National Economic Dialogue 2019

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Please note these papers have been prepared as a contribution to the discussions in the breakout sessions at the National Economic Dialogue. They should not be seen as prescriptive, but rather seek to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

BREAKOUT SESSION 1

"ACHIEVING SUSTAINABLE ECONOMIC GROWTH IN A CHANGING ENVIRONMENT"

CHAIR: **MINISTER FOR FINANCE AND PUBLIC EXPENDITURE AND REFORM, PASCHAL DONOHOE, T.D.**

RAPPORTEUR: **PROFESSOR STEPHEN KINSELLA**

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

1. What is the most appropriate fiscal stance given the position in the economic cycle and the heightened risk of an adverse shock?
2. How can we address capacity constraints in a manner which does not overheat the economy?
3. How do we deliver sound fiscal policy in the various Brexit scenarios?
4. How can we manage the current historically high levels of Corporation Tax receipts to ensure the sustainability of the public finances?
    a. Is there a better way to assess long-term sustainability of receipts?
    b. Is a prudence fund the best use for monies collected above a sustainable level? Are there better options such as capital investment or debt repayment?

BACKGROUND

In reflecting on our current position as one of the most dynamic economies in Europe, it is worth recalling the journey travelled in restoring the public finances to a balanced position. It is now a decade since Ireland entered the most acute phase of the financial crisis. The collapse of the property market a year earlier triggered a chain of events (including the collapse of taxation revenues which had become excessively dependent on a single sector of the economy) that would ultimately lead to Ireland's entering an EU-IMF programme of financial assistance.

Despite many challenges over the past number of years and a number of external risks, the Irish economy continues to grow at a robust pace. The *Stability Programme Update* (SPU) projects GDP to expand by 3.9 per cent in 2019 and by 3.3 per cent in 2020. Our fiscal framework is also immeasurably different with tightened rules under the Fiscal Responsibility Act.

Last year, the Exchequer balance moved into the first underlying surplus since 2006 and the Government is targeting a headline general government surplus of 0.2 per cent of national income for this year. It is intended to achieve this while at the same time increasing capital investment by 22 per cent this year – putting in place the building blocks for continued economic and well-being growth over the medium-term.

Importantly, the robust economic growth in recent years has not yet given rise to significant inflationary pressures. For 2018 as a whole, Ireland's inflation averaged just 0.7 per cent, this compares to an average inflation rate of 1.9 per cent for the EU as a whole. The comparatively low level of inflation in Ireland should help to maintain our competitiveness and protect real wage growth.

The recovery is perhaps most clearly evident in the labour market. Since the low-point in 2012 there are now an additional 352,000 people in employment. Importantly, the growth in employment has been broad-based. The unemployment rate has fallen to 4.4 per cent; a rate not matched since early 2005 and a dramatic reduction from the peak of 16 per cent in 2012. Further gains in employment are in prospect this year, with the number in employment expected to increase by 50,000. However we are now zeroing in on full employment, a welcome outcome but one which raises serious over-heating risks.

On wage developments, while average annual earnings grew by over 3 per cent in 2018, a noticeable increase on the growth rate of 1.9 per cent recorded in 2017, this came on the back of a near decade of low or negative growth in earnings. The rise in household incomes is a welcome development, however it needs to be monitored closely to avoid a significant acceleration in wages, which may undermine Ireland's relative to other European countries.

The picture for the global economy, which is critical for Ireland as a small open economy is less benign. Global economic activity slowed sharply towards the end of 2018 and the beginning of 2019, amidst a downturn in global manufacturing and trade. This was compounded by temporary headwinds in the US linked to the partial government shutdown and a sharp tightening of financing conditions. Global GDP growth is expected to slow from 3.5 per cent in 2018 to 3.2 per cent in 2019. In 2020, the global economy is forecast to recover somewhat with annual GDP growth of 3.4 per cent.

This uncertainty in the global trading environment, coupled with Brexit, means that Budget 2020 will need to take a cautious approach to any expansionary policy measures.

EXPENDITURE

With employment approaching maximum levels, the overall economy is also at or near full capacity and as such, overheating is now a serious risk. However there remains a number of capacity constraints which emerged during the recovery such as the need for investment in residential development and public infrastructure. Reflecting this, the *National Development Plan* (NDP) includes a more than doubling of capital investment from €4.2 to €8.6 billion between 2016 and 2021.

This increase reflects the Government's policy to address bottlenecks to ensure the economy remains competitive and resistant to external shocks. Any additional capital costs beyond the NDP however, such as those associated with the National Children's Hospital, will have to be provided for within the existing capital ceiling. Proceeding with the National Broadband Plan next year would have to be funded through the reprioritisation of current expenditure resources and/or a reallocation between tax and expenditure measures.

Expenditure policy as set out in *Expenditure Report 2019* and the *SPU* limit current expenditure increases to 2.5 per cent. This is consistent with the *Summer Economic Statement 2016* that provided for an annual increase in spending on the delivery of public services of 2.5per cent per annum over the period 2016 to 2021, reflecting commitment made in the *Programme for a Partnership Government*.

In order to contain current spending growth, the opening 2020 budgetary position is for inclusion only of costs arising under the *Public Service Stability Agreement 2018-20*, carryover from *Budget 2019* and costs related to demographic change in Health, Social Protection and Education. These additional costs are referred to as pre-committed expenditure. This pre-committed expenditure amounts to c. €1.2 billion for 2020, leaving €0.3 billion to be allocated during the Estimates process to meet expenditure pressures arising from the further roll-out of sectoral policies or for new policy measures. Any excess of this amount would require reallocation between tax and expenditure measures.

Brexit and External Risks

While there is an increasing risk of a disorderly Brexit, whatever form it takes, the UK's exit from the EU will damage the Irish economy. There will be direct effects such as lost economic output and trade and there will also be indirect effects such as the loss of a pro-trade, economically-liberal, large Member State which shares many of our values and principles.

The IMF recommends that the risks facing our economy should be managed by focusing on building fiscal buffers and strengthening the resilience of the economy, both to alleviate demand pressures and to prepare for the possibility of a major external shock. Should a disorderly Brexit materialise, the IMF recommends that the Government allow automatic stabilisers to operate freely and to provide targeted, temporary, and effective support to hard-hit sectors. Ireland should also prepare for a fiscal stimulus, depending on the severity of the downturn in the broader economy.

The Government has set out in *Summer Economic Statement 2019 (SES)* the parameters for budgetary policy in preparation for Budget 2020. While the *SES* maintains an orderly Brexit as the central scenario, a greater likelihood is now being assigned to a no-deal or disorderly Brexit outcome. The SES addresses to the two scenarios as follows:

1. Orderly Brexit

- The Irish economy continues to expand by 3.9 per cent this year and by 3.3 per cent next year;
- A modest general government surplus of 0.2 per cent of GDP is delivered this year and 0.4 per cent next year;
- Appropriate budgetary strategy is to stay within the parameters set out in the SPU.

2. Disorderly Brexit

- Automatic stabilisers allowed to operate freely. Higher social welfare spend as a result of increased unemployment;
- Reduced tax revenue as a result of weaker employment;
- Targeted supports.
- **Overall Cost**: A deterioration from the orderly Brexit scenario general government surplus of 0.4 per cent of GDP to a deficit. An appropriate budgetary strategy would be to:
    - Refrain from spending the full unallocated 2020 resources;
    - Set a realistic deficit target; and
    - Limit expenditure increases to those required to deal with existing commitments and emerging expenditure pressures, with no further commitments being made.

A Note on the Rainy Day Fund (RDF)

The Rainy Day Fund legislation as drafted is intended for relief against unexpected economic shocks, for example natural disaster, and is therefore not intended for Brexit relief.

The RDF will be initially capitalised with a €1.5 billion transfer from the Irish Strategic Investment Fund and will be supplemented annually by €0.5 billion, recognising the historically high and potentially unsustainable levels of corporation tax. The RDF currently has a size limit of €8 billion, however a provision has been included in the legislation to allow the Dáil to amend the cap following a proposal from the Minister for Finance.

Although it has been suggested that a higher fund capitalisation than €8 billion ought to be targeted, the management fees of a fund of this scale may make further fund size increases less attractive than paying down our stock of national debt, which despite being on a downward trajectory, remains one of the most elevated in the OECD, projected to be c.107 per cent of GNI* by the end of this year.

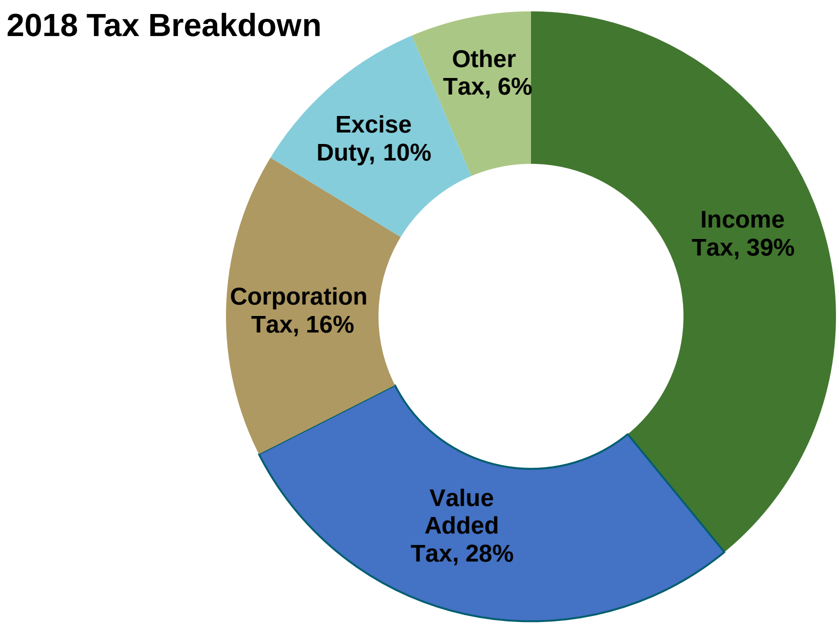
TAXATION

To fund public expenditure, it is important that tax revenue is sustainable. Important structural reforms of the tax system have been implemented in recent years which have been geared towards broadening the tax base, most recently by extending the by extending the standard rate of VAT to the tourism sector.

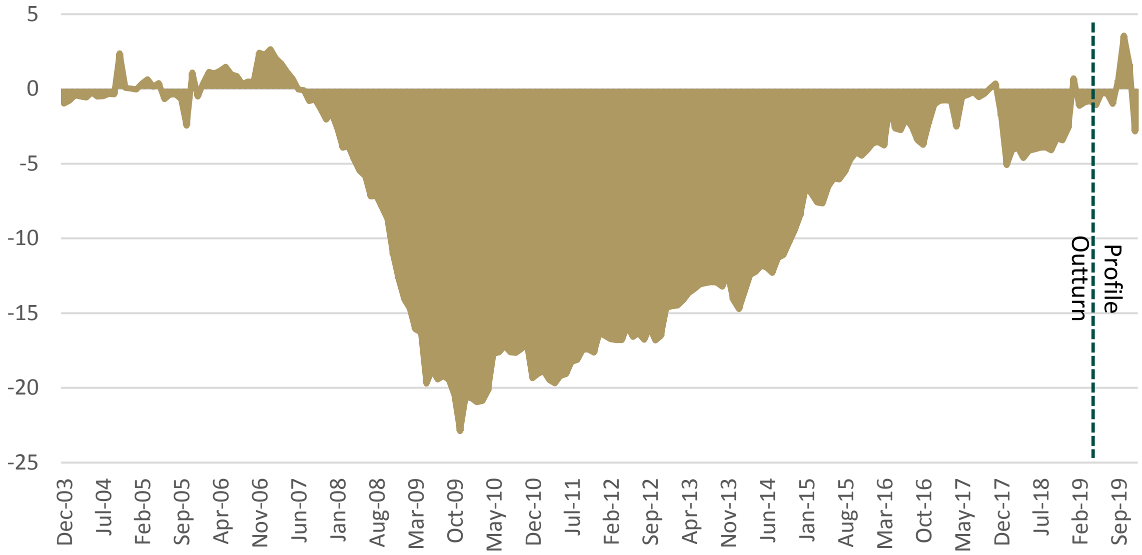
Since 2014, corporation tax receipts have more than doubled, with 2018 posting both the highest ever receipts in absolute terms (€10.4 billion) and in terms of the share of overall receipts (just under 19 per cent). The risk posed by reliance on this tax heading is compounded by the fact that the share of receipts from the top 10 corporations also rose to a new high of 45 per cent, though the firms in the top 10 do regularly change, somewhat mitigating this concentration risk. Given the rising uncertainty associated with international trade, as well as potential tax changes in other jurisdictions, this surge in corporation tax receipts and the concentration among a small number of large companies presents a serious risk to the sustainability of the public finances, particularly if public expenditure is permitted to increase in line with these potentially transient receipts.

The Department of Finance recently published a scoping paper titled 'Addressing Fiscal Vulnerabilities' which examines, among other things, corporation tax over-performance. The paper presents possible solutions to reduce the exposure to corporation tax windfalls by ring-fencing higher than expected receipts.

The paper argues that it would be wise to treat corporation tax receipts above this share as potentially 'windfall' in nature and set some of this 'froth' aside in the Rainy Day Fund. Operationalising this could involve defining a new headline general government balance (GGB*) as the balance excluding excess corporation tax receipts. This new metric could then feed into targets for the headline and structural balances. This approach would help to ensure that cyclical or potentially windfall corporation tax receipts do not fund permanent, structural increases in spending.



Exchequer Borrowing Requirement, € billions



National Economic Dialogue 2019

Breakout Session 2

"DIVERSIFYING OUTPUTS AND MARKETS"

CHAIR: **MINISTER FOR AGRICULTURE, FOOD AND THE MARINE, MICHAEL CREED, T.D.**

RAPPORTEUR: **PROFESSOR MICHAEL WALLACE**

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

In the context of developing a new agri-food strategy for Ireland:

1. How can the Irish agri-food sector be better positioned to capture global, developing consumer trends? How can market signals be transmitted to agri-food businesses and primary producers?
2. How can businesses, including producers, do more to diversify their products and target markets?
3. Given the significant trade-offs associated with diversification, and the manner in which there will be winners and losers, what do you think should be the priority for the agri-food sector?
4. Is the balance right between increasing value added in the forestry, marine and agricultural sectors? Is the balance right between focussing on inside and outside the farm gate?
5. How can resilience be fostered within the agri-food sector?

INTRODUCTION

The agri-food sector includes primary production (agriculture, fishing and forestry), along with downstream food and beverage, and wood processing sectors. The agri-food sector accounts for a significant component of the Irish economy, especially in rural and coastal areas; it accounted for 7.7% of GNI* in 2017, 7.7% of Employment in 2018 and 10% of the value of total exports in 2018[1]. The State's Operating Surplus for the agriculture sector was €2,902m in 2018.[2] The overall value of goods output at farm level was €7.98 billion.

Key Targets

Food Wise 2025 (published July 2015) is a ten-year strategy agreed by a range of stakeholders, both public and private, and adopted by the Government as an overarching policy for the Irish agri-food sector. It provides the policy rationale for Ireland's agri-food strategy over the period 2015-2025. Market Development was identified as one of the key five cross-cutting themes in Food Wise 2025. It highlights

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[1] DAFM Fact Sheet on Irish Agriculture, 2018.
https://www.agriculture.gov.ie/media/migration/publications/2019/IrishAgricultureFactsheetFullYear2018010519.pdf

[2] CSO – Output Input and Income in Agriculture

the need to ensure that Irish products are targeted at the right markets and the right segments within these markets in a rapidly evolving global market environment.

