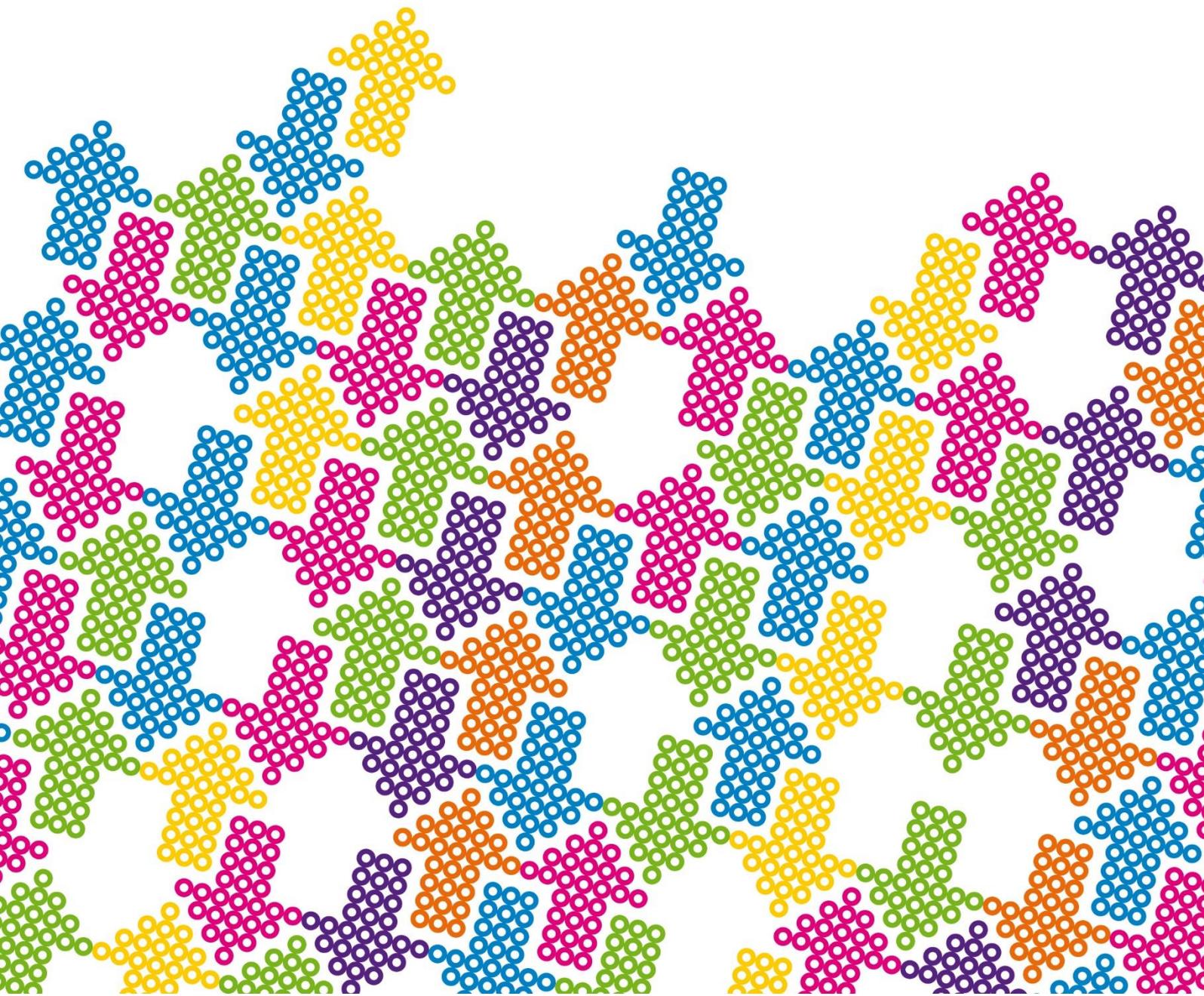




Ireland's Competitiveness Challenge 2020

September 2020



Introduction to the National Competitiveness Council

The National Competitiveness Council (NCC) reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

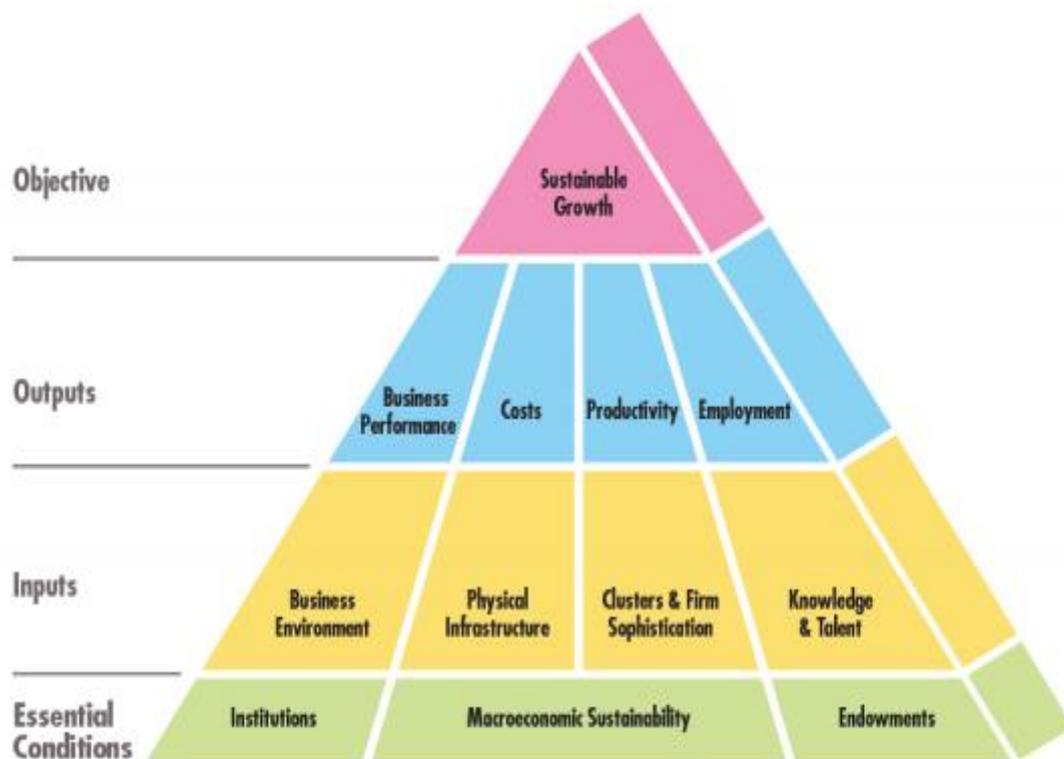
In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by euro area countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

Each year the NCC publishes two key reports:

- Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance; and
- Ireland's Competitiveness Challenge uses this information, along with the latest research, to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

As part of its work, the NCC also:

- Publishes a Productivity Statement, tracking the productivity developments in the Irish economy; and
- Issues competitiveness bulletins and other papers on specific competitiveness issues.



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Pat Beirne	Chief Executive Officer, Mergon Group
Kevin Callinan	General Secretary, Fórsa
Micheál Collins	Assistant Professor of Social Policy, University College Dublin
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Isolde Goggin	Chair, Competition and Consumer Protection Commission
David Hegarty	Assistant Secretary, Department of Enterprise, Trade and Employment
Fergal O'Brien	Director of Policy and Public Affairs, Ibec
Dirk Pilat	Deputy Director, Science, Technology and Innovation, OECD
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Contents

Introduction to the National Competitiveness Council	2
Taoiseach's Foreword	5
Tánaiste's Foreword.....	6
Chair's Preface	7
Overview	8
Summary of National Competitiveness Council Recommendations 2020.....	13
Chapter 1: The impact of COVID-19	17
1.1 Introduction.....	17
1.2 Current Policy Interventions	21
1.3 Actions Crucial to Economic Recovery	25
1.4 Remainder of the Report	27
Chapter 2: Support Ireland's workers and leverage opportunities for upskilling.....	28
2.1 Introduction	28
2.2 Current situation and the Impact of COVID-19	29
2.3 Actions Crucial to Economic Recovery	36
2.4 Summary	43
Chapter 3: Address Climate Action in a Competitiveness Context	44
3.1 Introduction.....	44
3.2 Current Situation in Ireland	45
3.3 Short-Term Actions: Decarbonisation at a Firm-Level	49
3.4 Medium/Long-Term Actions: Decarbonising Ireland's Gas Network	52
3.5 Summary.....	57
Chapter 4: Invest Strategically in Ireland's Physical Infrastructure	58
4.1 Introduction	58
4.2 The Current Situation and the Impact of COVID-19	63
4.3 Actions Crucial to Economic Recovery	65
4.4 Summary	70
Chapter 5: Resolve Long-standing Issues	72
5.1 Introduction	72
5.2 The Current Situation and the Impact of COVID-19	72
5.3 Actions Crucial to Economic Recovery	77
5.4 Summary	81
Conclusion	82

Taoiseach's Foreword



To keep our society and people safe, our country has made extraordinary sacrifices over recent months to tackle the COVID-19 pandemic. Through these sacrifices we have been able to halt the rapid spread of the virus. However, COVID-19 remains with us, as virulent as ever. As we now set out on the path to recovery, we must remain vigilant and continue to work together to manage the virus and its impact upon our country.

