions).
7. Conclusion

To summarise, further trade liberalisation will have a range of impacts on the Irish economy, some of them positive, some of them negative. These impacts arise through changes in allocative efficiency in the economy, through changes in trade efficiency and in regulatory reform, and through the impact of dynamic effects over time. Looking at a sample of impact analyses undertaken between 2005 and 2008, one cannot make a precise estimate of the gains to the Irish economy from implementation of the Services Directive. However, these studies do allow estimation of the range of benefits to be expected, and certainly indicate an order of magnitude of the probable gains. Therefore, based on the studies outlined, it could be reasonably expected that transposition of the Services Directive could deliver gains to Ireland in the following order of magnitude:

- Ireland’s overall welfare could increase by some €816 million per annum;
- Net employment in services could be expected to increase by 5,300;
- Average real wages in the services economy could increase by €93 million per annum;
- The value of Irish services exports could rise by €13-€16 billion per annum; and
- Relative increases in FDI stocks of 21 percent could be expected.

However, some of these estimations are derived by simple extrapolation of econometric models to the case of Ireland. These numbers thus do not take into account certain important Ireland-specific characteristics. For example, realising these gains will depend crucially on Ireland’s international competitiveness. Unless we can ensure that Ireland’s wage costs and enterprise costs do not move out of line with those of other European countries, the potential gains from liberalisation of the services markets within Europe will not materialise to the extent envisaged here.

Secondly, successful internationalisation of services in Europe presupposes some specific skills, such as proficiency in foreign languages and inter-cultural skills. There has been some examination of how Ireland’s trade in goods is affected by differences in language, greater distance to markets in comparison to the UK, weaker cultural ties, and lack of migration from some EU Member States\(^\text{21}\).

For example, the proportion of Enterprise Ireland’s clients’ exports going to foreign language markets, at 38 percent, is significantly lower than the 61.3 percent figure for overall exports. These cultural effects may be magnified where the trade is in services which (given the often personal method of delivery) may rely even more upon good language skills and cultural knowledge.

\(^{21}\) Forfás (2008a), Section 3.4
Finally, for the potential gains from liberalisation of the services markets to materialise, it will be important that the related skills are sufficiently fostered in the Irish environment. As a recent Forfás Report outlines, the variety of skills that the services sector requires is particularly broad, and we need to ensure that the demand for skills is met right across that spectrum. In this regard, the implementation of the National Skills Strategy is of crucial importance - and this places demands on individuals, employers, representative bodies, educational institutions, training organisations, and State agencies.\(^{22}\)

8. References


Central Statistics Office, database direct, available at:

http://www.cso.ie/px/pxeirestat/database/eirestat/eirestat.asp

Copenhagen Economics (2005), *Economic Assessment of the Barriers to the Internal Market for Services*.

Available at:


Available at:


Czech Trade Promotion Agency - CzechTrade (2006), *Analysis of the economic impacts of the proposed Directive on Services in the Internal Market*.

Available at:


Available at:

Forfás (2008b), *Catching the Wave*.

Available at:


Forfás / Trinity College Dublin (2005), *Economic Consequences of the Doha Round for Ireland*.

Available at:


Netherlands Bureau for Economic Policy Analysis (2005), *The free movement of services within the EU*.

Available at:


Available at:


Organisation of Economic Co-operation and Development - OECD (2005), *Enhancing the Performance of the Services Sector*.

Available at:

http://www.oecd.org/document/2/0,3343,en_2649_34561_35026178_1_1_1_1,00.html