Market access, development and diversification work is a key feature of the ongoing efforts of the High Level Implementation Committee of Food Wise, including Bord Bia, and is detailed in the latest Market Access Annual Report (2018) from DAFM. Bord Bia's 2018 Prioritising Markets report represents the most detailed and broad ranging study of the international opportunity ever undertaken on behalf of our food and drink industry.

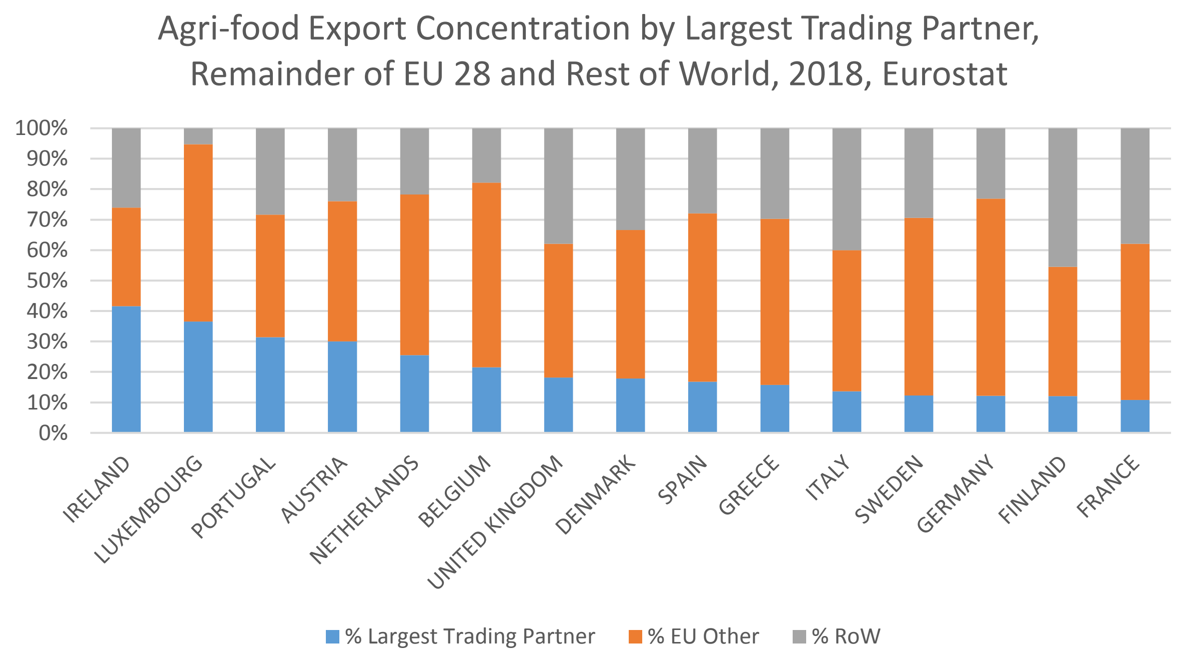
The process to develop a successor strategy to 2030 is now beginning.

Diversity of Markets

Irish food is exported to over 180 countries around the world, with the value of agri-food exports reaching almost €13.7 billion in 2018, marking growth of over 70% since 2009 (though a slight fall on 2017). This has included growth across all markets including the UK, the rest of the EU, and rapid growth in new markets in Asia and North America.

Among EU 15 countries, Ireland's agri-food sector has the highest export dependence on any one single export market. In 2018, some 42% (€5.7bn) of Irish agri-food exports went to the UK, 32% (€4.4bn) to remainder of the EU and 26% (€3.6bn) to other international markets. By comparison, the next highest export dependencies on a single country were in Luxembourg (37%, Germany) and Portugal (31%, Spain).

Of EU 15 countries, Ireland is the 10th most export dependent on the EU 28 as a whole. It is worth noting that the largest agri-food export market for each of the EU 15 is within the EU.



Brexit has highlighted the vulnerabilities of import and export dependency, generally and in the agri-food sector in particular. The UK remains by far the single most important export destination for Irish agri-food for a variety of reasons and the UK grocery market is one of the most valuable in Europe, with high prices for key Irish food products. Between 38% and 45% of Irish agri-food products were exported to the UK during the period 2012 – 2018. This clearly illustrates the trade-off with diversifying away from the UK market to reduce the risk associated with such high dependence (e.g. currency fluctuations).

The opening of new markets has played a significant role in the increase in the value of agri-food exports, especially with respect to dairy products, such as Butter or Milk Powder.[3]

Significant features affecting the scope for market diversification include:

- Tariff and non-tariff barriers to trade – despite a long-term trends towards international market liberalisation, agri-food products remain highly protected;
- Distance – Just in-time supply chains and food freshness, may, depending on the good, affect export scope; and
- Competition and barriers to entry – smaller firms have less scope to invest to reach new markets, and existing competition within the target market may make market entry less viable.

Global Trade Trends

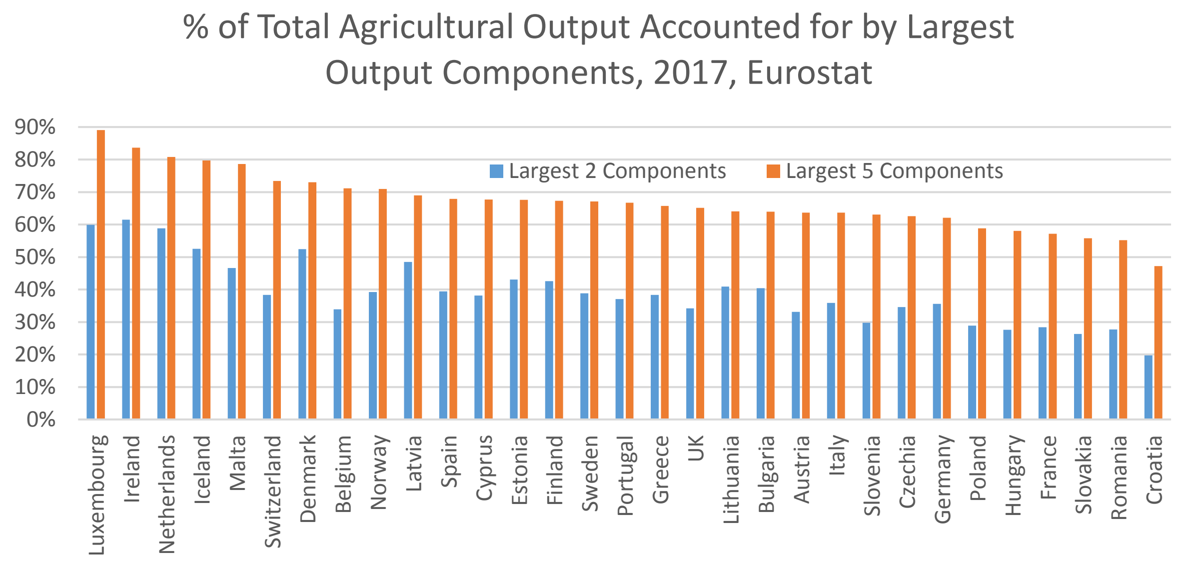
There has been a long term trend of international market liberalisation which has facilitated greater trade interconnectivity. However, recently trade tensions between China and the United States of America, threaten to dampen global growth projections, especially export led growth. At the same time the EU is currently negotiating a number of trade deals, including with Mercosur (Argentina, Brazil, Paraguay, Uruguay and Venezuela), Indonesia, Australia, and New Zealand. The agri-food industry should continue to be cognisant of these opportunities and threats.

Diversity Of Output

Ireland's Agricultural Output is amongst the least diversified in Europe in terms of the concentration of the value of agricultural output into a small number of products. According to the latest data from Eurostat's Economic Accounts for Agriculture in 2017, Agricultural Output was €8,444m[4]. Of this, 61% is accounted for by the largest two output components [Milk (€2,575m, 32%) and Cattle (€2,382m, 30%)]. This is the highest agricultural output concentration of all countries for which Eurostat data is available. Ireland remains among least diversified when the largest five output components are considered or when more detailed output component categories are used.

[3] Bord Bia Consumer Prospects 2018-2020, https://www.bordbia.ie/globalassets/performance--prospects-2018-2019/export-performance-prospects-2018-2019.pdf

[4] Eurostat [aact_eaa01] - Production value at basic price.



The chart above seems to indicate there is a trade-off between specialisation and diversification. Small, developed, open economies seem to have specialised in production. The benefits of specialisation are clearly illustrated when considering that 2017 recorded the third highest price for milk since 2007 (earliest available CSO Milk Price data)[5], which contributed to an increase in the total value of the sector in Ireland. Conversely, specialisation in beef output is a risk to the well-being of the agri-food sector, in light of Brexit.

The Beef and Milk examples highlight the vulnerabilities associated with an output quantity focus. While this strategy is advantageous assuming high prices, there are relatively few barriers to entry for competitors, and that highly substitutable commodities and are subject to exogenous price shocks.

This specialisation is primarily driven by grass. Ireland's natural resource of almost four million hectares of grassland, combined with our mild, moist and changeable climate, provides us with a significant comparative advantage over other international milk and meat producing countries. These twin advantages allow Irish farmers to grow abundant grass, and produce milk and meat naturally.

Value Added, Product Diversification And Consumption Trends

Diversification within products and along the supply chain can result in increasing value added and may insulate against substitutability and exogenous price shocks.

	Agriculture, Fisheries and Forestry **Primary Production**	Wood Processing, Food and Beverages **Secondary Production**	**Total**
Gross Value Added, 2016[6]	€4,093m (29%)	€9,810m (71%)	€13,903m (100%)
Employment, 2017[7]	65%	35%	100%

The table above implies a trade-off between value added and employment, owing to the mismatch between value added and employment composition. It, also, implies that there is a concentration of

[5] CSO – Manufacturing milk prices, milk per litre.
[6] Teagasc, Agriculture in Ireland. https://www.teagasc.ie/rural-economy/rural-economy/agri-food-business/agriculture-in-ireland/
[7] CSO – Labour Force Survey 2017

value added along the supply chain. As value is linked to productivity, it is important to reflect on how to generate value along the supply chain.

Increasing Value added can be combined with product diversification. Subsequently, product and market diversification, with the aim of equitably increasing total value added and increasing resilience in the agri-food sector, should take into account current and future target markets, brand signalling, innovation and cost competitiveness.

Market and production responses should consider future consumer preferences and demands. This is particularly significant given the long term trend towards international market liberalisation and free trade. The Bord Bia Consumer Lifestyle Trend (2018) identifies key trends shaping people's lives, including:

- **Health and Wellbeing:** Consumers increasingly care about traceability, advancing health through technology and 'rediscovering natural benefits'.
- **Responsible Living:** Consumer choices are increasingly being informed by what they view as pro-social consumption. Eco-status and waste minimisation are significant notable components in this trend.

Irish agri-food products benefit from reputational advantages, which are the result of the collective effort of multiple actors. Recognition of reputational advantages may contribute to the value added element of Irish exports.

Environmental Factors

The National Development Plan the National Planning Framework and various International Agreements detail Ireland's commitment to achieving a low-carbon, climate resilience and environmentally sustainable economy.

The latest EPA projections note that Agriculture will account for 46.2% of non-ETS emissions in 2020 and 50.8% of non-ETS emissions in 2030.[8] The agri-food sector, therefore, has an important role to plan in climate change mitigation, adaptation and carbon sequestration. Climate change targets are legally binding.

Production diversification may become a necessity given other, additional, environmental factors, such as air quality targets and nitrates directive requirements. However, these challenges may present opportunities to capture the value premium associated with low impact agri-food products, resulting from consumer concerns about eco-status and waste minimisation.

The All-of-Government Plan to tackle Climate Disruption sets a target for the sector that is challenging and requires the sector to innovate and to increase the delivery of solutions to both enhancing productivity and reducing emissions. Importantly, it also credits the agriculture sector with the significant investment to-date in afforestation, provides opportunities for carbon removal through land management and sets balanced targets in terms of reducing emissions.

Diversification Examples

Market Diversification: China opened access for Irish beef exports, from particular factories, in April 2018. Over 1,000 tonnes of Irish beef was exported to China by end 2018. Rapid urbanisation and a rising global middle class presents an opportunity for Irish agri-foods to capitalise on consumers which demand high quality goods. In terms of dairy products, the value of exports to international markets grew by an estimated 15% to €466 billion, accounting for 33% of total exports. Asia accounted for over €900million or 20% of total dairy exports in 2018, up from €700 million in 2015.

[8] EPA 2019 GHG Emissions Projections 2018-2040, June 2019.

Production Diversification: Organic farming and food is a growing sector for farmers, consumers and retailers. A Review of Organic Food Sector in Ireland was published in 2018. The objective of the Strategy is to further develop the organic food sector in Ireland, enhancing the sustainability credentials of Irish food and producing a wide range of organic products to meet increasing domestic and export market opportunities.

Agro-forestry, a practice of combining forestry and agriculture, also offers some scope to capture emissions. This increases green credentials.

Branded Diversification: Irish Butter exports exceeded €1bn for the first time in 2017. Irish Dairy Products have a high level of international brand recognition and operate in multiple significant international markets.

Innovation led Diversification: Prepared consumer foods exemplify the manner by which value added can be generated through innovation. In line with consumer preferences discussed above, there is a growing interest in in traceability, advancing health through technology (e.g. wearable trackers), 'rediscovering natural benefits' (identifying healthy properties in goods and services that are perceived as more natural) and engineered innovative alternatives to existing goods and services.

Diversification May Result in Trade Trade-Offs, Such As:

- Policies supporting globally competitive businesses v small producers
- Specialising can result in economies of scale, diversifying can hedge bets
- Increasing production quantity v trying to capture value added returns
- Expanding/retaining position in developed markets v entering developing markets.
- Climate action v emission increases

BREAKOUT SESSION 3

"FUTURE JOBS: ENSURING OUR ENTERPRISES AND WORKERS ADAPT SUCCESSFULLY IN A CHANGING GLOBAL ENVIRONMENT"

CHAIR: MINISTER FOR BUSINESS, ENTERPRISE AND INNOVATION, HEATHER HUMPHREYS, T.D.

RAPPORTEUR: DR LARRY O'CONNELL

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

1. What are our areas of particular vulnerability as we make the transition? How do we address these?
2. Where are the key areas of opportunity and what do we need to do to be ready for these?
3. Will the transition to a digital and low carbon economy impact differently across our regions?
4. How can we ensure, through reskilling/upskilling and or lifelong learning, that we maintain a work force with the skills required to enhance productivity and to prepare for technological disruption?
5. What should we be emphasising, at EU level, in terms coordinated action across EU Member States to achieve a successful transition?
6. Looking at the Ambitions in Future Jobs Ireland 2019, are there particular aspects we should be focusing on under each of them? Are we missing any key areas that should be the focus of Future Jobs Ireland 2020?

BACKGROUND

The economy is in a strong position having recovered from the financial crisis and the subsequent recession. Nowhere is this progress more evident than in the labour market. At its peak in early 2012, the unemployment rate was 16%[9] and almost 50,000 Irish people emigrated that year[10]. Seven years on, Ireland can be proud of the progress made. The unemployment rate is down to 4.4%[11] and at over 2.3 million[12] there are more people employed in Ireland than ever before.