Protecting the health of the Irish people, especially the most vulnerable among us, is our number one priority. We are also, however, taking action to build a sustainable and inclusive recovery. The economic recession which the pandemic has caused is the most rapid and dramatic ever recorded, both in this country and abroad. But we are also facing other profound economic challenges. Most significantly, Brexit, where questions remain over the future trading relationship between the EU and the UK. We must also prepare our economy and society for the green and digital transitions which the coming years will bring.

From the start of the pandemic, Government has taken decisive action to combat the virus and to support our people and economy. This includes income support for those who have lost their jobs, and financial support to businesses who had to temporarily cease trading or operate at reduced capacity. The July Jobs Stimulus has seen substantive additional investment in supports, including for employment and training services, capital investment and targeted initiatives to assist businesses.

Work is now underway on our new National Economic Plan, setting out the Government's guiding vision, principles and goals for Ireland's future economy. The Plan will go far beyond managing the current crisis. It will set out our approach to transition to a new sustainable economy, incorporating the longer-term impacts of the COVID-19 pandemic, as well as other significant long-term challenges such as the necessary transition to a low-carbon economy. It is an important opportunity to progress ambitious commitments in the Programme for Government in order to positively shape and build a renewed and restructured low carbon, digital economy.

I warmly welcome the analysis and recommendations put forward by the National Competitiveness Council in the *Competitiveness Challenge 2020*. They deserve, and will receive, serious consideration from the Government, including in the development of the National Economic Plan. A formal Government response to the recommendations will also be published. The recommendations, covering critical issues such as supports for workers, climate change, investment, and long-standing issues such as housing and cost of insurance, will help to shape our policy choices. I would like to thank the Council for their work in compiling this report, and I look forward to engaging with them over the coming months as we continue to build the recovery together.

Micheál Martin, T.D.,
Taoiseach

Tánaiste's Foreword



COVID-19 has had a devastating impact on our society and our economy. Lives were lost, businesses were closed, and it took a terrible toll on our families, our communities and our country. Things are still very difficult for many people, but confidence is slowly coming back, and people are hopeful once again.

Throughout this pandemic, Irish businesses, both small and large, have shown remarkable grit, determination and adaptability in the face of unprecedented challenges. Business models have been changed, premises refitted, and staff retrained as enterprises find new and innovate ways to serve us – their customers – and keep everyone safe.

As Tánaiste and Minister for Enterprise, Trade and Employment, the Department has been to the forefront in developing further responses to assist businesses during these challenging times. The July Jobs Stimulus included actions to help businesses to open, to help those that were already open to stay open, to get people back to work, and provide financial and training support to those who cannot go back to their old jobs. The Government will continue to back enterprise and our economy through targeted packages of employment, tax reductions and incentives, grant support, low cost finance and advice.

The next steps in our recovery journey will be mapped out in the October Budget and the subsequent National Economic Plan. The National Economic Plan will set out a vision for what our economy will look like in the aftermath of COVID-19 and the actions that Government can take to ease the transition to a better future. All crises give rise to both challenges and opportunities. While the focus of Government action up to now has been on protecting workers, households and firms, the Plan will outline how our economy can be positioned to exploit opportunities for growth in emerging sectors and in new ways of working, while mindful of efforts to decarbonise the economy and prepare for the next phase of technological transformation.

To ensure that we take the right policy actions now, it is crucial that the actions we take are rooted in evidence. I welcome the National Competitiveness Council's analysis and recommendations outlined in the *Competitiveness Challenge 2020*. The Government will reflect on these recommendations as we progress the National Economic Plan and I thank the Council for their input as we all work towards our economic, social and environmental goals.

Leo Varadkar, T.D.,
Tánaiste

Chair's Preface



2020 has seen a changed world, as households, businesses, governments and societies respond individually and collectively to the realities of COVID-19. In addition to causing loss of life and unprecedented human suffering, COVID-19 has brought about an exceptional level of uncertainty, which raises new challenges across the world for individual wellbeing, business viability, and the role of government in providing leadership and maintaining social cohesion. Despite unprecedented levels of investment in research on vaccines and treatments, we simply do not know how long we will be living with COVID-19. Countries face tough decisions in how to address priorities of health, economic wellbeing and what they value in society. These decisions are likely to have far reaching consequences for our cities, our environment and our way of life, now and in the decades to come. The current situation and the threat of future waves of the virus call us to find innovative and affordable ways to adjust to our new reality.

Compounding the already high level of uncertainty, Ireland faces additional risks, foremost of which is the approaching deadline for negotiating the future trading relationship between the UK and the EU. There are also heightened international trade tensions, with countries taking more protectionist stances than seen in many decades. As a small, highly open and concentrated economy, Ireland is heavily exposed to external shocks, making it vital that the economy retains its competitive position.

With the onset of the pandemic, Government intervention immediately focused on supporting workers and their families, with income support schemes rolled out quickly and effectively. As the economy and society continue to open up, additional support is needed for those workers in sectors that remain constrained by social distancing requirements, by precautionary behaviour on the part of consumers, and by the possibility of further disruption following local or regional spikes in virus cases. Business supports have also been introduced, including loan schemes, grants, vouchers, as well as training and mentoring programmes, which will help viable businesses get back on their feet. It is imperative that these schemes meet the enterprise sector's requirements for recovery, in a fiscally efficient manner.

The National Competitiveness Council's mandated focus is on competitiveness and productivity, and through this lens the Council's earlier publication, *Ireland's Competitiveness Scorecard 2020*, identified four broad challenges that need to be addressed to put the economy on a sound footing. In this report, the Council makes 20 targeted, actionable recommendations to Government on how to address the following four challenges to:

- Support Ireland's workers and leverage opportunities for upskilling,
- Address climate action in a competitiveness context,
- Invest strategically in Ireland's physical infrastructure, and
- Resolve long-standing issues.

The Council believes progress and reforms in these four key areas will contribute to economic recovery and to ensuring that future balanced growth can bring about an improvement in the standard of living for all of society.

Starting this year, the *Competitiveness Challenge* publication date has been brought forward, so that its recommendations can feed into the October Budget and to the European Semester process. This year it will also feed into the Government's National Economic Plan, providing a focus on strengthening competitiveness and productivity as the recovery process gets underway. Increasing productivity and maintaining competitiveness are vital to securing Ireland's international position as an attractive country in which to do business.

Dr. Frances Ruane
Chair, National Competitiveness Council

Overview

Introduction

Since it was established in 1997, the National Competitiveness Council has focused on competitiveness issues that impact on the long-term prospects of the Irish economy. Based on its review of the available evidence in *Ireland's Competitiveness Scorecard*¹, the Council annually identifies policy reforms that could boost productivity, by making strategic economic investments, and could lower costs for businesses, by reducing or eliminating market and institutional failures. Such reforms underpin Ireland's future competitiveness and support the Council's ultimate goal – sustainable economic growth, higher living standards, and a better quality of life for all.

To contextualise the policy analysis, the Council must make certain assumptions on where the global economy is headed. This is always challenging but in the wake of the COVID-19 pandemic, it is exceptionally difficult.

Across the world, those tasked with forecasting GDP growth have addressed this uncertainty by moving from forecasting to modelling different possible scenarios. One mild scenario is where a widespread second wave of infections is avoided, and the spread of the virus can be controlled without returning to the strict lockdowns observed widely in March and April 2020. In this scenario, Ireland's GDP in 2020 is forecast² to fall by between 6.8%³ and 9.0%⁴ followed by a return to growth in 2021 of between 4.8%³ and 6.3%⁵. A more severe scenario, where it proves impossible to avoid a second wave of the virus, means that Irish GDP suffers more severely in 2020 (a fall of between 8.7%³ and 13.8%⁴), and recovers more slowly in 2021 (ranging from a modest fall of 0.2%³ to an increase of 4.9%⁴).

The Council is well aware that COVID-19 on the island of Ireland is not the only immediate threat to Irish businesses that operate on international markets. Ireland is heavily exposed to a massive decline in international trade in 2020 (currently forecast by the IMF at 11.9%⁶) and to uncertainties about the future trading relationship between the UK and the EU. The deadline for the EU-UK agreement is edging ever closer, and without an agreement in place, Irish businesses will face significant disruption to their international activities, compounding the already highly stressed situation.

