

Structural reform is needed to deliver enduring cost competitiveness - National Competitiveness Council

Thursday 23 June 2011: The National Competitiveness Council (NCC) today published its latest study on the *Costs of Doing Business in Ireland 2011*. The report evaluates Ireland's relative cost competitiveness, identifies barriers to competitiveness and sets out actions needed to improve and sustain Ireland's competitiveness.

Dr. Don Thornill, Chairman, NCC commented, "Costs in Ireland are moving in the right direction and as a result Ireland has become a more attractive location to do business, but we cannot rest on the oars. Cost reductions have resulted primarily from cyclical factors like the collapse in consumer demand, domestically and internationally. If we are to face down emerging threats such as increasing global oil prices and a resumption of inflation, Irish policy must deliver outcomes which embed lasting, structural reform. Only structural reform will ensure that the gains are permanent and will not be quickly be eroded upon any resumption in growth."

The report highlights that restoration of cost competitiveness is central to any economic recovery. As a small, open economy, dependent on trade as a source of revenue, Irish enterprises need to be in a position to compete successfully for business in international markets and cost competitiveness is one of the key determinants of any firms' success.

The report finds that while there have been significant improvements in cost competitiveness over the last two years, further progress is required. Even though prices in Ireland have fallen since 2008, the cost of a range of business inputs remain relatively expensive compared to other jurisdictions, including property costs, calls from landlines and legal fees. The NCC notes that a large number of these inputs arise in the locally traded sector.

Martin Shanahan, Chief Executive, Forfás commented, "The cost of doing business in Ireland is falling and this is very much to be welcomed. We need to keep focused on the how Ireland can return to a sustainable growth path. Cost competitiveness is a key part of Ireland's international offering and implementation of the Council's recommendations would represent a major step in ensuring Ireland's future competitiveness and prosperity."

Main Recommendations

Labour Market

- Additional taxation measures must be designed to protect job creation and facilitate a recovery in consumer demand. A competitive wedge between take home pay and gross pay is vital.
- High replacement ratios between social welfare and net pay for employment weaken the incentives to return to the labour force. A major challenge exists to protect those on low incomes and social welfare benefits while ensuring that incentives to remain in or return to the labour market are strengthened and that businesses are incentivised to take on additional staff.
- There are risks of workers disengaging from the labour force as they experience long term unemployment. The education and training system must address the challenges confronting

the unemployed and workers in vulnerable sectors through activation, upskilling and targeted interventions designed to boost participation.

Property

- To provide certainty about the long term viability of the commercial property market, NAMA should provide more information on the loans that it has acquired and how it proposes to deal with unfinished developments, as well as its criteria for future provision of development finance, and on how NAMA assets will be disposed of.
- The Property Services Regulatory Authority should collect data on both purchasing and leasing relating to (1) Price (2) Quantity (e.g. floor space) (3) Quality (e.g. location, finish) for commercial *and* residential property.
- A broadly based and equitable valuation based residential property tax should be introduced as quickly as possible.
- The feasibility of introducing legislation to facilitate downward rent adjustments for existing leaseholders should be explored further.
- Local authorities need to develop more robust and transparent charging mechanisms for local authority charges that match levies with the economic cost of providing development.
- Coordination in the rollout of different infrastructure services should be improved to maximise efficiency and reduce costs.

Utilities

- Subsidies for peat generated electricity should be phased out due to the cost implications for electricity customers and the impact on the environment.
- Applying much higher, or new, waste levies will increase the costs of doing business further, particularly for those in manufacturing. Increases in the landfill levy should reflect the pricing of externalities (i.e. putting a price on environmental and other damage caused by landfill).
- A waste-to-energy levy should not be considered until a competitive waste-to-energy market is established here.
- A volumetric levy on incineration levels should not be introduced as it stands to inhibit economies of scale which are essential to bringing Irish waste costs more into line with our competitors.

Business and Professional Service

- Government Departments should be formally required to consider and respond to recommendations of the Competition Authority, with specific timelines set down for such consideration and implementation of recommendations.
- Stakeholders and the Central Statistics Office (CSO) should continue to work together to further develop the Services Producer Price Index, and to develop comparable data on price levels.

Legal Services

- The NCC recommends the establishment of an independent regulator for the legal profession. This new body should incorporate the regulation of training for solicitors and barristers, and would be tasked with approving those institutions who wish to provide such training.

- In order to deliver increased transparency and efficiency to legal services costs the NCC recommends that a Legal Costs Assessment Office be established to replace the Taxing Master's Office. The Legal Costs Assessment Office should have a remit to cover costs arising from all courts, not just the High and Supreme Courts.
- Legal costs should be assessed on the basis of work done, rather than on the size of awards. The general practice of allowing junior counsel's fees at two-thirds that of senior counsel has been recognised as anti-competitive - parties with responsibility for overseeing legal costs should ensure that the practice is no longer tolerated.
- Where practicable, legal services to be provided to the State by solicitors and barristers in private practice should be procured in accordance with the guidelines set out by National Public Procurement Policy Unit (NPPPU), requiring prospective legal service providers to compete with one another on the basis of cost and quality.
- Consider the creation of a single tier counsel system.
- Solicitors should be permitted to act as lead counsel when advocating in court with a barrister.
- Suitably qualified professionals, in addition to solicitors, be allowed to provide conveyancing services.

ENDS

Notes to Editors

Key Findings

- Labour cost growth rates in Ireland slowed significantly in 2008 and through to 2010. Over this period, growth rates were lower than the EU-27 and euro area-16 average growth rates.
- The cost of constructing and renting both industrial and office units declined sharply in Ireland during 2010. However, the impact of these decreases on Irish cost competitiveness has been reduced as there have also been significant cost decreases in many other countries.
- The cost of industrial electricity for large energy users in Ireland decreased significantly (-27%) in 2010 and costs are lower than the euro area average. Despite reductions also being recorded for electricity costs for SMEs in 2010, Ireland remains the fourth most expensive location benchmarked. Cost reductions would appear however to be temporary in nature - the phasing out of a temporary rebate for large users and global fuel price changes are likely to result in higher prices in the future.
- The average cost of treated water services in Ireland increased by 0.8 percent between 2010 and 2011. Based on the internationally comparable data (2009 is the most recent data available) Ireland is competitive with our main trading partners on this measure.
- Based on 2010 survey data, the average price that could be negotiated for landfill fees in the Irish market ranged from €86 to €111 per tonne (including the levy). Ireland's cost competitiveness is likely to have improved as Irish prices have continued to fall sharply over the last year.
- Ireland is the eighth most expensive location of the 13 countries benchmarked for a basket of business calls and is the fourth most expensive for a high usage basket of mobile calls including VAT.

- Over the course of the economic downturn, most business and professional sectors have shown substantial corrections in prices. Since 2006, however, CSO price data shows that legal services prices have increased by 12 percent.