However, there are significant fragilities in Ireland's enterprise base, including over-reliance on a small number of export markets, foreign direct investment (FDI) source markets and sectors. Infrastructural constraints, skills deficits and labour availability could, unless ameliorated, impede sustainable growth. The National Competitiveness Council (NCC) in its Productivity Statement 2018 has also cautioned that

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[9] Seasonally adjusted unemployment Rates (15 - 74 years) Q1 2012, Central Statistics Office, QLF02: ILO Participation and Unemployment Rates by Sex, Quarter and Statistic

[10] Central Statistics Office, PEA16: Estimated Emigration (Persons in April) by Sex, Nationality and Year

[11] Seasonally adjusted unemployment rate (15 - 74 years) May 2019, Central Statistics Office, Monthly Unemployment

[12] Total Employment at end Q1 2019, Central Statistics Office, Labour Force Survey Q1 2019

the sustainability of Irish growth is threatened by the reliance of the economy on a small number of highly productive large companies.[13]

We need to respond to the vulnerabilities in the domestic economy such as stagnant or declining productivity levels in certain sectors of the economy. Recent findings highlighted the fact that most Irish firms experienced declining productivity over the past decade and that the large productivity gap between a small number of high-performing “frontier” firms (typically foreign-owned) and the wider economy (typically Irish-owned) had widened.[14]

There is also a high degree of global uncertainty as to the implications of Brexit and international trade and tax developments that could stall recent progress. As highlighted in the National Risk Assessment 2018, Ireland, as a small open economy, and one in which multinational enterprises play an important role, is highly exposed to changes in global economic and trading conditions and significant movements in exchange rates, particularly in terms of its trade performance.[15] Ireland’s economy and enterprise base needs to be resilient in the face of such geopolitical risks.

The Government is ambitious to build upon the gains we have made in recent years and to ensure our people enjoy higher standards of living and quality of life now, and into the future. By 2025, our workers and enterprises will be operating in a changed economy. It is time to shift our enterprise and jobs focus to ensure quality jobs that will be resilient into the future. It is also time to shift the way we work if we are to sustain and increase labour market participation.

Future Jobs Ireland

Complementing Project 2040 and Global Ireland – Ireland’s Global Footprint to 2025, *Future Jobs Ireland: Preparing Now for Tomorrow’s Economy* is how the Government will help prepare Ireland for the challenges it faces and for the economy of tomorrow. Future Jobs Ireland aims to build and improve upon our already globally connected economy to make it more resilient, innovative and adaptable to future challenges. It will ensure our enterprises and workers are well positioned to adapt to the technological and other transformational changes our economy and society will face in the years ahead.

Future Jobs Ireland 2019, the first in a series of annual reports as part of this multi-annual framework, outlines the longer-term ambitions for the future of the economy taking into account the changing global environment.

Future Jobs Ireland 2019 focuses on five Pillars namely:

1. Embracing Innovation and Technological Change;
2. Improving SME Productivity;
3. Enhancing Skills and Developing and Attracting Talent;
4. Increasing Participation in the Labour Force; and
5. Transitioning to a Low Carbon Economy.

The five-Pillar structure helps frame different dimensions of the challenges we face; however, it is important to acknowledge the high level of inter-dependence between them.

The challenge of productivity is closely related to the innovative capacity of enterprises, especially regarding the application of existing and new technologies to improve work processes and output efficiencies, to create new and better products and break into new markets. Better productivity will also improve enterprise sustainability and enable them to adapt more easily to the broader transformations

[13] National Competitiveness Council’s Productivity Statement 2018, National Competitiveness Council, Dublin
[14] Papa et al (2018) “Patterns of firm-level productivity in Ireland”, OECD Productivity Working Paper No 15, Paris
[15] Department of An Taoiseach (2018) National Risk Assessment 2018, Department of An Taoiseach, Dublin

occurring in the economy as we move away from fossil fuels towards a low carbon future. Similarly, developing the right skills and talent for the future economy will help firms improve their productivity; foster innovation; improve the ability of people to participate in the labour market and take up new employment opportunities; and enable workers to adapt to changing roles and occupations as industries are reshaped by automation, digitalisation and a low carbon economy.

Future Jobs Irelands 2019 sets out 26 core Ambitions under these Pillars.

The Ambitions under the **first Pillar**, Embracing Innovation and Technological Change, are:

- Position Ireland as a leading pioneer in technology adoption by investing in demonstrator sites and developing enabling frameworks and standards;
- Implement a strategic approach to maximise the benefits from digitalisation;
- Position the Public Service to be a leader in technology adoption and innovation;
- Establish Top Teams to realise opportunities presented by technological changes and the move to a low carbon economy;
- Increase the capacity of SMEs to engage in research, development & innovation;
- Incentivise SMEs to invest in new technologies; and
- Develop Transition Teams to assist workers and sectors likely to be most challenged by our changing economy.

In terms of the **second Pillar**, Improving SME Productivity, the Ambitions are:

- Diversify our enterprise base to ensure the Irish economy is more resilient and adaptable;
- Stronger policy focus on productivity as a driver of economic prosperity;
- Enhance business framework conditions for firm creation and growth;
- Encourage enterprises to exploit technology and business process improvements to increase productivity;
- Improve leadership and management skills in SMEs; and
- Strengthen linkages between SMEs and multinational enterprises and our tertiary education institutions.

The Ambitions for **Pillar 3**, Enhancing Skills and Developing and Attracting Talent, are:

- Provide high quality and timely education and training responses to evolving enterprise and skills needs;
- Encourage lifelong learning and upskilling;
- Foster participation in apprenticeship and traineeship programmes;
- Compete successfully for international talent; and
- Improve career guidance and advice provision.

Pillar 4, Increasing Participation in the Labour Force, includes the following Ambitions:

- Encourage participation in the labour force through high-quality Early Learning and Care;
- Foster participation in the labour force through flexible working solutions;
- Improve incentives to participate in the labour force;

- Encourage adult dependents and beneficiaries of other full-time welfare payments to engage in activation, enter and/or stay in the workforce; and
- Undertake promotional campaigns to encourage greater levels of participation in the labour force.

Finally, the Ambitions under the **fifth Pillar**, Transitioning to a Low Carbon Economy, are:

- Become a leader in adopting and developing standards in the low carbon economy;
- Realise the opportunities for economic activity and job creation; and
- Leverage Ireland's natural resources, enterprise strengths and innovative capacity to be a global leader in the circular and bio economy.

Each Ambition is backed up by a set of specific Deliverables representing crucial steps and commitment toward achieving these medium-term Ambitions.

These deliverables are built on engagement, including through a National Summit held in November 2018, which brought Government and stakeholders together to discuss the Pillars within Future Jobs Ireland, and informed by empirical evidence. The deliverables outlined in Future Jobs Ireland 2019 represent the first steps in achieving these Ambitions and will be built on in subsequent annual editions.

TRANSITIONING

Adapting to the realities of the future economy, decarbonisation and embracing technological advances will require change on the part of businesses and individuals. While there is ongoing debate about the scale and timing of automation's impact in the workplace, it is generally acknowledged that technology is going to significantly alter many occupations and create new ones. 'Digital Transformation: Assessing the Impact of Digitalisation on Ireland's Workforce'[16] published by the Expert Group on Future Skills Needs (EGFSN) highlighted this. Another international study estimated that the average Irish worker faced a 46 per cent probability of being automated by the 2030s.[17]

Given Ireland's particular circumstances and vulnerabilities, identification of those sectors that are vulnerable and opportunities for the future is needed and steps taken to make sure that our people are as well-equipped as they can be to take up the jobs of the future. Through Future Jobs Ireland, the creation of a Transition Teams model is envisaged, in collaboration with the National Economic and Social Council (NESC), to help prepare enterprises in declining sectors and workers in vulnerable job roles to take steps to secure their future. NESC work on Transition Teams will provide a forward look at the structure of the economy in the context of a transition to low-carbon and more digital future. It will identify sectors, jobs and roles which are most vulnerable and develop a practical framework to support workers to upskill or retrain.

[16] EGFSN (2018), Digital Transformation: Assessing the Impact of Digitalisation on Ireland's Workforce

[17] Nedelkoska, L. and Quintini, G. (2018), "Automation, skills use and training", OECD Social, Employment and Migration Working Papers, No. 202, OECD Publishing, Paris.

National Economic Dialogue 2019

BREAKOUT SESSION 4

"PROGRESS ON AFFORDABLE AND BALANCED HOUSING SUPPLY"

CHAIR: **MINISTER FOR HOUSING, PLANNING AND LOCAL GOVERNMENT, EOGHAN MURPHY T.D.**

RAPPORTEUR: **DR CONOR O'TOOLE**

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

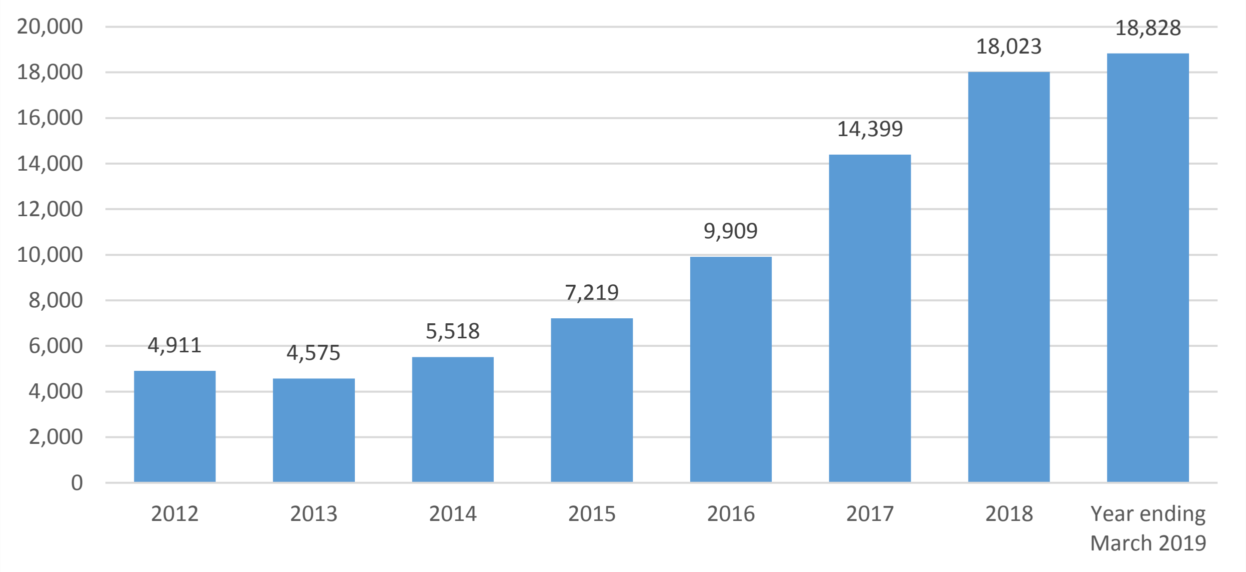
1. What further measures can be taken to increase the volume of affordable new homes for purchase and rent?
2. Are current arrangements, particularly through Part V and Development Contributions, sufficient to capture public gain following rezoning and grants of planning permissions or is there scope for further measures?
3. What role do institutional investors have to play in increasing supply of housing and the development of a sustainable housing model, particularly in urban areas?
4. Developing brownfield sites is typically more expensive than greenfield sites. How can this be reconciled with the goals of improving affordability and achieving more compact growth?
5. The rate of home price inflation has moderated significantly in the last 12 months. What role does the building of social and affordable housing have in helping to avoid the boom-bust cycle in Irish housing?

BACKGROUND

Supply

There has been a significant increase in construction since the trough in new home completions in 2013. The average annual increase in the period 2013 to 2018 was 25 per cent. The most recent data — to Q1 2019 — shows a continuation of this trend. New dwelling completions increased by 25 per cent in the twelve months to March 2019.

Figure 1: New dwelling completions, 2012 – year ending March 2019



Forward indicators of supply also point to a strong pipeline of completions:

- Commencement notices — a measure of housing starts — increased by 28 per cent in the 12 months to April 2019, to 23,479.
- Planning permission for 28,970 new units was granted in the 12 months to March 2019, up over 21 per cent on the same time period last year.

Social Housing

The more generalised increase in supply has been mirrored by significant increases in social housing output.

Substantial progress was made between 2016 and 2018 in terms of supporting new households with over 72,000 households having their housing need met in that time.

Annual delivery targets were exceeded in 2016, in 2017 and again in 2018. There was a 185% increase in new build social homes in 2018 when compared to 2017. The number of new social housing homes built in 2018 was eight times greater than the number built in 2015, the year before Rebuilding Ireland.

Indicative outputs for Quarter 1 2019 are showing a further increase in delivery to some 78,000, with 100,000 households expected to have their housing need met by end 2019.

By end 2018, the number of new build social homes delivered, or in the pipeline stood at over 19,000 of the overall Rebuilding Ireland build target of 33,600, with nearly 5,000 homes on site and under construction, and a further 2,569 homes at the final pre-construction stage.

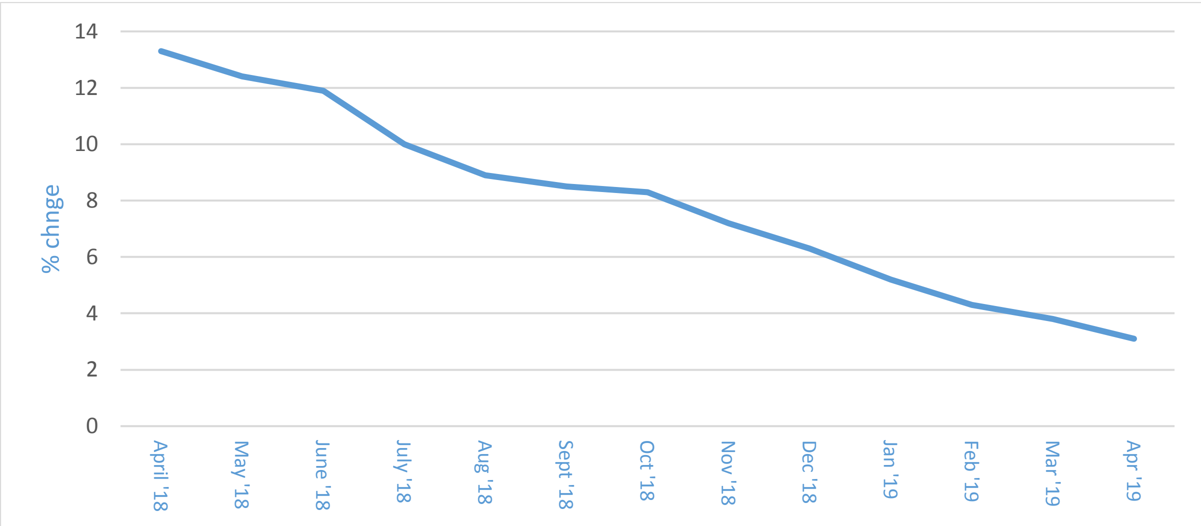
National Economic Dialogue 2019

Rebuilding Ireland - Targets and Progress											
Year/Category	Target 2016	Output 2016	Target 2017	Output 2017	Target 2018	Output 2018	Target 2019	Target 2020	Target 2021	Overall Target 2016 to 2021	Cumulative Delivery (end Q4 2018)
Build	2,260	2,965	3,200	4,054	4,969	4,811	6,545	7,736	8,907	33,617	11,830
Acquisition	1,755	1,957	1,250	2,214	900	2,610	1,325	800	800	6,830	6,781
Lease	225	792	600	827	2,000	1,001	2,130	2,631	2,450	10,036	2,620
Subtotal	4,240	5,714	5,050	7,095	7,869	8,422	10,000	11,167	12,157	50,483	21,231
RAS	1,000	1,256	1,000	890	600	755	600	600	0	3,800	2,901
HAP	12,000	12,075	15,000	17,916	17,000	17,926	16,760	13,000	10,000	83,760	47,917
Subtotal	13,000	13,331	16,000	18,806	17,600	18,681	17,360	13,600	10,000	87,560	50,818
Overall Total	17,240	19,045	21,050	25,901	25,469	27,103	27,360	24,767	22,157	138,043	72,049

Prices

Increasing supply has likely been a factor in the large decline in home price inflation. The rate of inflation in the residential sector has declined from 13.3 per cent in April 2018, to 3.1 per cent in April 2019.