This overview first sets out some of the major uncertainties about which the Council is concerned, and then gives a high-level summary of the policy responses we would like to see the Government adopt to support the continued competitiveness of the Irish economy. Further detail on these recommendations are set out in Chapters 2- 5.

Uncertainty arising from the COVID-19 Pandemic

From the Council's perspective, there are two major uncertainties arising out of the COVID-19 pandemic that will impact on competitiveness and productivity. First, we do not know how long we will be living with COVID-19, or the scale of necessary health measures required to limit the spread of the virus. The European Medicines

¹ [Ireland's Competitiveness Scorecard 2020](#)

² See Chapter 1 for details of the Central Bank of Ireland, OECD, and European Commission economic forecasts.

³ OECD Economic Outlook, Volume 2020 Issue 1

⁴ Central Bank of Ireland 'Quarterly Bulletin' July 2020

⁵ European Commission Summer Economic Forecast 2020

⁶ IMF (June 2020) [A Crisis Like No Other, An Uncertain Recovery](#)

Agency⁷, while noting that vaccine development timelines are difficult to predict, has suggested that it might take at least until the beginning of 2021 before a vaccine is ready for approval and available in sufficient quantities to enable widespread use. It is clear that we will be living with social distancing requirements and their impacts on our ways of living and working for some time to come. In turn, these have major macroeconomic effects on the global economy through consumption and investment decisions.

While large numbers of businesses have been able to adapt to social distancing measures through wholesale remote working (something that is explored in further detail in Chapter 1), it is also clear that remote working is not an option for many businesses or many sectors, such as manufacturing, where production is intrinsically linked with physical proximity, or certain service sector jobs where providing a face-to-face service is essential. For these businesses, adapting working conditions to ensure social distancing guidelines are adhered to is likely to increase costs and reduce productivity.

Second, an even more difficult issue to predict is whether and how the pandemic – and the widespread adoption of remote working practices taken to suppress the spread of the virus – may lead to wide-ranging societal change. In addition to having implications for how we work, living with COVID-19 also has wide ranging effects on how we view housing, commuting and shopping. Furthermore, significant change is inevitable in certain areas, such as healthcare and education.

The scale of remote working in Ireland over the last six months would have been inconceivable prior to the outbreak of COVID-19. At this juncture, it is unclear what the patterns of those currently working remotely will be whenever remote working is no longer necessary to contain the spread of the virus, but there is a clear appetite for some form of hybrid working model involving a blend of home and workplace⁸. Many commentators, including the OECD, have pointed out that the experience of remote working during the COVID-19 disruption may catalyse wider adoption of remote working practices also after the crisis with the potential to improve firm productivity by facilitating cost reductions and by raising worker satisfaction, and thus worker efficiency⁹, but evidence to date is limited.

While a small minority of businesses have already stated publicly that they intend to have remote working a part of their future workplace planning, most businesses are still considering their options. It is not a simple judgement call. An increased scale of remote working will reduce the need for commercial office space, diminish the need for unproductive commutes, and benefit productivity in tasks which are easier to do from home. On the other hand, remote working may have negative productivity implications if tasks are harder to undertake from home, either because of the quality of the broadband infrastructure or because of the absence of spontaneous interactions with colleagues which naturally enhance the quality of the work done. To date, there is little evidence to quantify the productivity impact of remote working, and any productivity effect may differ over time and across contexts. There will be significant focus and research on these productivity effects by businesses, as they plan for how much time they will organise for their employees to spend in the workplace. Operationalising these different options will also have implications for the role of management in businesses of different scales. In researching these issues, businesses will need to consider and address the suitability of certain roles within the organisation to remote working, and differences in how their individual employees will respond to working more from home.

⁷ European Medicines Agency: [Treatments and vaccines for COVID-19](#)

⁸ Whitaker Institute and Western Development Commission (2020): [Remote Working During COVID-19](#)

⁹ OECD (2020) Productivity Gains from Teleworking in the post-COVID-19 era: How can public policies make it happen?

Ultimately, the cumulative weight of these decisions by businesses (and employees) will determine the scale of economic and societal change following on from the pandemic. It will differ across businesses according to the nature of work, the nature of engagement with external stakeholders and the scale of employee turnover. At one extreme, where work requires shared engagement in the same space, the office would tend to reassert itself as the primary place to do business. In this case, there would be relatively little change to the economic and societal balance. At the other extreme, where work activities only require people to share common spaces for a limited number of tasks, offices would tend to be used sparingly and remote working would be more common. It may also become evident that the recent successful transition to remote working has been possible because the individuals involved have previously worked together in a face-to-face environment so that the short, medium and long run options may be somewhat different. The spatial future of work will reflect these different elements and could require a mixed approach where working from home is complemented by localised digital hubs where people can access extra services that may not be practical at home (e.g. virtual broadcasting or attending digital conferences).

As noted, for some businesses (like manufacturing and personal services) remote working is not an option. Others have already accepted that widespread remote working will feature strongly into the future. More will certainly follow this path, maintaining only small central office spaces for core activities. In contrast, other businesses will adapt to remote working in a different way, with the office remaining the primary place to do businesses. Over the coming years, the extent of any changes to work patterns will become apparent, and policymakers need to be ready to address the consequences that this may have for areas like urban planning and spatial policies in general.

Policy Responses

In this highly uncertain situation, two things are clear: (i) Government intervention is crucial to keeping economies going in the short run; and (ii) remote working will play a much larger role in the future of work than it has in the past (and again, the State has an important role to play in this transition, particularly in the context of skills and access to broadband).

Along with its health priorities, dealing with the immediate impact on the labour market from the COVID-19 pandemic has been the Government's key priority. The Council strongly supports the Government's measures to get people back to work as quickly and safely as is possible to prevent unemployment becoming entrenched ([Recommendation 2.1](#)). As the Council believes that remote working is going to play an increasingly significant role in the workplace, digital skills ([Recommendations 2.2 and 2.3](#)) and management skills ([Recommendations 2.4 and 2.5](#)) will be needed to support the required changes. The Council also recognises that there will likely be other areas where upskilling is required arising from COVID-19, and it will be necessary to map these out and begin to address them ([Recommendation 2.6](#)).

Whilst the Council's recommendations relating to economic challenges that accompany the COVID-19 pandemic are a key focus in this year's *Competitiveness Challenge*, for many years the Council has emphasised the importance of climate action and pointed to the absence of policy actions to realise Ireland's stated climate goals. The Council is supportive of the momentum at a national level to address the climate crisis and this year's *Competitiveness Challenge* focuses on enterprises' contribution to climate action. Subject to meeting emissions reduction targets, the Council outlines actions that can be taken to strengthen competitiveness and to support businesses in the transition to a sustainable, carbon-neutral economy. In the short term, CO₂ abatement opportunities and technologies that are feasible in the Irish context and would enable businesses of differing sizes to decarbonise in line with Ireland's stated ambition should be identified. Furthermore, Ireland's carbon

abatement instruments should be assessed to determine whether they are fit for purpose in meeting national targets while maintaining competitiveness ([Recommendations 3.1 – 3.3](#)). In the long term, given the enterprise sector's dependence on gas, there is a need for policy clarity on the future of Ireland's gas network and a detailed roadmap for the period 2030-2050 that explicitly sets out the actions, targets and timeframes for the decarbonisation of Ireland's gas network ([Recommendation 3.4](#)).

Reinforcing this point, it is even more crucial now that the Government continues to invest strategically in the future of the Irish economy. In the wake of the last recession, capital budgets were cut dramatically, leading to significant bottlenecks in our physical infrastructure, most acutely in housing. The Council has welcomed the increase in Government expenditure on capital projects in recent years. It is important that any potential planning issues that may jeopardise key infrastructure projects are identified early in the process to avoid costly delays or revisions ([Recommendation 4.1](#)) and that government bodies at regional levels adopt best practices to maximise efficiency in the business environment, including in managing infrastructure ([Recommendation 4.2](#)). Continued capital investment in the National Broadband Plan is vital to support wider access to quality broadband services and remote working facilities ([Recommendation 4.3](#)). Capital investment is also needed to support delivery of our climate action agenda ([Recommendation 4.4](#)) and address deficiencies in the housing market ([Recommendation 4.5](#)).

Finally, the Council identifies a number of long-standing issues that continue to impact negatively on the ability of businesses in Ireland to compete. These are difficult issues, for which there are no easy solutions. Lack of progress in achieving the desired outcomes from a competitiveness perspective may reflect a resistance to change among entrenched interests and will require concerted efforts across areas of Government and high-level political buy-in to drive reforms forward.