Figure 2: Residential Property Prices, % change over 12 months



Future Demand

The pent up demand arising from the lack of building up to now can only be tackled by consistent supply over the coming years. Rebuilding Ireland sets a target of doubling output to deliver over 25,000 homes per annum on average over the period of the Plan [2017-2021].

The National Planning Framework NPF states that an average output of at least 25,000 new homes need to be provided between 2018 and 2040; with an increasing demand for one and two person households. It further states that attaining this level of supply will require increased output well into the 2020s to meet the deficit built up since 2010, i.e. 30,000 to 35,000 homes per annum in the years to 2027.

Rental Sector

Rental prices are likely to continue rising in the short term until such time as the supply response helps to balance the current high demand, particularly in our capital and other cities. A side effect of our economic recovery is that demand for housing, particularly in Dublin, is rising with acute pressures in the rental sector.

Government has prioritised a range of actions to ensure that existing rent predictability measures, such as the Rent Pressure Zones (RPZs) and increased security of tenure, are fully respected and enforced.

The Residential Tenancies Board (RTB) Quarterly Rent Index, which was launched in May 2013, is based on the actual rents being paid for rented properties, as distinct from the asking rents that feature in other rent reports (e.g. the Daft.ie Report). It is compiled by the ESRI and based on the RTB's register of tenancies.

The most recent RTB National Rent Index for Q4 2018 published on 28 March 2019 relates to the period October to December 2018, and shows that nationally the standardised average rent is now €1,134 per month (down from €1,138 in Q3 2018 and up from €1,061 one year earlier in Q3 2017). This is an indication that Rent Pressure Zones (RPZs) are working and are having a moderating effect on the rate of rent increase.

Residential Tenancies (Amendment) Act 2019

The Residential Tenancies (Amendment) Act 2019, enacted on 24 May, introduces a number of key measures and reforms designed to enhance enforcement powers for the RTB, provide greater security of tenure for tenants and underpin further the operation of the Rent Pressure Zone (RPZ) arrangements, along with some further targeted priority measures.

The main provisions in the Act relate to:

New Sanctioning Provisions

- making it a criminal offence for landlords to implement rent increases that contravene the law;
- providing powers to the RTB to investigate and administratively sanction landlords who engage in improper conduct including non-compliance with the rent increase restriction in RPZs;
- allowing the RTB to initiate an investigation without the need for a complaint to be made;
- requiring the annual registration of tenancies with the RTB.

Rent setting and rent reviews inside and outside of Rent Pressure Zones (RPZs):

- Under the Act, existing and new RPZs will now expire at the end of 2021.
- The exemptions from the 4% p.a. rent increase restriction in RPZs have been revised so to apply only to the first rent setting, rather than to every rent setting, during the period of RPZ designation in respect of a new rental property, including a property that had not be rented in the 2 year period immediately prior to the commencement of a particular tenancy.
- Also, a definition is provided to illustrate the type of works that qualify for the exemption from the rent increase restriction in respect of a substantial change in the nature of the rental property.
- Revisions are also made in respect of the average rent qualifying criterion for RPZ designation. Using RTB data, (i) the rent of a dwelling in the Kildare, Wicklow and Meath is now be compared to the average rent across the country, excluding Dublin rents; and (ii) the rent of a dwelling outside of the Greater Dublin Area (GDA) is now compared to the average rent across the country, excluding the GDA rents. This will have the effect of making it easier for areas to qualify as RPZs

on foot of the removal of the influence of high Dublin and GDA rents in calculating the relevant average rent for other areas.

- Outside of RPZ's, the requirement for bi-annual rent review cycles, rather than annual, will continue to the end of 2021.

Apartments and Urban Housing

Census 2016 showed that Ireland's population continues to become increasingly urbanised, with 2.99 million people living in urban areas, up 4.9% on 2011. This is compared to 1.78 million in rural areas, up 2% on 2011.

In response to the demands of a growing, increasingly diverse, internationally mobile, but also ageing population, for whom the employment opportunities, services and amenities that they wish to avail of are focused on urban areas, it is necessary to increase the supply of apartments and urban housing types from, in the case of apartments, only 12% of overall housing stock, approximately one quarter of the EU average.

Government policy — as set out in Project Ireland 2040, — specifically targets 'compact growth' as a shared objective that is integral to both the NDP and NPF. To meet the targets set out, for more than 275,000 new homes in Ireland's five cities, at least half of which must be on 'infill' or 'brownfield' sites; it is likely to be necessary to at least double the current level of apartment output, from 13% to more than 25% of the total.

The need to transition to a net zero carbon economy by 2050 further increases the importance of higher density housing, both in terms of reducing long distance commuting and enabling more sustainable modes of transport such as walking, cycling and public transport, as well as reduced energy and space heating demand.

It is clear that that the conflation of socio-economic, demographic and environmental developments necessitate a significant increase in apartment and higher density urban housing construction over the coming decades.

Affordability

It is also clear that there are affordability pressures in both the owner-occupier and rental sectors. Purchase prices remain beyond the reach of many households, especially those in the lower half of the income distribution in urban areas. Similarly, sustained population growth, combined with a lack of supply in the Private Rented Sector (PRS) and the cost of adding new stock to the market has resulted in high rent inflation.

The two key challenges of 'availability' (right stock in the right place) and 'affordability' (right price for the majority of people) continue to be addressed via a number of Government initiatives set out below.

Government Initiatives

Rebuilding Ireland

The Government's response to current issues in the housing market are contained in *Rebuilding Ireland: An Action Plan for Housing and Homelessness.* The central aim of the plan is to significantly increase the supply of social and private housing.

Rebuilding Ireland has set a target of 25,000 home completions per annum by 2021.The targets are being supported by a number of budgetary measures:

- Over €6 billion has been allocated to the delivery of social housing out to 2021. This will ensure delivery of 50,000 social housing unit by 2021.

- Over €200 million has been made available under the Local Infrastructure Housing Activation Fund (LIHAF) to relieve critical infrastructure blockages.
- €310m for delivery of affordable homes under the Serviced Sites Fund.

In addition to these expenditure measures the Government has implemented a number of other initiatives to increase the supply of appropriate housing.

National Planning Framework

A balanced and sustainable approach to housing is important in the context of a growing population. By 2040, the population of Ireland is projected to be almost 6 million, with a need to accommodate at least an additional 550,000 households. The Framework sets out an achievable alternative strategy to a continuation of 'business as usual'. This is based on supporting the sustainable development of Dublin, complemented by the significant growth of Ireland's four other cities and a small number of regional drivers, with a particular focus on urban infill and brownfield forms of development.

The National Planning Framework is supported by the provision of infrastructure through the capital envelope of the National Development Plan. This type of joined up policymaking is intended to ensure more cost-effective, efficient and sustainable outcomes, that will ultimately result in more balanced regional development and competitiveness, by enabling more people to live closer to employment, services and amenities, providing a greater choice of housing, better transport options and shorter commutes, in safer and more vibrant communities with reduced carbon impact.

'Compact Growth' is the first of 10 National Strategic Outcomes set out in the NPF. This outcome aims to secure the sustainable growth of more compact urban and rural settlements supported by jobs, homes, services and amenities. Urban regeneration will be a key aspect of ensuring compact growth. The NPF provides for a €2 billion Urban Regeneration and Development Fund, which will seek to bring about increased use of infill and brownfield development.

As with any national planning and infrastructure strategy, the NPF will face challenges. In order to achieve targeted urban development objectives, implementation of the plan will need to influence the population's settlement decisions on a national scale. The NPF sets a target of 50% of new population growth to be within the existing 5 cities and their suburbs, and 50% of that (25%) overall, to be on urban 'infill' or 'brownfield sites'.). This will require more active land management to enable key urban areas to be brought forward for development.

Land Development Agency

Another key initiative of the NPF is the establishment of the Land Development Agency (LDA). The agency will seek to bring an increased focus to the development of public land for new housing development. The LDA has identified an initial land bank with potential to deliver 3,000 new homes and a mandate to assemble and develop further state lands in urban areas. Crucially, a minimum of 30% of the housing built on State lands transferred to the LDA will be affordable, in addition to the 10% Part V Social Housing requirement.

HBFI

The establishment of Home Building Finance Ireland (HBFI) was announced in Budget 2018. HBFI will receive funding of €750 million from the Irish Strategic Investment Fund and was established to make it easier for developers to access finance. The finance model used by residential developers has changed with banks generally unwilling to fund development beyond 60%-65% loan to cost (LTC). Furthermore, the main banks have concentrated their lending on projects within the GDA. HBFI intends to fill this funding gap, providing up to 80% LTC on a commercial basis and facilitating smaller developers who may have viable projects outside the GDA.

Serviced Sites Fund

€310 million is committed over the three years 2019 to 2021, under the Serviced Sites Fund (SSF) announced as part of Budget 2019. This is for key facilitating infrastructure, on public lands, to support the provision of affordable homes to buy or rent.

A maximum amount of SSF funding of €50,000 will be made available per affordable home. On this basis, at least 6,200 affordable homes can be facilitated by this measure alone. Approval was given in principle in December 2018 for €43 million across 10 projects, delivering 1,400 homes from early 2020 onwards.

A 2nd call under the Serviced Sites Fund issued to 19 local authorities on 9th April 2019. The closing date for submissions was 17th May 2019 and 31 submissions were received from 15 local authorities. These are currently being assessed and it is intended that the successful bids will be announced in the coming weeks.

Regulatory Change

Changes have been made to the planning system in order to facilitate increased levels of urban housing development. Developers of schemes with more than 100 residential units can apply directly to An Bord Pleanála, speeding up the planning approval process for large scale housing developments.

Since the new arrangements came into operation in July 2017, An Bord Pleanála has granted permission for a total of:

- 10,545 Residential Units, comprising 4,377 houses and 6,168 apartments;
- 6,642 student bed-spaces.

Revised design standards for new apartment development were issued in 2018. Through enabling greater flexibility in the mix of unit types, car parking and core/lift requirements as well as new standards for emerging ‘build to rent’ and shared accommodation types, these changes assist in improving the viability of apartment buildings particularly in city centre and urban locations.

A further support to assisting in supporting residential development in urban areas is new guidance on building height in urban locations, issued earlier in 2019. This puts in place a range of qualitative objectives to support and encourage increased building height, at appropriate urban locations.

Vacant Site Levy

In Budget 2018 the Vacant Site Levy was more than doubled from the current 3 per cent rate that applies in the first year, to 7 per cent in the second and subsequent years. The charge will be levied from 2019. The levy aims to encourage the productive use of development sites.

Further to a recent review of the on-line vacant site registers, it is estimated that the levy proceeds nationally could be of the order of €7.6m (applying the current 3% levy rate in respect of sites on the registers in 2018), increasing to €25.5m in 2020 (applying the increased 7% levy rate in respect of sites listed on local authority registers in 2019).

A review that was completed in late 2018 indicates that 42 sites were referenced by authorities as being removed from registers due to construction being started or development completed.

BREAKOUT SESSION 5

"DELIVERING ON THE AMBITION OF THE CLIMATE ACTION PLAN"

CHAIR: MARK GRIFFIN, SECRETARY GENERAL, DEPARTMENT OF COMMUNICATIONS, CLIMATE ACTION AND ENVIRONMENT

RAPPORTEUR: DR LISA RYAN

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

1. The Climate Action Plan 2019 sets very ambitious targets for decarbonisation by 2030. How can an appropriate blend of expenditure, taxation, regulation and behavioural change initiatives be designed to encourage the investment decisions required across the public and private sectors, as well as by individual citizens, to achieve these targets?
2. How should the carbon proofing of Government policies and investment decisions take place and what reforms to the annual budgetary and estimates process should be prioritised to ensure that they reflect the urgency of the climate challenge?
3. How can we ensure that the policies adopted to reach climate and energy targets are cost effective and distributionally fair?
4. How should the proposed new climate legislation drive accountability and responsibility for the achievement of carbon budgets and sectoral targets?
5. The Climate Action Plan commits to an examination of a net zero emissions target for 2050. How should this target be defined and what considerations should be included in the forthcoming examination?

BACKGROUND

Ireland has committed to achieving a range of climate and energy commitments at UN, EU and national level to deliver a low carbon and climate resilient society. Strong economic growth coupled with low fossil fuel prices is however driving increased greenhouse gas emissions which, absent intervention, will see Ireland miss legally binding targets. The link between prosperity and increased greenhouse gas emissions has not yet been broken.

The Climate Action Plan published earlier this month sets out a roadmap of actions to ensure that Ireland achieves 2030 climate and energy targets and puts the country on a pathway to net zero greenhouse gas emissions by 2050. The plan details 180 actions which cover all sectors of the economy. It is envisaged that this session of the National Economic Dialogue will focus on the implementation of the Climate Action Plan and the integration of climate considerations into the budgetary process.

This note briefly summarises some key changes in the climate policy landscape since the last National Economic Dialogue, provides participants with the latest data on Ireland's performance against climate and energy targets and outlines the key sources of Ireland's national emissions. It also details the main features of the new Climate Action Plan.

PART ONE: CLIMATE ACTION PLAN 2019

On June 17th, the Government published Ireland's Climate Action Plan 2019, the key points of which are summarised below. The plan sets out over 180 actions which will be taken by Government, together with hundreds of sub-actions using the same model as the Action Plan for Jobs. These actions are how Ireland will achieve its 2030 targets for carbon emissions, and put the country on a trajectory to achieve net zero carbon emissions by 2050.

Governance

- Five year Carbon Budgets will be set, as will sectoral targets, with a detailed plan of actions to deliver them;
- A new Climate Action Delivery Board, chaired by the Department of An Taoiseach, will oversee the implementation of the actions set out in the plan;
- An independent Climate Action Council will advise Government on the Carbon Budget and evaluate policy;
- These changes will be underpinned by new legislation.

Electricity

- Increase reliance on renewables from 30% to 70% adding 12GW of renewable energy capacity (with peat and coal plants closing) with some of this delivered by private contracts;
- Put in place a coherent support scheme for micro-generation with a price for selling power to the grid;
- Open up opportunity for community participation in renewable generation as well as community gain arrangements;
- Streamline the consent system, the connection arrangements and the funding supports for the new technologies on and off shore.

Buildings

- Introduce stricter requirements for new buildings and substantial refurbishments;
- Design policy to get circa 500,000 existing homes to upgrade to BER B2 and 400,000 to install heat pumps;
- Build a supply chain and a model for aggregation where home retrofits are grouped together to allow this level of activity to be funded and delivered;
- Deliver two new district heating systems, and identify a roadmap for delivering district heating potential;
- Increase attention to Energy and Carbon ratings in all aspects of managing property assets.

Transport

- Accelerate the penetration of EV into sales of cars and vans on the route to reach 100% by 2030, so that 950,000 electric vehicles will be on the road by 2030. This means approximately one third of all vehicles sold during the decade will be Battery Electric Vehicle (BEV) or Plug-in Hybrid Electric Vehicle (PHEV);
- Make growth less transport intensive through better planning, remote working and modal shift;
- Increase the renewable biofuel content of motor fuels;

- Set targets for the conversion of public fleets.

Agriculture

- Deliver substantial verifiable greenhouse gas abatement through adoption of a specified range of improvements in farming practice;
- Deliver expansion of forestry planting and soil management to ensure that carbon abatement from land-use is delivered in 2021-30 and in the years beyond;
- Support diversification within Agriculture and land use to develop sustainable and circular value chains and business models for lower carbon intensity farming including organic production and protection and enhancement of biodiversity and water quality; and the production of bio-based products and bioenergy through the Common Agricultural Policy and implementation of the National Policy Statement on the Bioeconomy.

Enterprise and Services

- Embed energy efficiency, replacement of fossil fuels, careful management of materials and waste and carbon abatement across all enterprises and public service bodies;
- Mobilise clusters regionally and sectorally to become centres of excellence for the adoption of low carbon technologies;
- Plan for the delivery of quality employment and enterprise in the new areas of opportunity being opened up.

Waste and the Circular Economy

- Develop coherent Reduction Strategies for Plastics, Food Waste and Resource Use;
- Increase the level and the quality of recycling with less contamination and greater replacement of virgin materials by recycling. Eliminate non-recyclable plastic;
- Reduce the reliance on landfill by reductions in plastics and compatibles entering landfill.

Part Two: Notable Changes to Climate Policy Framework

OECD Paris Collaborative on Green Budgeting / Coalition of Finance Ministers for Climate Action

One of the most important tools the Government has at its disposal for resourcing and implementing policies to achieve climate and environmental goals is budgetary and fiscal policy. Over the past year, Ireland has formally joined two new international initiatives which commit the country to improving the compatibility of the budgetary and estimates process with climate and environmental objectives.

This is an explicit recognition that the budgetary process can inform and influence choices about how resources are used. Reforms will help the Government to achieve climate goals by evaluating the environmental impacts of budgetary and fiscal policies and assessing their coherence towards the delivery of our commitments. It will also improve the transparency around the environmental impact of Governmental policies for the general public.

The *OECD Paris Collaborative on Green Budgeting* provides a platform for governments, institutions and experts to explore how to bring national policy frameworks and financial flows into alignment with climate and environmental goals. The Irish Government will work with the collaborative to examine scope for collaboration and piloting of initiatives in support of this. This will be an iterative process taking place over several budgetary cycles. As a first step, DPER published a paper in late 2018, identifying the Exchequer's climate-related expenditure[18].

The aim of the *Coalition of Finance Ministers for Climate Action* is to help countries mobilise and align the finance needed to implement their national climate action plans, to establish best practices such as climate budgeting and strategies for green investment/procurement and factor climate risks and vulnerabilities into members' economic planning. By joining the coalition, Ireland has agreed to a series of guiding principles[19] which aim to integrate climate change in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices. This similarly will be an iterative process which will build over several budgetary cycles.

Joint Oireachtas Committee Report on Climate

In April 2019, the Joint Committee on Climate Action published its cross-party report entitled, *"Climate Change: A Cross- Party Consensus for Action".* The formation of this committee and its report were a response to the recommendations of the Citizen's Assembly on Climate Change which took place in 2018. The report represented the culmination of a six-month examination by the Committee and contained 42 priority recommendations, covering a broad range of sectors.

In summary, the Joint Oireachtas Committee recommended reforms to the governance of climate change as well as new actions that should be pursued by Government covering keys sectors such as agriculture, transport, energy generation. The Committee's report did note that the collective recommendations would have only a marginal impact on greenhouse gas emissions but would lead to a new climate policy architecture that should bring about future emissions reductions.

Notably, the Committee failed to reach a unanimous consensus on the subject of a carbon tax, with two parties represented on the Committee dissenting from the majority conclusion, with one of those parties publishing its own minority report.

New Climate Action Plan 2019

The Government's new Climate Action Plan, published on 17th June, is intended to be a rolling process for effective consultation and implementation of change. Minister Bruton plans to engage in a series of consultative meetings to explain the approach taken in the plan, hear views from stakeholders and the public and to take on ideas. The Plan will be updated annually, taking account of feedback and experience in implementation.

Part Three: Progress Towards Targets

2020 Climate and Energy Targets

Ireland has two key binding climate and energy targets for 2020. By 2020, 16% of our energy requirement must be met from renewable sources and our greenhouse gas emissions in the non-emission trading scheme (non-ETS) sector need to decrease by 20% (compared to 2005 levels). Projections suggest that Ireland will miss both of these targets.

The latest estimates indicate that Ireland is likely to achieve 13% renewable energy use by 2020 against a target of 16% - i.e. approx. 80% of the progress required towards our target. On greenhouse gas emissions, the latest projections from the EPA suggest that we will achieve carbon reductions of between 5-6% as against the 20% target by 2020.

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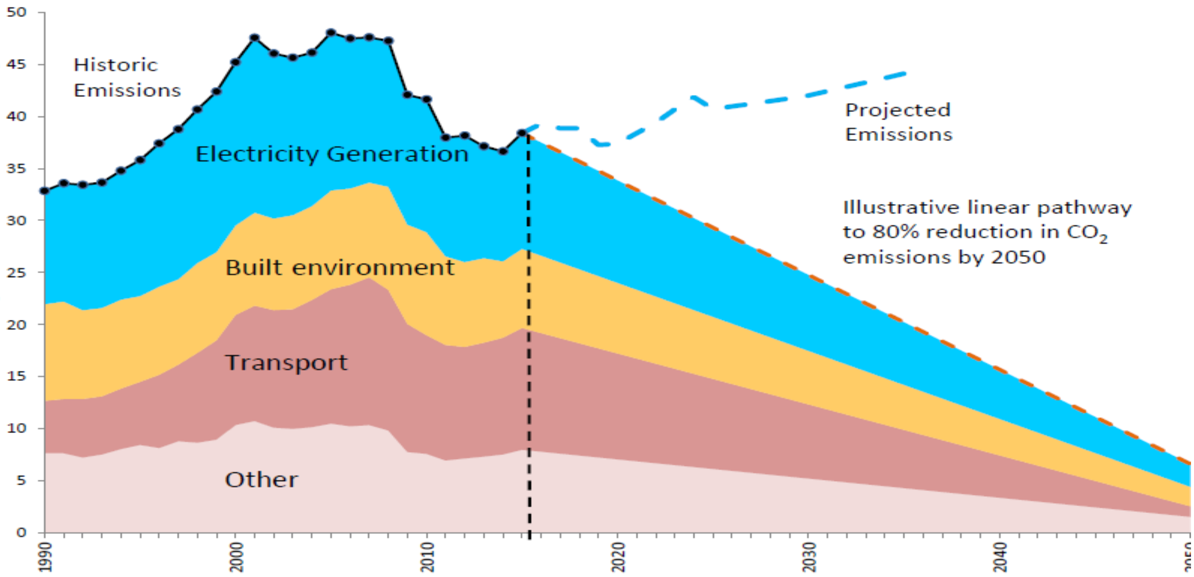
[18] https://igees.gov.ie/wp-content/uploads/2019/01/The-Implementation-of-Green-Budgeting-in-Ireland.pdf
[19] https://www.cape4financeministry.org/sites/cape/files/inline-files/FM%20Coalition%20-%20Principles%20final.pdf

As the EU as a whole is projected to exceed both targets, the consequence for Ireland having to meet 2020 targets through purchasing compliance is likely to be relatively modest in financial terms. On carbon emissions, the expected cost the Exchequer will face in complying is likely between €6m - €13m. On renewable energy, DCCAE estimate that the cost of compliance will be between €20m - €30m per % point shortfall. This suggests a **total 2020 compliance cost of between €66 million and €103 million**. It must be stressed that these are estimates and the final cost will not be clear until the purchasing is complete.

However, climate targets do not cease in 2020 - not alone will Ireland have to achieve new legally binding 2030 targets but as committed to in the Climate Action Plan, there will be an examination of a net zero 2050 emissions target.

The Climate Change Advisory Council have suggested that even achieving the National Policy Position for 2050 would require an average reduction in emissions of nearly 2.4% a year - which equates to the removal of nearly 1 million tonnes net CO_2 emissions every year. This does not take into account the need for longer-term emissions reductions from Ireland's agricultural sector, which currently comprise approximately one third of total emissions.

Figure 1 – Climate Change Advisory Council's illustrative linear trajectory towards 2050 National Policy Position (CCAC First Annual Review of Climate Policy)



PART FOUR: SOURCES OF GREENHOUSE GAS EMISSIONS

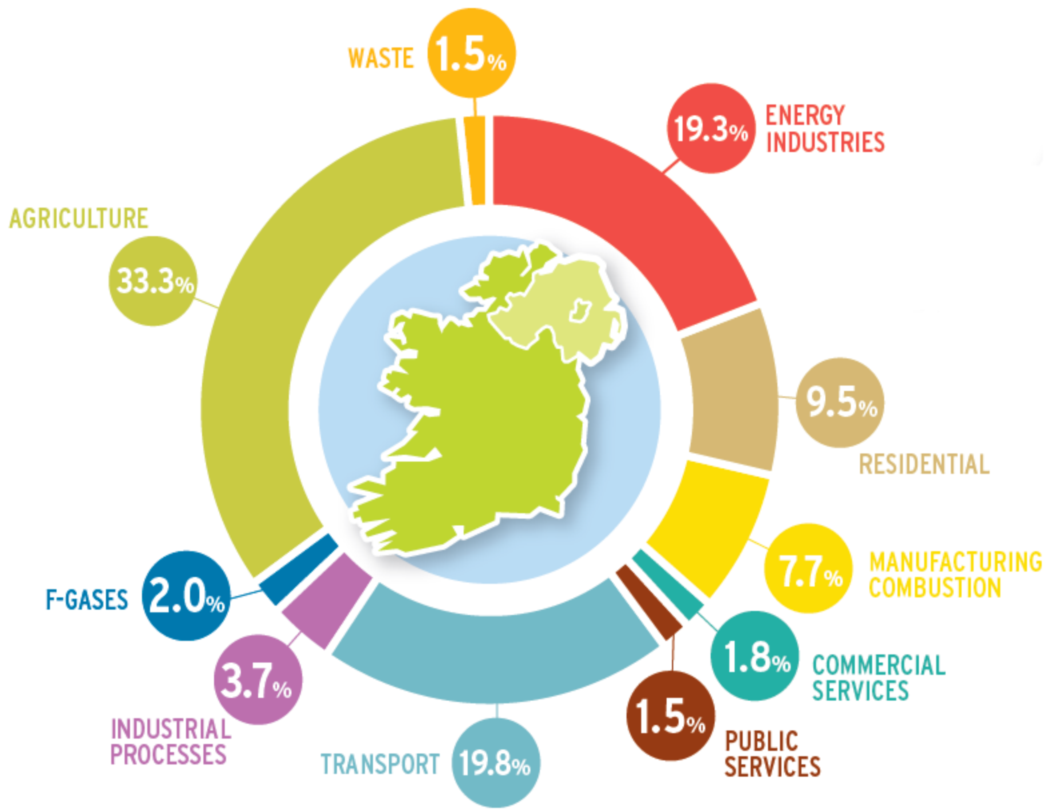
To place the policies and measures discussed in the new climate plan in context, it is useful to understand where Ireland's greenhouse gas emissions come from. The latest year for which confirmed data is available for is 2017. In this year, Ireland's total national greenhouse gas emissions were estimated to be 60.75 million tonnes of carbon dioxide equivalent (Mt CO2 eq).

These emissions came from the following sources:

Table 1. Greenhouse gas emissions for 2017 for Ireland

Sector	2017 Emissions (Mt CO_2 eq)
Agriculture	20.213
Transport	12.009
Energy Industries	11.744
Residential	5.742
Manufacturing	4.665
Industrial processes	2.236
F-Gases	1.232
Commercial Services	1.072
Waste	.932
Public Services	.906
Total	**60.751**

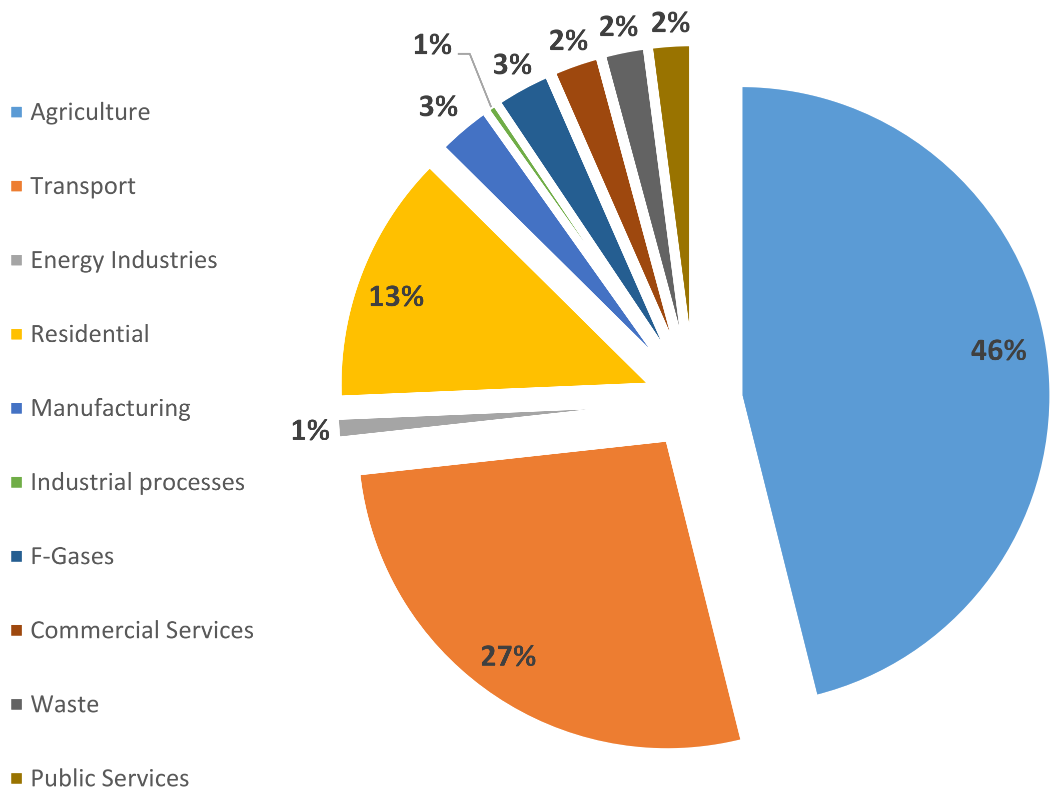
Figure 2 – Total Irish Greenhouse Gas Emissions 2017 (EPA)