For example, Irish businesses face higher interest rates on lending (relative to EU countries). These higher rates are largely driven by prudential banking concerns but may also reflect inadequate competition and a failure to promote adequate awareness of other financial options ([Recommendation 5.1](#)). Insurance costs are another issue for businesses. In order to introduce greater stability in the cost of insurance, the Cost of Insurance Working Group identified the need for consistency in personal injury awards across settlement channels and the Judicial Council has begun to formulate Guidelines for personal injury awards ([Recommendation 5.2](#)). In relation to legal costs, a Review Group has been established to consider ways of addressing high legal costs in Ireland and the Council is supportive of its efforts ([Recommendation 5.3](#)).

The Council has also focused on two issues that influence competitiveness through their impacts on consumer costs – housing ([Recommendation 5.4](#)) and childcare ([Recommendation 5.5](#)). COVID-19 related disruptions have impacted on activity in the construction sector, with new dwelling completions set to fall sharply in 2020, amplifying the housing crisis with implications for sustainable and inclusive growth, competitiveness, and social cohesion. Successfully addressing these long-standing issues and hence reducing consumer costs would simultaneously improve people's quality of life and businesses' ability to compete internationally.

Conclusions

Aside from the devastating human suffering, the COVID-19 pandemic has put incredible pressure on the Irish (and global) economy. It comes at a time where the future international system is already under considerable strain, with the added uncertainty and complexity around the future trading relationship between the UK and the EU. In a time of heightened global uncertainty, ensuring the continued competitiveness of the Irish economy takes on an added importance and identifying and implementing the appropriate policies is even

Ireland's Competitiveness Challenge 2020

more challenging. Based on the best available domestic and international evidence, the Council has identified four key challenges that need to be addressed to put the economy on a sound competitiveness footing and has made 20 tangible, actionable policy recommendations to the Government. The four challenges are to:

- Support Ireland's workers and leverage opportunities for upskilling,
- Address Climate Action in a Competitiveness Context,
- Invest Strategically in Ireland's Physical Infrastructure, and
- Resolve Long-standing Issues.

Chapter 1 provides more analysis on the current situation and the subsequent four chapters address each of these four challenges, drawing on the available evidence to support the analysis.

Summary of National Competitiveness Council Recommendations 2020

The *Competitiveness Challenge* identifies a range of recommendations that address both immediate competitiveness issues, and more medium-term challenges aimed at enhancing Ireland's competitiveness and productivity performance. The National Competitiveness Council has a primary focus on competitiveness and productivity, and through this lens it has identified four broad challenges that will be critical to economic recovery in the wake of COVID-19. Its recommendations to Government are intended to lay solid foundations today for a speedy and balanced recovery in order to secure an improvement in the standard of living for all of society.

It is imperative that progress is made on these recommendations by the relevant Government Departments and state bodies over the coming year so that Ireland remains competitive and the economy begins the recovery process on a sound footing. In recognition of the fact that some recommendations require the co-ordinated action of a number of bodies, the Council lists all of the responsible actors. In these cases, the first mentioned actor is regarded as having overall responsibility for the recommendation.

Chapter 2: Support Ireland's Workers and Leverage Opportunities for Upskilling

Recommendation 2.1: Strengthen supports for Jobseekers

- (i) Publish the evaluation of the JobPlus programme and ensure that the programme provides an effective response in the context of the COVID-19 labour market conditions.
- (ii) Increase the capacity of the Intreo Public Employment Service to provide additional case officers for job search and employment supports to jobseekers.

Responsibility: Department of Social Protection

Recommendation 2.2: Intensify efforts to boost high-level ICT graduate output from the education and training system, in line with the target (70% of annual expected demand) set out in Technology Skills 2022. Publish a Technology Skills 2022 interim progress report.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Higher Education Authority; SOLAS; Skillnet Ireland

Recommendation 2.3: Deliver on the Future Jobs Ireland target of bringing the proportion of workers with basic digital skills in Ireland at least in line with or above the EU average by 2025 (EU 2025 target: 70%).

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; SOLAS

Recommendation 2.4: Address the lack of awareness among SME managers of the range of management development opportunities and supports currently available.

Responsibility: Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland; Enterprise Ireland; Local Enterprise Offices; SOLAS; Higher Education Authority; Business representative bodies

Recommendation 2.5: Increase active cooperation at an operational level between management training providers, with a focus on sharing data, knowledge and good practice, to ensure the coherence and effectiveness of the overall training offer from the perspective of training participants.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland; SOLAS; Education and Training Boards; Higher Education Authority; Enterprise Ireland; Local Enterprise Offices; Private providers

Recommendation 2.6: Address the demand for skills arising from the COVID-19 pandemic

- (i) Publish the findings from the COVID-19 Industry Insights Series outlining the skills needs of enterprises in the context of COVID-19 labour market conditions.
- (ii) Examine the ongoing impact of COVID-19 on SMEs and engage with other enterprise agencies and industry bodies to design targeted industry-led responses to meet business needs in sectors severely impacted by the enterprise and labour market challenges posed by COVID-19.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland

Chapter 3: Address Climate Action in a Competitiveness Context

Recommendation 3.1: Undertake research with close engagement with businesses and key stakeholders, to identify a range of CO₂ abatement opportunities and technologies, by company size and sector, that would enable businesses to decarbonise in line with Ireland's national targets.

Responsibility: Department of Enterprise, Trade and Employment; Enterprise Ireland; IDA Ireland; Sustainable Energy Authority of Ireland

Recommendation 3.2: Assess the carbon mitigation incentives and supports available to enterprises to determine whether they are fit for purpose in achieving Ireland's climate targets and identify areas where further intervention is needed to support companies to decarbonise.

Responsibility: Department of Environment, Climate and Communications; Department of Enterprise, Trade and Employment; Sustainable Energy Authority of Ireland; Enterprise Ireland; IDA Ireland

Recommendation 3.3: Establish a one-stop-shop environmental hub and website that would allow businesses to assess their carbon footprint and access information on the supports available to help them to decarbonise.

Responsibility: Department of Enterprise, Trade and Employment; Department of Environment, Climate and Communications; Enterprise Ireland; IDA Ireland; Sustainable Energy Authority of Ireland; Irish Water; Environmental Protection Agency

Recommendation 3.4: Decarbonise the gas network

- (i) Provide a clear policy signal, as part of Ireland's Long-Term Strategy, that the gas network will be carbon neutral by 2050.
- (ii) Develop a pathway of the steps that need to be taken to 2050 to decarbonise the gas network. This should include an early and detailed assessment of future policy options and cost-efficient renewable energy sources that can be used, with prioritisation for 'no regrets' investments in Ireland's energy infrastructure.

Responsibility: Department of Environment, Climate and Communications

Chapter 4: Invest Strategically in Ireland's Physical Infrastructure

Recommendation 4.1: Provide supports such as resource packs and templates to complement the updated Public Spending Code and support public bodies in meeting their requirements in evaluating, planning and managing public investments.

Responsibility: Department of Public Expenditure and Reform

Recommendation 4.2: Challenge regions and cities to learn from best practice across the country on ways to maximise efficiency in order to improve the business environment for local enterprises.

Responsibility: Department of Housing, Heritage and Local Government; Regional Assemblies; Local Authorities

Recommendation 4.3: Complete a comprehensive mapping exercise of the types and capacity of remote working facilities currently available in order to identify where gaps exist to meet local and regional business needs. Create a single classification, website and central directory to inform individuals and enterprises of the facilities available in their locality.

Responsibility: Western Development Commission; Department of Rural and Community Development; Department of Housing, Heritage and Local Government; Department of Enterprise, Trade and Employment; Department of Environment, Climate and Communications; Local Authorities

Recommendation 4.4: Prioritise the roll-out of better and greener transport links so that traffic gridlock is avoided when the economic recovery gathers pace and more people return to work.

Responsibility: Department of Transport; Department of Environment, Climate and Communications

Recommendation 4.5: Establish the proposed Commission on Housing without delay and ensure it has sufficient resources to deliver on its work.

Responsibility: Department of Housing, Heritage and Local Government

Chapter 5: Resolve Long-Standing Issues

Recommendation 5.1: Ensure that SMEs are aware of the financing options available to them by progressing the launch of the Business Finance Advisory Hub that should signpost learning options for SMEs to improve financial knowledge.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 5.2: Personal Injuries Guidelines

- (i) Adopt Guidelines on Personal Injuries.

Responsibility: Judicial Council (PIGC)

- (ii) Monitor the use of these Guidelines and their impact on award levels, and ultimately on the cost of insurance.

Responsibility: Department of Justice

Recommendation 5.3: Take action to bring legal costs for businesses into line with other common law jurisdictions and improve access to justice, primarily by implementing the recommendations of the Review of the Administration of Civil Justice Group.

Responsibility: Department of Justice

Recommendation 5.4: Prioritise the implementation of the proposed actions designed to make housing and renting more affordable as outlined in the Programme for Government, and periodically review the effectiveness of these measures to determine whether they are sufficient or need modification.

Responsibility: Department of Housing, Heritage and Local Government

Recommendation 5.5: Make childcare costs more affordable by adopting the recommendations from the Expert Group currently examining the funding model that will allow for the delivery of accessible, affordable, high-quality childcare. Prioritise the implementation of other actions set out in the PfG designed to make high-quality early learning and care and school-age childcare more accessible and affordable.

Responsibility: Department of Children, Disability, Equality and Integration

Chapter 1: The impact of COVID-19

1.1 Introduction

The global COVID-19 pandemic continues to beget extensive human suffering and unprecedented economic disruption. Health systems around the world, and the industries that support them, have been under enormous pressure and continue to work diligently to save lives as the threat of a second wave continues to hang over many countries. To support their efforts, governments introduced physical/social distancing in order to slow the spread of the virus and protect those who are most vulnerable to it. In some countries, governments mandated key industries to produce the outputs required to support the health sector in managing the pandemic.

In most countries, the initial shutdown of all non-essential business activities saw huge numbers unable to work, particularly those in customer-facing sectors. The scale of the reduction in economic activity, which amounts to a massive global recession, has been moderated by the move to remote working where possible, and an upsurge in e-commerce. At the height of the disruption in Ireland, more than 1 million people were receiving state supports, through the COVID-19 Pandemic Unemployment Payment, the Temporary Wage Subsidy Scheme (see Section 1.2.1 for further details) or jobseekers-allowance. While the numbers availing of these schemes began to fall in line with the phased reopening of the economy, the dramatic decline in economic activity, ongoing public health concerns and marked changes in household consumption patterns have meant that some jobs in vulnerable sectors may not recover, and these individuals will need to be supported as they upskill and retrain into new sectors (see Chapter 2).

The onset of the COVID-19 pandemic resulted in many challenges for the competitiveness of the Irish economy. The evidence set out by the Council in May 2020 in *Ireland's Competitiveness Scorecard 2020*¹⁰ indicates that, until early 2020 and the onset of the COVID-19 pandemic, the Irish economy remained relatively competitive internationally. However, the *Scorecard* noted that there are still several critical areas where Ireland was falling behind our competitor countries, and improvements in these areas will be particularly important to Ireland's economic recovery in light of the unprecedented COVID-19 shock (see Section 1.3).

Macroeconomic Forecasts

Given the extraordinary uncertainty, international and domestic institutions tasked with forecasting GDP growth have adopted the approach of modelling different possible scenarios that aim to provide a range of estimates based on assumptions on how the COVID-19 pandemic develops. While the exact details of the scenarios vary between institutions, they share some similarities at a high level. Most analyses include one mild scenario – where a widespread second wave of infections is avoided, and the spread of the virus can be controlled without returning to the strict lockdowns observed globally in March and April 2020 – and a severe scenario – where it is impossible to avoid a second wave of the virus. In the mild scenario, Ireland's GDP in 2020 is estimated to fall by between 6.8%¹¹ and 9.0%¹² followed by a return to growth in 2021 between 4.8%¹¹ and 6.3%¹³. A more severe scenario, where it proves impossible to avoid a second wave of the virus, means that GDP suffers more severely in 2020 (-8.7%¹¹ - 13.8%¹²), and recovers more slowly in 2021 (-0.2%¹¹ - 4.9%¹²).

¹⁰ [Ireland's Competitiveness Scorecard 2020](#)

¹¹ OECD Economic Outlook, Volume 2020 Issue 1

¹² Central Bank of Ireland 'Quarterly Bulletin' July 2020

¹³ European Commission Summer Economic Forecast 2020

Table 1.1.1 Modelling the impact of COVID-19 on Ireland's GDP – percentage change

Ireland (GDP)	2020	2021
OECD ¹⁴ (range is no second outbreak to second outbreak)	-6.8% to -8.7%	4.8% to -0.2%
European Commission ¹⁵	-8.5%	6.3%
Central Bank of Ireland ¹⁶ (range is baseline to severe)	-9.0% to -13.8%	5.7% to 4.9%

Source: OECD Economic Outlook, European Commission Summer Economic Forecast, CBI Quarterly Bulletin

The pattern is broadly similar for the global economy but less severe. In a mild scenario, global GDP in 2020 is forecast to fall by between 4.9% and 6.0%, with growth of between 5.2% and 5.4% in 2021. In the most severe scenario, global GDP in 2020 is forecast to fall by between 4.9% and 7.6% with a much slower recovery in 2021, with the OECD predicting growth of just 2.8% in the severe scenario.

Table 1.1.2 Modelling the impact of COVID-19 on Global GDP – percentage change

Global (GDP)	2020	2021
OECD ¹² (no second outbreak to second outbreak)	-6.0% to -7.6%	5.2% to 2.8%
European Commission ¹⁷	-3.9%	4.9%
IMF ¹⁸	-4.9%	5.4%

Source: OECD Economic Outlook, European Commission Summer Economic Forecast, IMF World Economic Outlook

COVID-19 has impacted and will continue to impact differently across sectors of the economy and firms, reflecting their operations and scales of activities. The OECD has stated that those sectors that are affected by border closures, and those requiring close personal contact, such as tourism, entertainment, restaurants and accommodation will not resume as before. Moreover, SMEs have been particularly affected, with over half of SMEs facing severe losses in revenue. As many SMEs operate in the service sectors most directly impacted by shutdowns, they tend to have lower resilience because of their size, and it may be relatively more expensive for them to change work processes (such as a shift to remote working)¹⁹.

The pandemic has forced enterprises and employers, in both the private and public sector, to not only adapt their operations at record speed, but also transition to an online working platform and service delivery. According to the CSO²⁰, in April 2020, of the 47% of people whose employment was affected by COVID-19, a third (34%) were working from home, while 12% of those already working from home to some degree had increased their hours working from home. The CSO also reported that 11% were unable to work as their business was unable to offer remote working as an option and 20% were unable to work remotely as their work was not suitable for this format. Those in the age group 35-44 accounted for the highest percentage (42%) of remote workers (see Figure 1.1.1).

¹⁴ OECD Economic Outlook, Volume 2020 Issue 1

¹⁵ European Commission Summer Economic Forecast 2020

¹⁶ Central Bank of Ireland (July 2020) Quarterly Bulletin

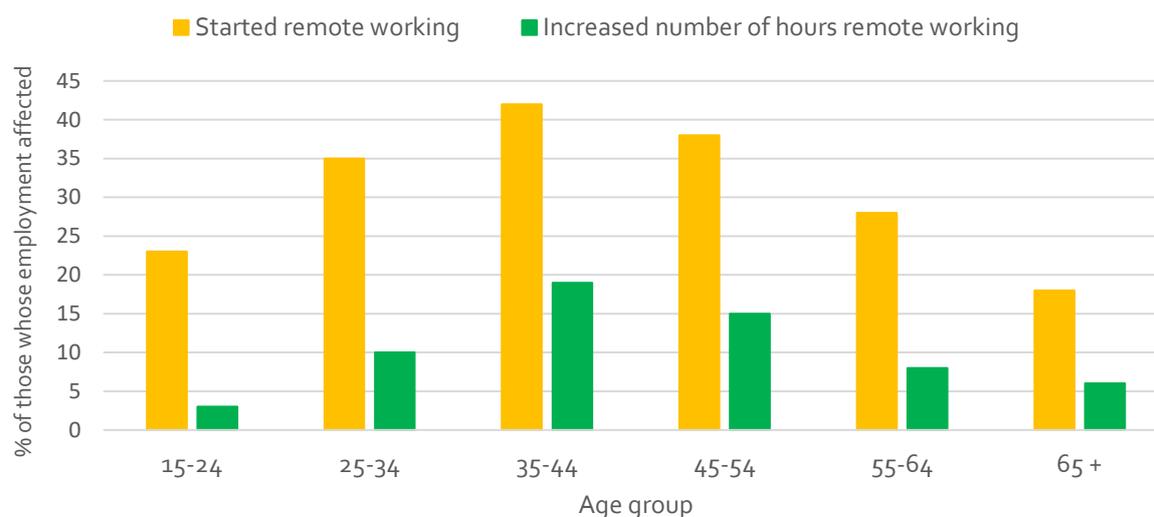
¹⁷ Change in World GDP (excluding the EU)

¹⁸ World Economic Outlook Update, June 2020

¹⁹ OECD (June 2020) [Coronavirus \(COVID-19\): SME policy responses](#)

²⁰ CSO (April 2020) [Employment and Life Effects of COVID-19](#). The data was collected as part of the Q2 Labour Force Survey data collection and refers to data collected from households between April 8th-23rd and is based on 2,288 responses. The remote working figures are calculated from the 47% of population who replied their employment was affected by COVID-19.