However, if we disregard those emissions which are covered by the EU Emissions Trading Scheme and hence do not count towards Ireland's greenhouse gas emissions target, just three sectors - Agriculture, Transport & Buildings make up nearly 90% of the remaining emissions:

Table 2. Non-ETS Greenhouse Gas Emissions for 2017 for Ireland	
Sector	**2017 Emissions (Mt CO_2 eq)**
Agriculture	20.213
Transport	11.905
Energy Industries	0.468
Residential	5.742
Manufacturing	1.204
Industrial processes	0.196
F-Gases	1.232
Commercial Services	1.042
Waste	.932
Public Services	.906
Total	**43.840**

Figure 3: Irish Non-ETS Greenhouse Gas Emissions 2017



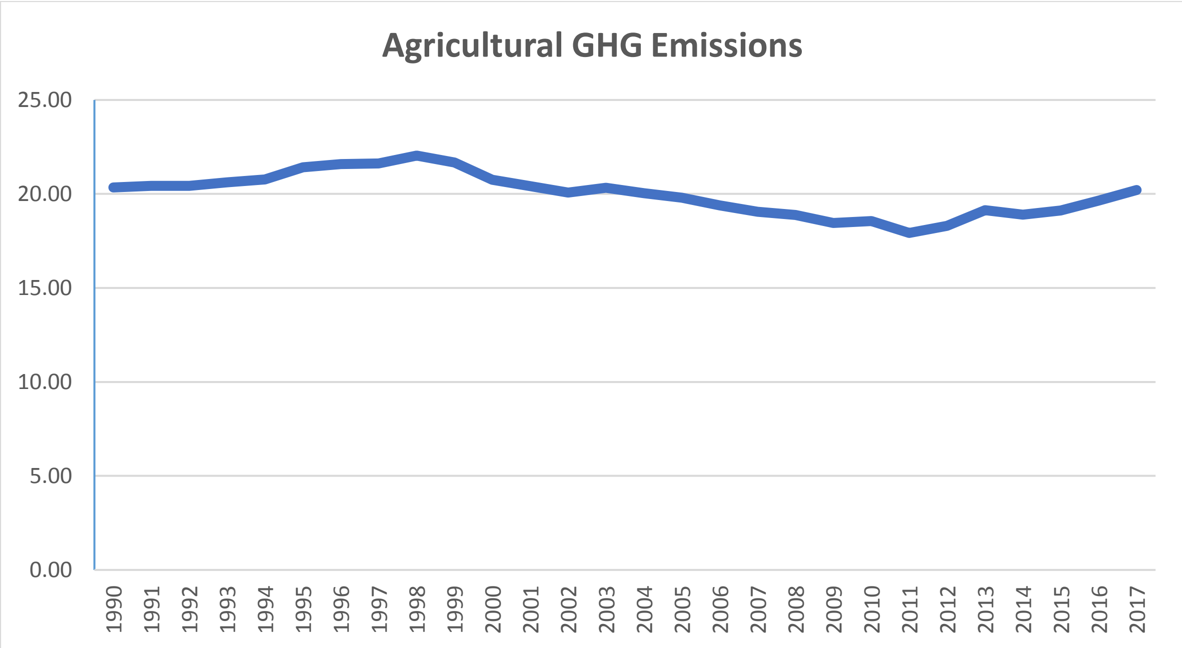
***Agricultural Emissions** - (20.2 million tonnes of Greenhouse gas emissions or 46% of total national emissions in 2017)*

Emitting slightly over 20 million tonnes of greenhouse gas emissions, the agriculture sector accounts for nearly half (46%) of Ireland's non-ETS greenhouse gas emissions. These emissions are high as a proportion of total emissions, as Ireland's agricultural system is overwhelmingly geared towards livestock production (dairy and beef) for export. This emissions profile is almost unique among EU Member States and globally, with only New Zealand having a higher share of agricultural emissions at just under 50% of total emissions.

The current level of emissions are broadly similar to 1990 levels (20.35 Mt) but represent a small increase over 2005 emission levels (the base year against which Ireland's climate targets are set) which were 19.8 Mt. More worrying is the trend experienced over the last 7/8 years, with emissions from the sector steadily increasing at a rate of circa 3% per annum.

There were some 6.67 million cattle recorded in Ireland at the end of 2017, with a further 4 million sheep and 1.6 million pigs. In the 5-year period 2012-2016, dairy cow numbers increased by 22% and corresponding milk production by 27%. This is the fastest growth rate in the European Union.

Figure 4: Agricultural Greenhouse Gas Emissions 1990 – 2017



***Transport Emissions** - (11.9 million tonnes of Greenhouse gas emissions or 27% of national emissions in 2017)*

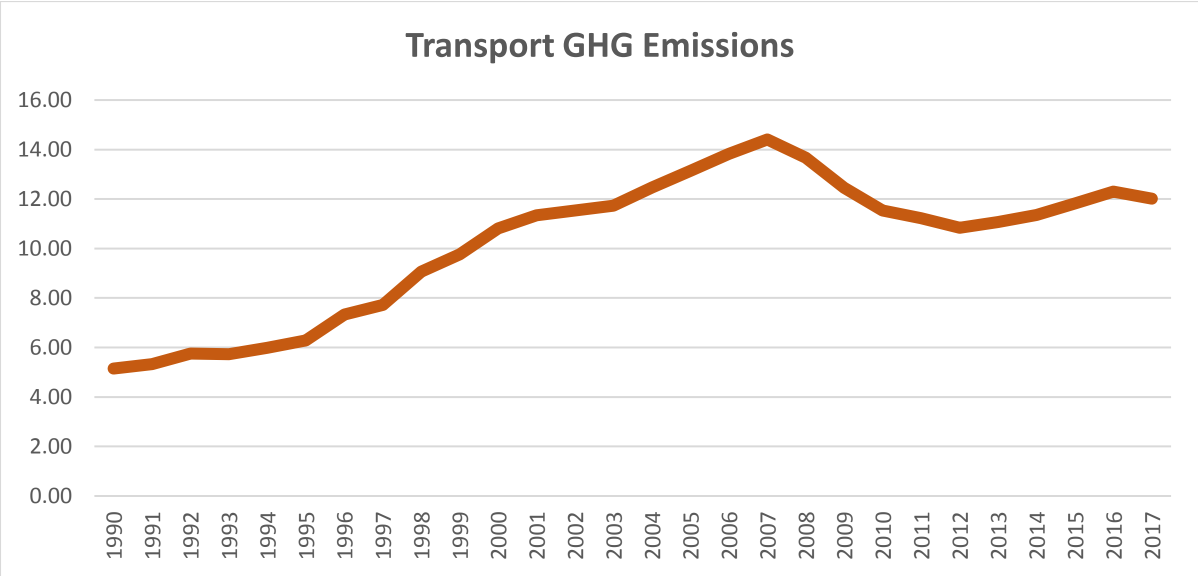
The transport sector in Ireland is responsible for slightly under 12 million tonnes of greenhouse gas emissions[20], representing around 27% of Ireland's national greenhouse gas emissions. These emissions are strongly correlated with economic growth. Over the period 1990-2007, greenhouse gas emissions from Ireland's transport sector increased by 181%. Following this peak, emissions gradually declined until 2011, when in keeping with economic growth, they resumed an upward trajectory.

Transport emissions actually fell by 2.4% in 2017 as compared to 2016 (circa 200k tonnes). However, the EPA attribute this to a reduction in fuel tourism, driven by a weakened Sterling in 2017. By 2020 the EPA estimates that the transport sector will emit 14.56 Mt CO2eq with current policy measures (a 20% increase over 2017 levels). The EPA also projects that, absent new policy, transport emissions will likely

[20] The small difference between total emissions from the transport sector and non-ETS emissions from the sector is attributable to the use of electricity in public transport (DART, LUAS). EV usage contribution to this is negligible due to low levels of EV penetration.

see a further small increase between 2020 and 2035, as a rising population, employment growth and increased transport use offsets mitigation measures[21].

Figure 5: Transport Greenhouse Gas Emissions 1990 – 2017



Buildings – Residential, Commercial, Public Sector

(5.7 million tonnes of Greenhouse gas emissions from homes, 13% of national emissions in 2017)

(1 million tonnes of Greenhouse gas emissions from commercial services, 2.4% of national emissions)

(900k tonnes of Greenhouse gas emissions from public sector, 2% of national emissions)

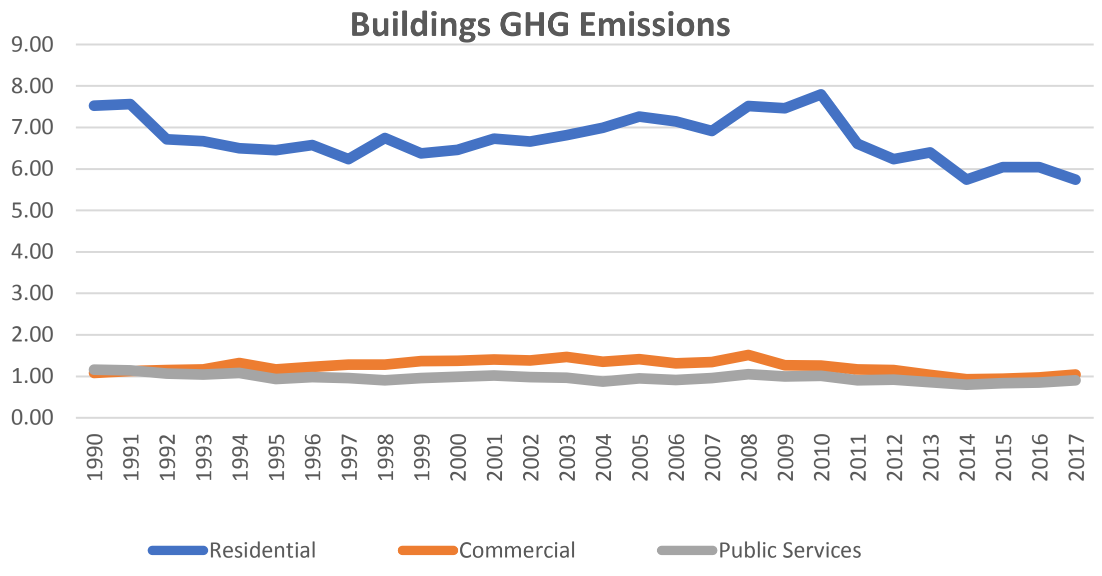
Most of the emissions attributable to the residential, commercial and public sectors come from the use of energy in buildings in these sectors. There are an estimated 1.7 million inhabited homes in Ireland, a further 109,000 commercial buildings and more than 10,000 public sector buildings. The level of greenhouse gas emissions from homes has been on a relatively consistent downward trajectory over time, while emissions from commercial and public services have remained essentially flat since 1990.

This is a significant achievement since Ireland's population has increased quite considerably since 1990, as has the level of commercial and public services offered to the general public.

However, the EPA is projecting that emissions from the sector will rise over time. Emissions from residential buildings are projected by the EPA to increase by 7-8% over 2017-2020 and 7% between 2017 and 2030, while emissions from commercial and public sector buildings are projected to decrease by 8% between 2017 and 2020 and increase by 8% between 2017 and 2030.

[21] EPA projections for the period after 2020 do not yet take into account the impact of commitments contained in the Climate Action Plan.

Figure 6: Buildings Greenhouse Gas Emissions 1990 – 2017



Electricity Emissions - *(11.7 million tonnes of Greenhouse gas emissions or 19.3% of total greenhouse emissions in 2017)*

Emissions from electricity generation are regulated at the EU-level through the Emissions Trading Scheme, not at the individual Member State level. Therefore emissions from this sector do not count towards Ireland's 2030 greenhouse gas emissions target. However, in order to meet long-term decarbonisation commitments for 2050, it is necessary to ensure that sufficient progress is made in decarbonisation of the electricity system through measures at national level in support of the EU ETS. In addition, as the electrification of heat and transport is a critical component of the Government's new Climate Action Plan, rapid progress in decarbonising the electricity sector will be important to ensure these sectors are also fully decarbonised.

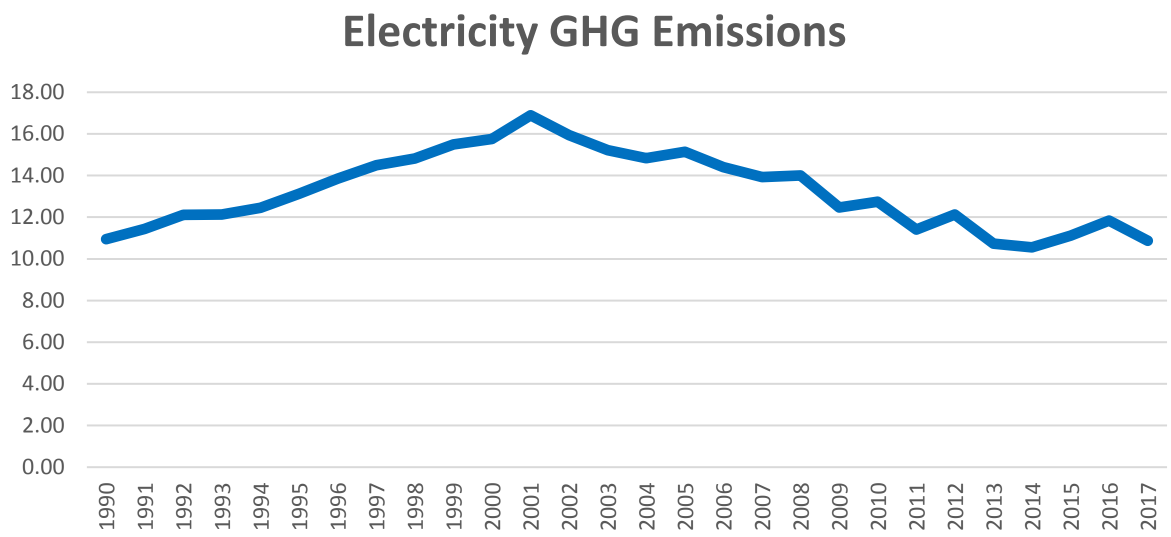
Over the period 1990 – 2017, emissions from electricity generation increased by 2.3%. However, total electricity consumption has increased by 117.8% over the same period, reflecting a significant decarbonisation of the electricity sector. This decarbonisation has been driven by the improvement in efficiency of modern gas fired power plants as they replaced older peat and oil fired plants and the increased share of renewables, primarily, wind power.

In 2017 renewable electricity use in Ireland reached 29.6% (30.1% weather corrected). This is a significant milestone and represents a sustained increase over 2016 levels of 25.5% and a level in 2005 of around 7%.

The Climate Action Plan proposes that the level of renewable electricity should reach 70% by 2030, with new features such as Corporate Power Purchase Agreements driving some of this increase. This target is against a backdrop of a possible 57% increase in all-island electricity demand by 2027[22]. This increase is driven by growth in data centres and will also be added to by the projected increases in electric vehicles and heat pumps.