Figure 1.1.1 Effect of COVID-19 on remote working by age, April 2020



Source: CSO, Employment and Life Effects of COVID-19

The evidence prior to the crisis suggested that approximately 14% of employees in Ireland worked from home in some capacity compared to over 20% in the UK and the Netherlands and 30% in Sweden. Prior to the crisis, working from home was more common in the Education (37%), ICT (36%) and Finance (26%)²¹ sectors in Ireland. At this juncture, it is unclear what the patterns of those currently working remotely will be whenever remote working is no longer necessary to contain the spread of the virus, but there is a clear appetite for some form of hybrid working model involving a blend of home and workplace²². The Programme for Government announced plans to mandate public sector employers, colleges, and other public bodies to move to 20% home and remote working in 2021 and provide incentives for private sector employers to do likewise.

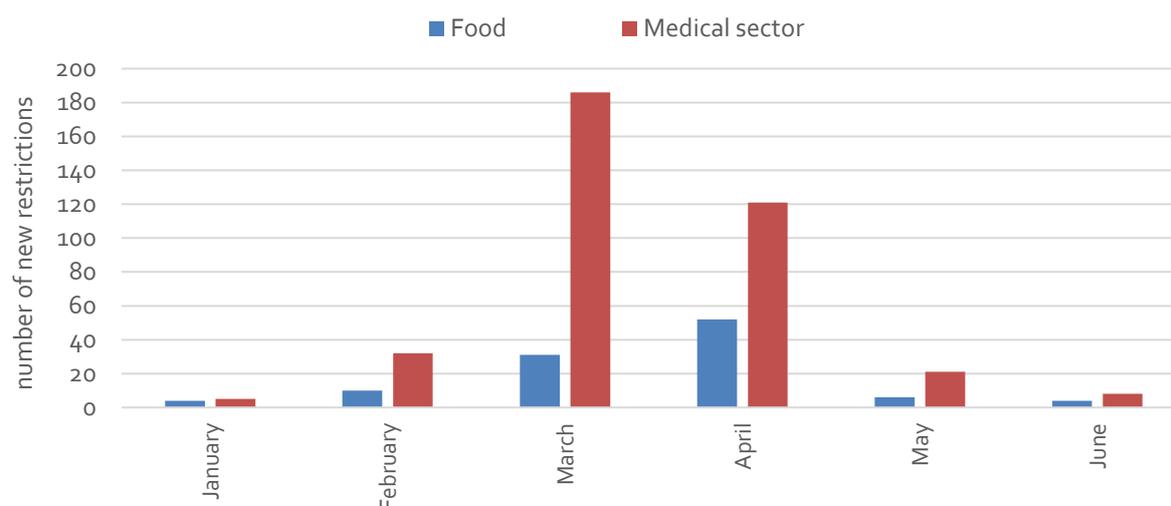
Another major impact of the COVID-19 pandemic on the global economy identified by the OECD has been the acceleration of the shift from a highly integrated international economy to one characterised by greater protectionism with new travel, trade and investment restrictions emerging. Travel restrictions and the continued cautionary behaviour of individuals could negatively impact the Irish labour market with heightened uncertainty relating to future migration flows and the mobility of international talent. Meanwhile, Global Trade Alert data²³ show that – in the wake of the COVID-19 pandemic – there was a massive spike in new export controls and import reforms (see Figure 1.1.2).

²¹ ESRI - Paul Redmond, Seamus McGuinness (May 2020) [Who can work from home in Ireland?](#)

²² Whitaker Institute and Western Development Commission (2020): [Remote Working During COVID-19](#)

²³ <https://www.globaltradealert.org/>

Figure 1.1.2 Number of New Trade Restrictions introduced in 2020 (selected sectors – food and medical)



Source: Global Trade Alert

The WTO estimates that world merchandise trade could plummet by between 12.9% and 31.9% in 2020 and that a 2021 recovery in trade is expected, but dependent on the duration of the outbreak and the effectiveness of the policy responses²⁴ (see Table 1.1.3).

Table 1.1.3 Modelling the impact of COVID-19 on World Trade, year-on-year percentage change

World Real Trade Growth	2020	2021
OECD ²⁵ (range from no second outbreak to second outbreak)	-9.5 to -11.4	6.0 to 2.5
IMF ²⁶	-11.9	8.0
WTO ²⁷ (range from optimistic and pessimistic scenario)	-12.9 to -31.9	21.3 to 24.0

Source: OECD Economic Outlook, IMF World Economic Outlook, WTO Trade Forecast

A similar collapse has been forecast for Foreign Direct Investment (FDI) and cross-border portfolio investment. According to the OECD, even in the most optimistic scenarios, FDI flows are expected to fall by more than 30% in 2020²⁸. In March 2020, cross-border portfolio investment stopped in many emerging markets (as well as in some advanced economies). The Institute of International Finance (IIF) daily flows tracker estimates that around \$103 billion was drawn out of emerging markets between mid-January and mid-May 2020, which the OECD notes was faster (and more incisive) than the sudden stop in capital flows observed during the Global Financial Crisis²⁹.

In its mid-year results³⁰, IDA Ireland reported a 6% decrease in the number of investment projects secured in the first six months of 2020 compared to the same period in 2019. This performance in adverse circumstances

²⁴ https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

²⁵ OECD Economic Outlook, Volume 2020 Issue 1

²⁶ IMF World Economic Outlook, June 2020

²⁷ [WTO Trade Forecasts](https://www.wto.org/TradeForecasts) April 2020

²⁸ <http://www.oecd.org/coronavirus/policy-responses/foreign-direct-investment-flows-in-the-time-of-covid-19-a2fa20c4/>

²⁹ <http://www.oecd.org/coronavirus/policy-responses/covid-19-and-global-capital-flows-2dc69002/>

³⁰ [IDA Ireland Mid-Year Briefing 2020](https://www.ida.ie/en/IDA_Ireland_Mid-Year_Briefing_2020)

was supported by strong momentum coming into 2020 and reflects the relative resiliency of FDI-dominated sectors such as Life Sciences and Information Technology. IDA Ireland's focus for the remainder of 2020 is to stay close to existing clients to provide appropriate support, to minimise job losses and to identify opportunities for growth. While the medium-term outlook is subject to considerable uncertainty, in the near term total FDI flows into Ireland will be challenged as companies delay investment decisions pending greater certainty and as the public health situation continues to restrict the ability of decision makers to travel for site visits and to hold in-person meetings.

1.2 Current Policy Interventions

As Irish society grappled with the medical emergency, Government and enterprises alike swiftly put in place measures to adapt to the new realities in the wake of COVID-19. The medically-advised need for social distancing and the accompanying shutdown of all non-essential businesses necessitated the rollout of new state supports in the form of the Pandemic Unemployment Payment and the Temporary Wage Subsidy Scheme. Supporting workers and households was the initial focus of Government intervention. The introduction of online application forms for COVID-19 related supports and the swift redeployment of staff within the public service to process the record number of applications facilitated the rapid delivery of supports.

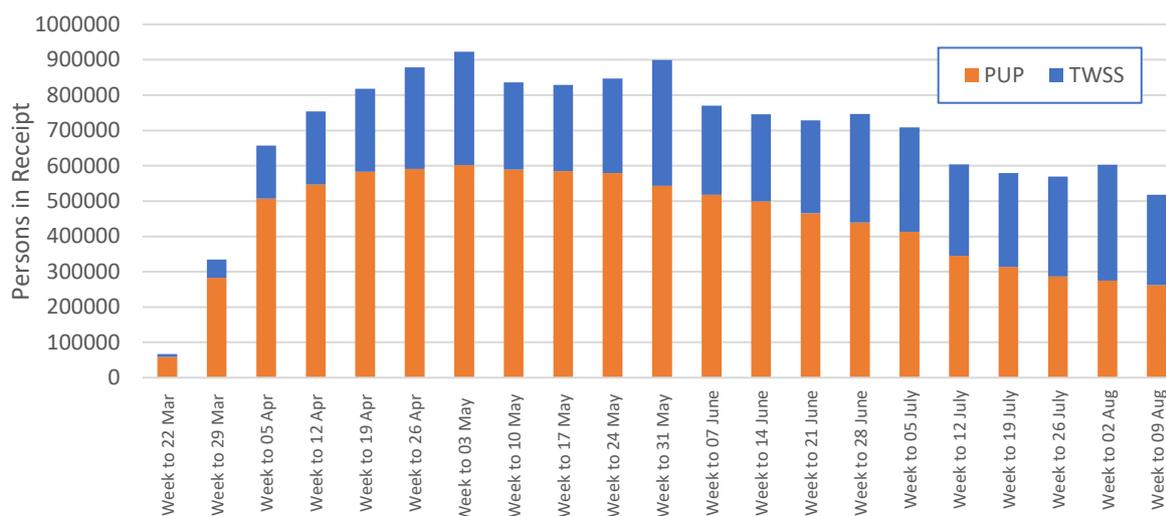
To deal with these requirements, the public sector has had to change radically the way it carries out many of its functions, with a significant proportion of staff adopting remote working practices and a number of services moving online. These included applications for the COVID-19 related unemployment supports, registering new businesses, planning permission applications, certain court functions, as well as significant elements of primary, secondary and tertiary education, and some health consultations. While the abrupt move to remote working came with many technical and organisational challenges, there were also opportunities to adopt new work practices and methods of providing public services in innovative and efficient ways, which have the potential to boost public sector productivity in a number of areas³¹. Smooth interactions across official institutions are key to resolving delays and bottlenecks and to creating a more efficient public sector. Social goods, such as health and education, are likely to be provided in new ways in the aftermath of COVID-19, with opportunities to offer consumers a hybrid of online and in-person services. While it is too early to evaluate the changes to public sector processes introduced out of necessity in the wake of COVID-19, it will be important to take stock of all public sector innovations over the past six months and determine how best to capture the most beneficial changes so that they become embedded in the operations of Government Departments, agencies and the wider public sector in the future.

1.2.1 Employment Supports

The Department of Social Protection is responsible for administering the Pandemic Unemployment Payment scheme. At the scheme's peak, 598,600 people were in receipt of the payment on 12 May 2020, with the numbers declining steadily in the intervening months as the economy gradually reopened (see Figure 1.2.1). As part of the July Jobs Stimulus package, the Pandemic Unemployment Payment scheme was extended until April 2021. By early-August 2020, the sector with the highest number of people in receipt of the Pandemic Unemployment Payment was Accommodation and Food Service Activities, followed by Wholesale and Retail Trade and Administrative and Support Service activities (see Table 1.2.4). Some jobs in these vulnerable sectors are unlikely to recover quickly and these individuals will need to be supported as they upskill and retrain into new sectors (see Chapter 2).

³¹ OECD (2020): [Productivity gains from teleworking in the post COVID-19 era: How can public policies make it happen?](#)

Figure 1.2.1 Labour Market Support Schemes



Source: Central Statistics Office, Live Register

The Temporary COVID-19 Wage Subsidy Scheme is administered by the Revenue Commissioners and is available to employers who keep employees on their payroll throughout the COVID-19 pandemic, allowing employers to retain links with their employees for when normal business activity resumes. Employers seeking to avail of this scheme need to demonstrate a reduction in income or turnover of at least 25%, along with cash flow difficulties. The scheme was initially rolled out for three months and was reviewed after 12 weeks. As part of the July Jobs Stimulus, a new Employment Wage Support Scheme was announced which succeeds the Temporary Wage Subsidy Scheme and will run until April 2021. By early-August 2020, the sector with the highest number of persons in receipt of the TWSS was Accommodation and Food Services, followed by Wholesale and Retail Trade, and Industry. Between March and early-August 2020, the scheme has cost the exchequer €2.6 billion.

Table 1.2.4 Sectoral Breakdown of Income Supports, persons in receipt, week to 9 August 2020

	PUP	TWSS
All NACE economic sectors	262,478	255,290
Accommodation and food service	49,042	72,649
Wholesale and retail trade	28,356	52,365
Industry	10,737	27,676
Construction	12,677	23,458
Arts, entertainment and recreation	10,889	20,777
Human health and social work	8,811	12,502
Professional, scientific and technical	9,228	9,645
Administrative and support service	20,545	8,836
Transportation and storage	7,962	7,937
Financial, insurance and real estate	7,694	5,207
Education	12,754	4,218
Other ³²	10,295	4,229

Source: Central Statistics Office, Live Register

³² Other is composed of the following NACE sectors: Information and communication; Agriculture, forestry and fishing; Public administration and defence; Activities of households as employers.

Income support schemes were rolled out quickly so that individuals and families were protected, with basic household income levels maintained when large parts of the economy were shut down. Subsequent adjustments to the schemes have been necessary as the pandemic situation evolved and more information became available. An effective clawback mechanism is important in the design of any support scheme in order to ensure that funds are swiftly made available to those that need them but can be recovered from individuals and firms that did not qualify on closer examination.

The onset of the pandemic and the ensuing restrictions resulted in massive job losses across all sectors of the economy, that have slowly begun to unwind in many industries. However, a number of sectors including tourism and hospitality, arts and entertainment, and other services that rely on personal contact and social interaction are likely to experience severe ongoing disruption. While many firms in these sectors may be inherently viable, recovery prospects will continue to be constrained by social distancing requirements and precautionary behaviour on the part of consumers and by the possibility of further disruption following local or regional spikes in virus cases. The extension of the Employment Wage Support Scheme announced as part of the July Jobs Stimulus and additional regional supports will play an important part in supporting these enterprises.

While the economic disruption wrought by COVID-19 has been felt across the entire country, the scale of the impact has varied across Ireland's regions, counties, cities and towns. A timely report by the three Regional Assemblies identified the Northern and Western Region as the most exposed region to COVID-19 related disruption, with the Border and Midlands areas most affected at a sub-regional level³³. These areas are also likely to be those most negatively affected by Brexit related disruption and so are especially vulnerable. Coastal towns, with a high dependency on tourism and hospitality activities were also identified by the Regional Assemblies as particularly negatively affected. The regional implications of national policies to support workers and firms as they recover from the disruption caused by COVID-19 should be fully considered by policymakers.

Future opportunities for remote working across the country will become possible as the National Broadband Plan is rolled out (see Chapter 4). This rollout could help achieve some of our spatial planning targets by encouraging more individuals and enterprises to operate outside of the traditional urban areas. The extent to which remote working becomes part of future work practices will have a significant long-term impact on Irish cities and the way workers and residents utilise urban areas, which could have a considerable impact on the small and medium size enterprises located in city centres that service commuters.

1.2.2 Business Supports

Business supports have also been introduced in addition to the income supports discussed above; these include loan schemes, grants, vouchers, as well as training and mentoring programmes³⁴. The Strategic Banking Corporation Ireland (SBCI) has made available €450 million of loans through the COVID-19 Working Capital Scheme to address short-term liquidity pressures, while €200 million of longer-term loans can be issued under the SBCI COVID-19 Future Growth Loan Scheme. Meanwhile an additional €2 billion has been made available to boost the existing Credit Guarantee Scheme. The Ireland Strategic Investment Fund (ISIF) introduced a new €2 billion fund, the Pandemic Stabilisation and Recovery Fund (PSRF), to support medium and large enterprises affected by COVID-19.

³³ <https://www.southernassembly.ie/uploads/general-files/CV19-Regional-Economic-Analysis.pdf>

³⁴ <https://dbei.gov.ie/en/Publications/Publication-files/Supports-for-businesses-impacted-by-COVID-19.pdf>

Ireland's Competitiveness Challenge 2020

The €550 million Restart Grant Plus scheme, administered by Local Authorities, gives direct grant aid to micro, small and medium businesses to help them with the costs associated with reopening and reemploying workers following COVID-19 closures. A range of grant supports from Enterprise Ireland, IDA Ireland, Local Enterprise Office and Údarás na Gaeltachta has also been offered to firms to help with strategies to innovate, diversify markets and supply chains, and to improve competitiveness, including the COVID-19 Products Scheme, the Sustaining Enterprise Fund, and the COVID-19 Online Retail Scheme.

The Revenue Commissioners have agreed to engage with viable businesses experiencing temporary cashflow or trading difficulties that affect the timely payment of tax and have agreed to warehouse deferred tax liabilities associated with the COVID-19 crisis interest-free for a year from recommencement of trading. Commercial rates are being waived for a 6-month period beginning in March 2020 for businesses that were forced to close due to public health requirements. It will be important as the pandemic evolves that all Government employment and business support schemes are kept under review to ensure they deliver on their stated objectives to support workers and enterprises.

The Central Bank of Ireland has also introduced a range of monetary, macro-prudential and micro-prudential policy actions to cushion the impact of the COVID-19 emergency on the economy. The reduction of the countercyclical capital buffer made an additional €940 million available to absorb losses or to be leveraged to maintain and extend lending in the Irish economy. As part of the Eurosystem, the Central Bank has implemented a series of measures aimed at supporting the smooth provision of credit and support bank lending. The main banks and non-bank lenders have committed to supporting individual customers, families, businesses and communities across the economy by offering payment breaks for up to three months to both personal and business customers, making available various working capital facilities and supply-chain supports, and deferring court repossession proceedings for up to six months from mid-March 2020. Central Bank data³⁵ in July 2020 found that almost 160,000 payment breaks representing €20.1 billion in loans have been granted to borrowers in Ireland since the onset of the COVID-19 pandemic, offering immediate cash flow relief for a defined period.