[22] http://www.eirgridgroup.com/site-files/library/EirGrid/Generation_Capacity_Statement_2018.pdf

Figure 7: Electricity Greenhouse Gas Emissions 1990 – 2017



BREAKOUT SESSION 6

"SUPPORTING IMPROVEMENTS IN INCOME AND LIVING CONDITIONS"

CHAIR: **MINISTER FOR EMPLOYMENT AFFAIRS AND SOCIAL PROTECTION, REGINA DOHERTY T.D.**

RAPPORTEUR: **PROFESSOR DOROTHY WATSON**

POTENTIAL ISSUES/QUESTIONS FOR DISCUSSION

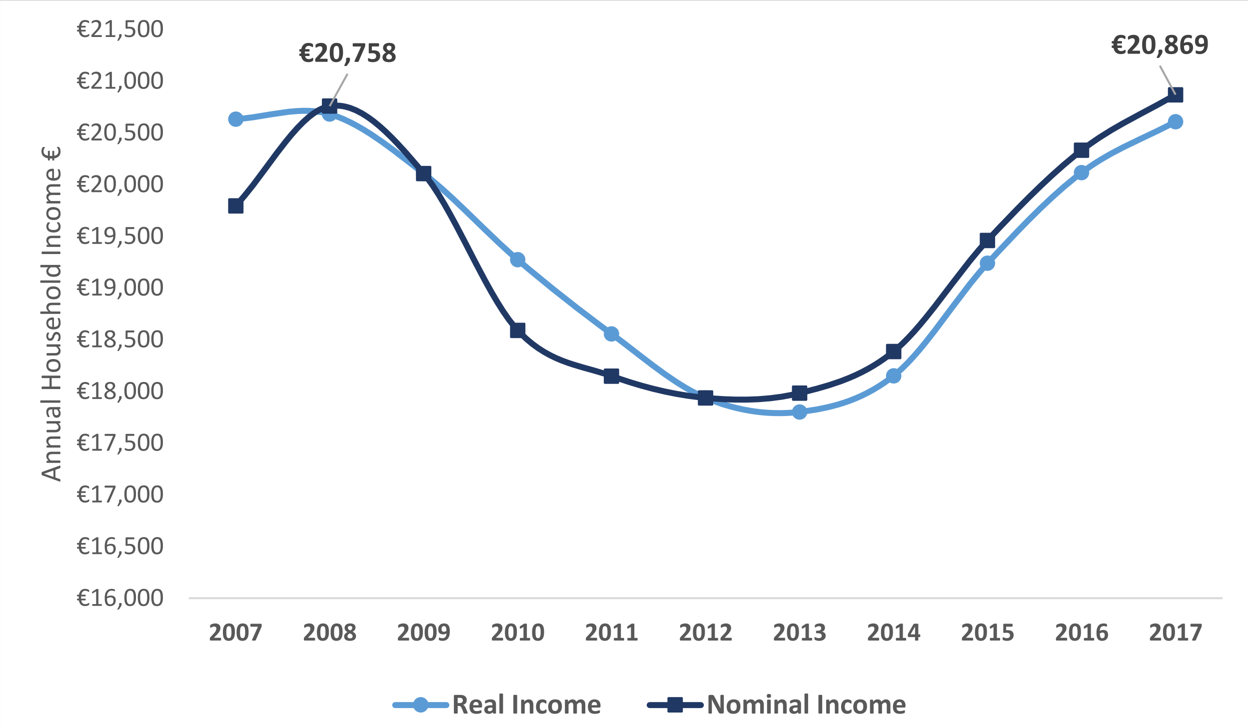
1) What are the main challenges that may affect progress in income and living conditions?
2) How can policy measures be designed to balance the need to incentivise work while also tackling poverty reduction?
3) Do the current income and poverty metrics accurately reflect developments in recent years and actual living standards in Ireland?
4) Are current supports sufficiently targeted? How can the targeting of new measures be improved?
5) Given improvements in the Irish economy, what types of interventions are required to support further improvements in income and living conditions? Consideration could be given to the effectiveness of direct payments, enhanced service provision, and/or other interventions.

INTRODUCTION

The Survey on Income and Living Conditions (SILC) is an annual survey conducted by the Central Statistics Office (CSO) that examines a broad range of issues related to income and living conditions. It is the official dataset for a number of key income and poverty indicators including the median equivalised nominal income, the *'At Risk of Poverty'* rate, and the *Consistent Poverty* rate.

Median incomes fell following the economic downturn and have since recovered as shown in ***Figure 1***. Between 2012 and 2017, nominal median incomes, those not adjusted for inflation, increased from €17,937 in 2012 to €20,869 in 2017. This is an increase of €2,932, or 16%. Between 2016 and 2017, there was a 2.6% increase in nominal median household income. **Nominal median income is now €111 above the peak level achieved in 2008.** Real median incomes, incomes that have been adjusted for inflation, also follow this trajectory.

Figure 1: Median Real and Nominal Household Disposable Income[23], 2007 - 2017

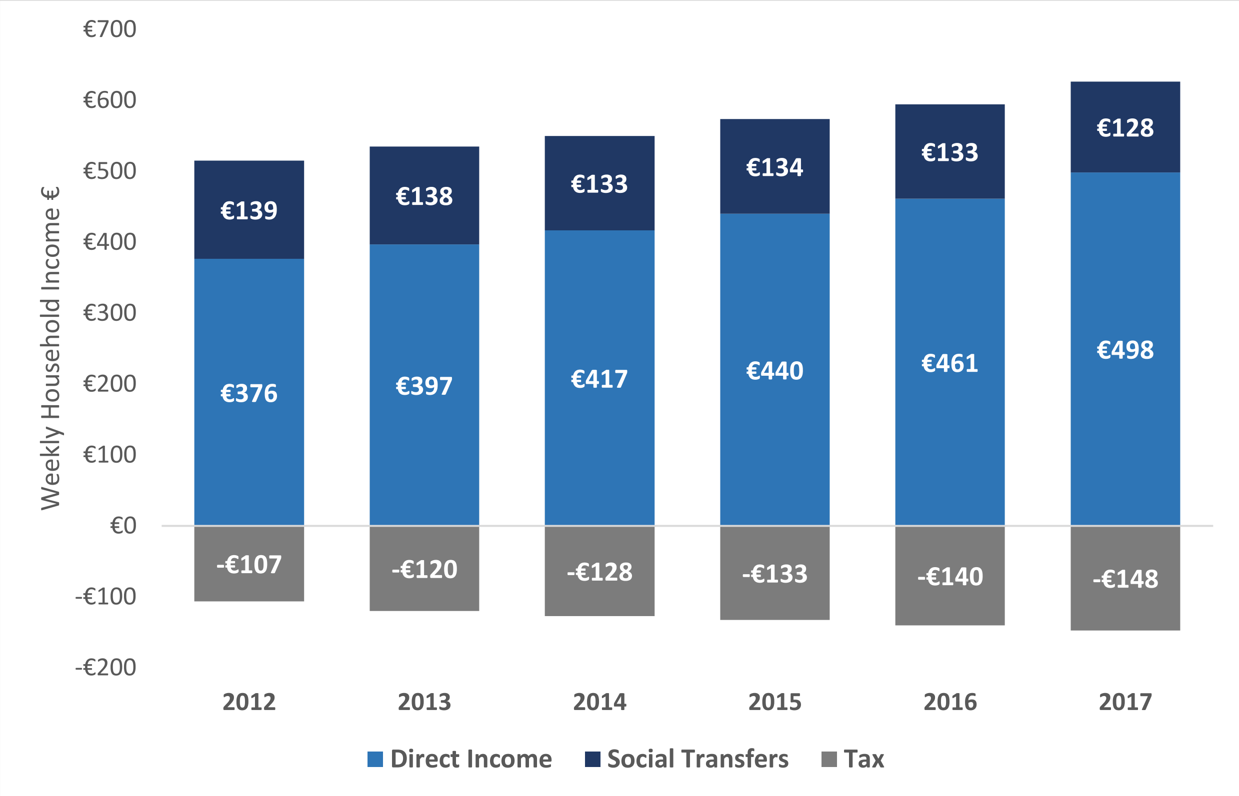


Source: *CSO SILC Data*

Over the period 2012-2017, improvements in the labour market have translated into significant increases in weekly direct income growing from €376 in 2012 to €498 in 2017, an increase of €122 or 32%, as shown in ***Figure 2***. As a result of increased employment, social transfers (social welfare payments and housing allowances) have decreased over the period from €139 to €128, a reduction of €11 or 8%. This reduction of 8% in social transfers appears small when compared with the increase in direct weekly income of 32%.

[23] The disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equivalised adults; household members are equivalised or made equivalent by weighting each according to their age, using the modified OECD equivalence scale

Figure 2: Composition of Weekly Income[24], 2012-2017

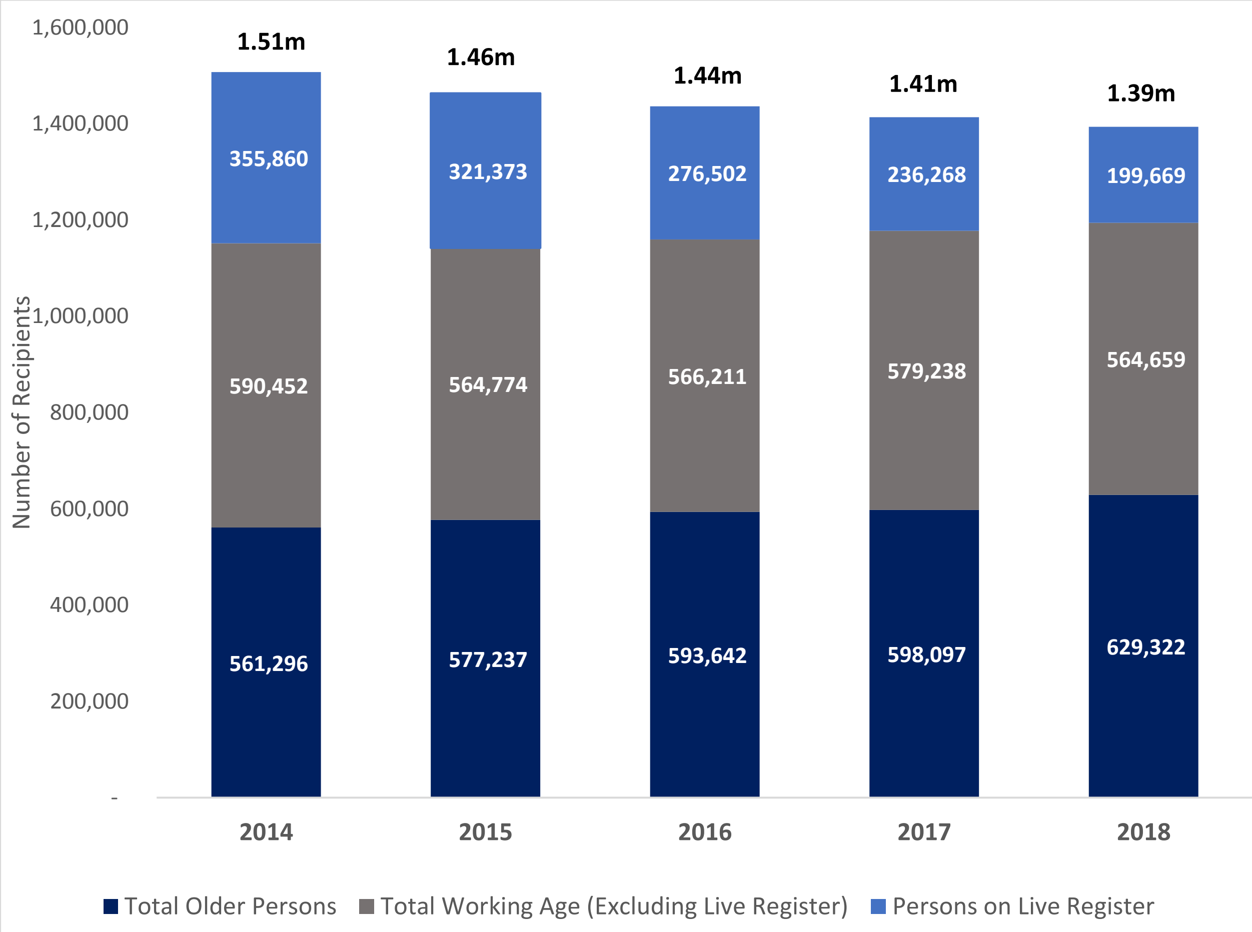


Source: *CSO SILC Data*

A robust social safety net has been provided and coverage in 2018 remains high with just under 1.4m people being supported by weekly social welfare payments. These cover a range of programmes including pensions, income and employment supports, illness/disability payments, and carer supports. As shown in ***Figure 3***, overall recipient numbers have decreased by 120,000 since 2014, this is as a result of significant reductions in the numbers unemployed and those on the Live Register. This reduction has masked increases in the number of recipients on pensions due to demographic pressures increasing by 68,000 since 2014. There are also a significant number of working age people on social welfare payments at almost 565,000 in 2018.

[24] Weekly income is nominal equivalised where the total household income is divided by the number of household members and converted into equalised adults; household members are equalised or made equivalent by weighting each according to their age, using the modified OECD equivalence scale

Figure 3: Number of weekly social welfare recipients, 2014-2018

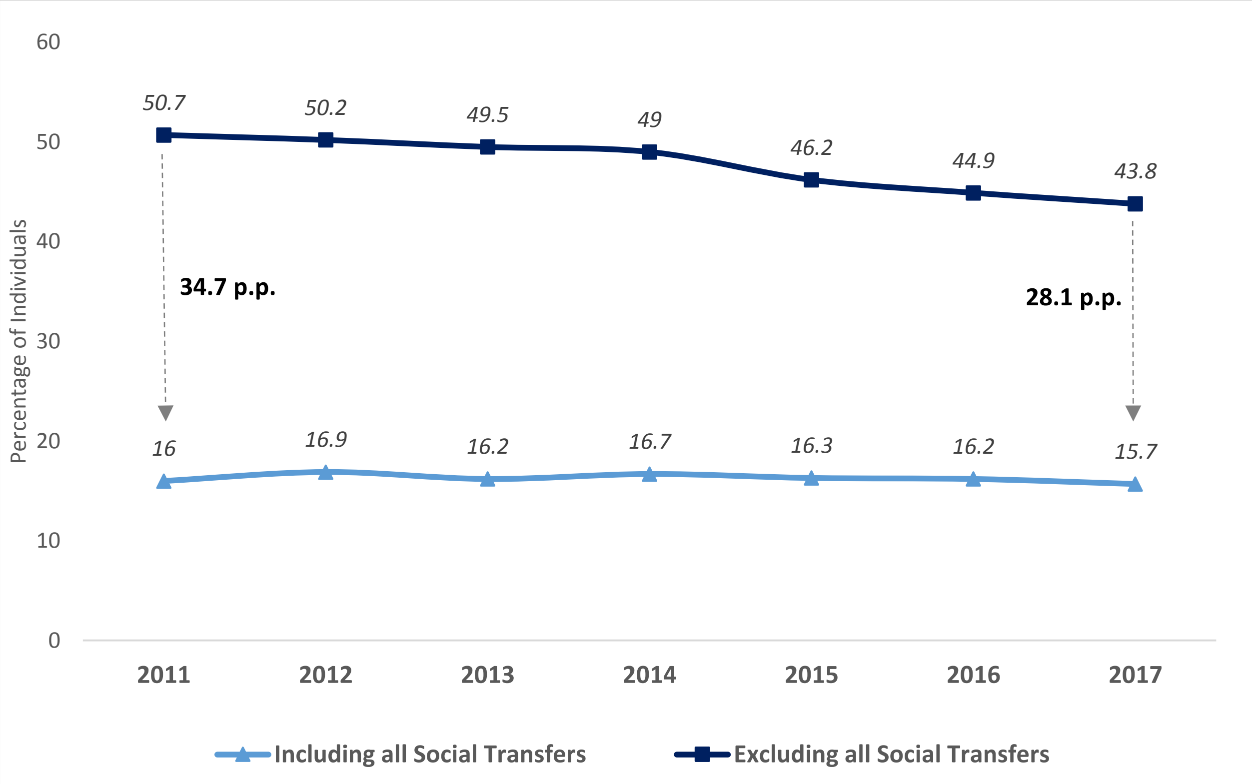


Source: DEASP admin data

A. Developments in Poverty Indicators

The 'At Risk of Poverty' rate measures the percentage of the population whose income is less than 60% of the nominal median income. Given that the 'At Risk of Poverty' rate is a relative measure, it will change every year as the median income changes. If income growth is larger at the top end of the income distribution than at the bottom end, the 'at risk of poverty' rate will increase even if there have been increases in the nominal incomes of those in the lower end of the income distribution.

Figure 4: At Risk of Poverty rate before and after social transfers, 2011-2017



Source: *CSO SILC Data*

Figure 4 shows the role the social welfare system plays in reducing the '*At Risk of Poverty*' rate through social transfers. **The impact social transfers play in reducing the 'at risk of poverty rate' has diminished in recent years.** This is primarily due to the considerable employment growth experienced which has resulted in a reduction in the poverty rate before social transfers. In 2011 the system reduced the *"At Risk of poverty"* rate by almost 35 percentage points, while in 2017 the system reduced the rate by 28 percentage points.

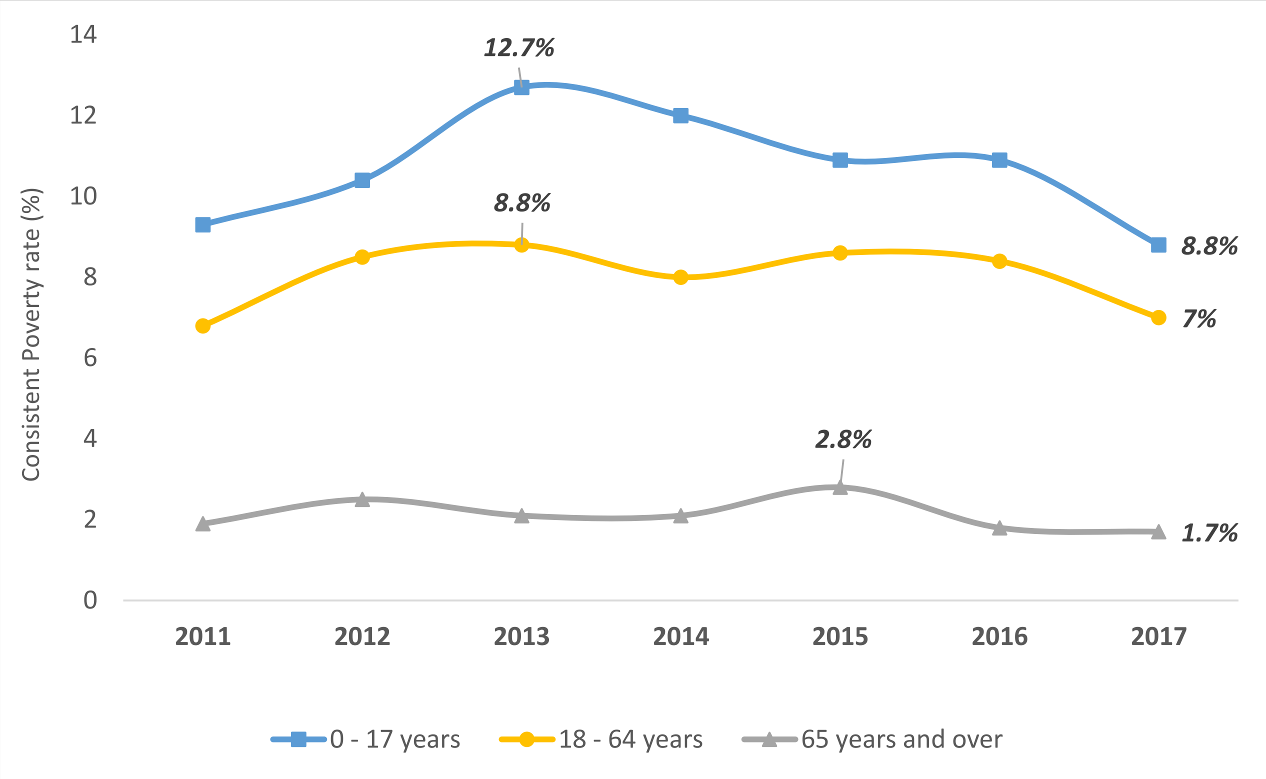
Consistent Poverty Rate

The *Consistent Poverty* rate is a composite metric which classifies someone whose income is below the relative '*At Risk of Poverty*' threshold and who cannot afford to provide at least two of the eleven items listed as deprivation indicators[25]. While median incomes and poverty indicators are improving across all deciles, the scale of the improvements have not been the same for all cohorts of the population.

Over the period 2013 to 2017, there have been improvements in *Consistent Poverty* rates across all ages as seen in ***Figure 5***. **The *Consistent Poverty* rate for older pension age cohorts is relatively low at 1.7% in 2017**. Children or those aged 0-17 continue to have the highest rate at 8.8% in 2017, but they are also the cohort that experienced the greatest reduction in the rate of *consistent poverty* since 2013 which fell from 12.7% to 8.8% in 2017.

[25] Consistent poverty describes individuals that are both at risk of poverty due to income and unable to purchase certain consumer items as described under the deprivation rate.

Figure 5: Consistent Poverty Rate by age cohort, 2006-2017



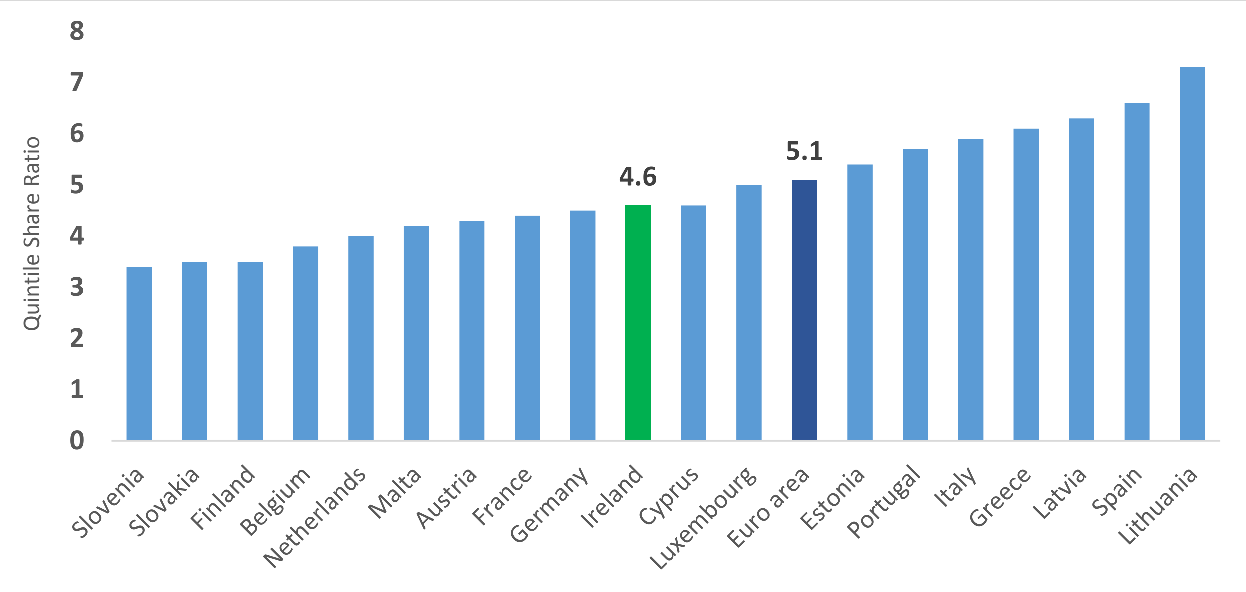
Source: *CSO SILC Data*

B. Income Distribution

The income quintile share ratio is a measure of the inequality of income distribution. It is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20% of the population with the lowest income (the bottom quintile).

As a result of Ireland's redistribution of income through progressive and targeted social transfers, Ireland tends to compare well against other Euro area countries based on the income quintile share ratio, as seen in ***Figure 6***. In 2017, Ireland had a quintile share ratio of 4.6 which was below the Euro area average of 5.1.

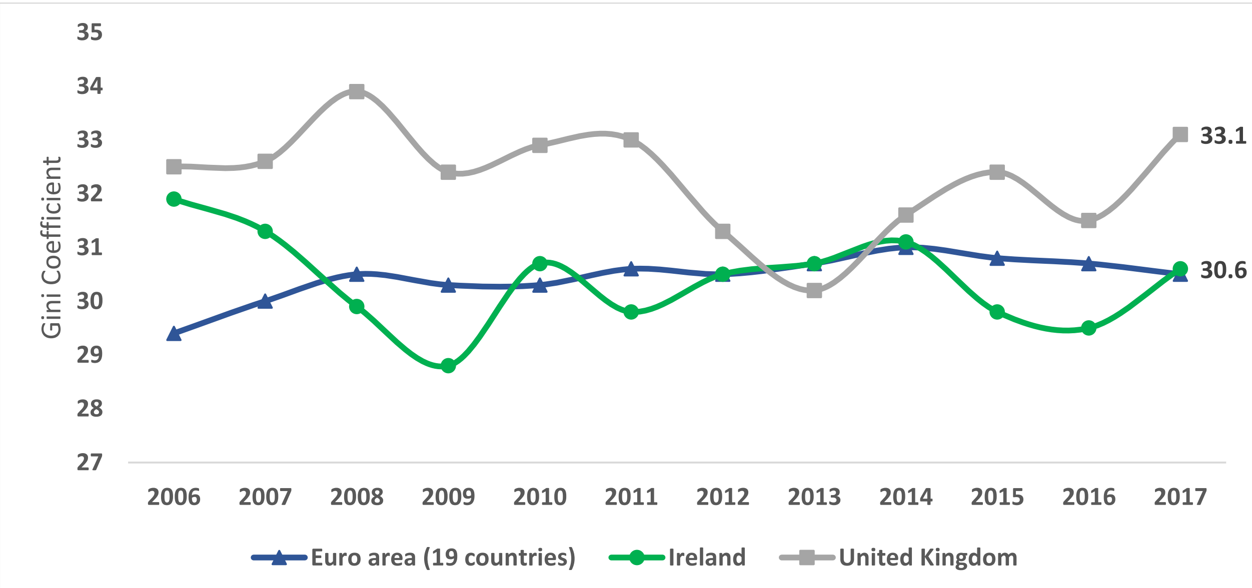
Figure 6: Income Quintile Share Ratio by Euro area Country, 2017



Source: *Eurostat SILC Data*

Income inequality is also measured by the Gini coefficient, with 0 representing perfect equality and 100 representing total inequality in society. In 2017, Ireland had a Gini coefficient of 30.6, which was an increase of 1.1 from the 2016 figure of 29.5. This is likely due to increases in income in the upper deciles being greater than the increases in the middle and lower deciles as a result of rising wages. As seen in ***Figure 7*** below, Irelands' Gini coefficient is now almost on par with the Euro area average of 30.5, but still remains 2.5 below the UK coefficient.

Figure 7: Gini Coefficient for Ireland, UK & Euro Area, 2006 - 2017



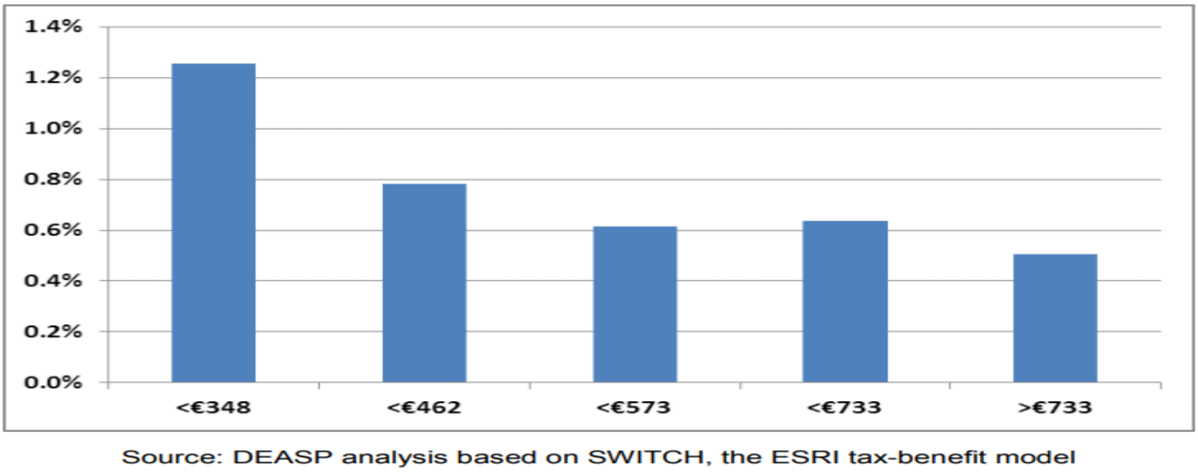
Source: *Eurostat SILC Data*

C. Recent Social Welfare Budget Packages

In recent years, Social Welfare Budget packages have been focused on poverty reduction and improving living standards. The Budget packages over the past three years have amounted to **€1.4bn** additional expenditure and included weekly payment rate increases, increases to the qualified child payments, and increases in income disregards for lone parents. Recent Budgets have been progressive with the largest proportionate increase in income going to the lower end of the income distribution, see ***Figure 8*** below**.**

It should be noted that the latest available SILC data/analysis is for 2017, so the impact of significant Social Welfare packages[26] in 2018 and 2019 on key poverty and income metrics cannot yet be assessed.

Figure 8: Distributional impact of Budget 2019 Social Welfare Measures



Source: ESRI SWITCH

Future Outlook

The short-term outlook for living standards is positive with forecasts pointing towards continued employment and earnings growth. Strong employment growth is an important component of income growth and poverty reduction, however developments in income distribution will depend on the types of jobs created, the number of hours worked and earnings levels. Demographic pressures on pensions will have significant expenditure implications going forward which may well result in trade-offs. Challenges also remain around ensuring measures are carefully targeted and do not present disincentives to work. Given the high number of people still being supported by Social Welfare, there is a need to increase labour force participation for underrepresented cohorts such as people with disabilities and adult dependents.

[26] See Appendix A for total cost of Budget packages introduced from 2017 to 2019

APPENDIX A

Table 1: Total Cost of Budget Packages 2017 - 2019

	2017	2018	2019	Total Cumulative Cost 2017-2019	Average Annual Cost 2017-2019
Total Budget package (€m)	469	453	497	**1,420**	**475**
Main measures	€5 increase in all weekly welfare rates; Extension of treatment benefits	€5 increase in all weekly welfare rates; €2 increase in Qualified Child Payments; Increased thresholds for Working Family and One Parent Family Payments	€5 increase in all weekly welfare rates; €2.20 and €3 increases for under and over 12 QCI payments respectively; Introduction of paid parental leave scheme		