In the Stability Programme Update³⁶, published in April 2020, the Government acknowledged that the extraordinary fiscal support introduced during the crisis arising from initial containment measures and ongoing recovery supports combined with a collapse in tax revenues due to the sudden stop of economic activity will result in a severe deterioration in Ireland's general government deficit and debt positions this year. For now, investor appetite for Irish sovereign debt has remained strong, with debt auctions consistently oversubscribed, underpinned by extraordinary monetary policy support. The National Treasury Management Agency has accumulated significant cash balances in recent years, the final 2020 bond redemption due in October has been pre-funded, and 2021 will see no bonds maturing, allowing the NTMA a degree of flexibility³⁷. Global interest rates remain low and Ireland has entered this crisis under more favourable external conditions than when it entered the Global Financial Crisis. However, once the acute phase of this emergency has passed, it is imperative that work resumes to return the public finances to a long-term sustainable path³⁸.

³⁵ Central Bank of Ireland (July 2020): [COVID-19 Payment Breaks - who has needed them?](#)

³⁶ [Stability Programme Update 2020](#)

³⁷ [NTMA Investor Presentation - July 2020](#)

³⁸ Irish Fiscal Advisory Council (July 2020) [Long Term Sustainability Report](#)

1.2.3 The European Response

At the European level, a €1.82 trillion EU Recovery Plan has been agreed that aims to protect lives, jobs and businesses. The European Commission's plan is based on using an upgraded EU budget to deliver a more sustainable, digital, and fair Europe. The plan is designed to support Member States to recover, repair and emerge stronger from the crisis by kick-starting the economy and helping private investment to rebound, while learning vital lessons in the aftermath of the crisis and addressing Europe's strategic challenges for the years ahead. Ireland should make best use of all available EU funding supports as the economic recovery gets underway.

The main fiscal response to the COVID-19 emergency will come from Member States' national budgets and so the European Commission has adopted temporary state aid rules so governments can provide liquidity to the economy to support citizens and companies, in particular SMEs, and save jobs in the EU. The Commission has, for the first time, triggered the 'escape clause' to allow exceptional fiscal support and maximum flexibility within the EU budgetary rules to help Member States support healthcare systems and businesses, and to keep people in employment during the crisis.

The European Central Bank (ECB) has put in place a set of monetary policy and banking supervision measures to mitigate the impact of the COVID-19 pandemic on the euro area economy. The ECB has held key interest rates at historically low levels in order to ensure borrowing costs remain low and has launched a €1,350 billion pandemic emergency purchase programme (PEPP), aimed at lowering borrowing costs and increasing lending in the euro area. In order to support access to credit for firms and households, the ECB has increased the amount of money that banks can borrow, expanded the pool of acceptable collateral, eased haircuts applied to collateral, and provided immediate liquidity support to euro area banks. The ECB has also reactivated and enhanced existing swap lines with central banks across the globe in order to ensure enough foreign currency reserves are on hand to meet any potential increased demand in this time of heightened global uncertainty.

Ireland is not alone in facing this exceptional crisis and is open to learning from our European partners and international best practice as countries around the globe introduce a variety of policies to address the ongoing health, economic and societal issues. By engaging with the European Commission, the OECD and other global bodies, Ireland can draw on their experiences and expertise to bring about changes that will strengthen our overall competitiveness position and support economic and social recovery.

1.3 Actions Crucial to Economic Recovery

The onset of the COVID-19 pandemic resulted in many challenges for the competitiveness of the Irish economy. The evidence set out in *Ireland's Competitiveness Scorecard 2020*³⁹ indicates that, until early 2020 and the onset of the COVID-19 pandemic, the Irish economy remained relatively competitive internationally. However, the *Scorecard* noted that there are still several critical areas where Ireland currently falls behind our competitor countries, and improvements in these areas will be particularly important to Ireland's economic recovery in light of the unprecedented COVID-19 shock and will assist in building national resilience in advance of a potentially difficult post-Brexit world and an increasingly challenging international trading environment.

Ireland's low SME productivity levels, which featured as a weakness pre-COVID-19, remain a concern and boosting productivity, especially in those sectors particularly impacted by the COVID-19 disruption and Brexit,

³⁹ [Ireland's Competitiveness Scorecard 2020](#)

through upskilling, investing, and greening the economy will be an integral part of addressing the economic challenges facing Ireland. Close collaboration between Ireland and the European Union Member States will also be key to tackling the socio-economic impacts of the pandemic and facilitating the economic recovery. As part of the European Semester process, the European Commission outlined a number of Country Specific Recommendations for Ireland to address in 2020 and 2021⁴⁰, covering fiscal sustainability, skills development, enterprise supports, public investment and anti-money laundering enforcement.

Taking all of this evidence forward, this *Competitiveness Challenge* report makes recommendations to Government on the best ways to improve the competitiveness and sustainability of the economy as we continue the process of recovery. The Council has a primary focus on competitiveness and productivity, and through this lens it has identified four broad challenges where progress will be critical to economic recovery and that will help ensure that future balanced growth can bring about an improvement in the standard of living for all of society.

1.3.1 Support Ireland's Workers and Leverage Opportunities for Upskilling

As discussed, the COVID-19 pandemic has had an extraordinary impact on the labour market with more than 1 million people receiving state supports through jobseekers-allowance, the COVID-19 Pandemic Unemployment Payment or the Temporary Wage Subsidy Scheme at the peak of the crisis. The immediate priority must be to prevent unemployment becoming entrenched and efforts should be made to reskill workers from sectors that are not likely to recover quickly. As the recovery begins, it is also important that Ireland continues to meet the skills requirements in the economy, including those associated with COVID-19 and Brexit.

1.3.2 Climate Action in a Competitiveness Context

There is a broad consensus both in Ireland and across the EU that urgent action is required to address the climate crisis. Over many years Ireland has continued to fall far behind its carbon emissions targets and environmental commitments. As the third highest carbon emitter per capita in the EU, Ireland faces some of the most aggressive carbon reduction targets in Europe. In the context of COVID-19, the Council believes that measures responding to Ireland's short-term economic needs must not derail efforts to tackle pressing environmental challenges. It is imperative that Ireland's long-term sustainability goals are incorporated into the economic recovery from COVID-19 and that economic growth and emissions are decoupled.

1.3.3 Invest Strategically in Ireland's Physical Infrastructure

Government expenditure on capital projects has increased steadily over the past number of years following sharp cutbacks during and immediately following the global financial crisis. It is essential that public investment does not suffer similar cutbacks during this economic disruption, as high-quality infrastructure boosts long-term economic growth and productivity. Continued roll out of the National Development Plan and the frontloading of some projects could help provide economic stimulus as the recovery gets underway. The rapid shift to remote working by a significant proportion of the labour force has highlighted the need for quality, high speed broadband across the country. Recent events have reinforced the Council's view that the National Broadband Plan roll out is crucial, as we have seen the benefits of that investment to date and the challenges for individuals and businesses working in areas where the quality of connectivity is low. This investment fully

⁴⁰ [European Commission Country Specific Recommendations IE 2020](#)

aligns with the emphasis on expanding the digital skills of workers, particularly in light of the changes brought on by the social distancing needs of COVID-19.

1.3.4 Resolve Long-Standing Issues

In certain sectors, market and institutional inefficiencies – that result in higher costs – mean Irish businesses, particularly SMEs face difficulties in being able to compete internationally. These costs take different forms, such as higher direct financial costs on enterprises, including access to short-term liquidity and investment capital at affordable rates, as well as the cost of insurance and legal services. There are also indirect costs that impact on enterprises, such as higher operational burdens (associated with public administration or inefficient/non-competitive private markets), or under-investment in key public infrastructure, and indirect costs that impact on labour, such as housing and childcare. Many of these issues are not new, and indeed the Council has drawn attention to them in previous reports. While not directly related to COVID-19, we need to take decisive action now if we want a robust and productive economy. Where action is underway, we need to scale up ambition and accelerate progress.

1.4 Remainder of the Report

In the past Ireland has seen that flexibility and adaptability are key to resilience in the face of changed global conditions such as those brought on by COVID-19. While the country's immediate efforts were focused on saving lives and supporting all members of society, it is important to ensure that the economy is on a sound competitiveness footing so that we can seize opportunities for a speedy and balanced economic recovery. The Council has identified a number of indicators in *Ireland's Competitiveness Scorecard 2020* that are important to economic recovery and the Council believes that these can be addressed under the four broad challenges outlined above.

While individuals and enterprises will all play their part in the economic recovery, the Council's role is to make recommendations to Government on the best ways to improve the competitiveness and productivity of the Irish economy and this report lays out these recommendations in the following chapters. Chapter 2 explores ways to support Ireland's workers and leverage opportunities for upskilling. Chapter 3 discusses how to ensure that the economic recovery is a sustainable green recovery and that enterprises remain competitive as they transition to greener ways of doing business. Chapter 4 examines how investing efficiently in Ireland's physical infrastructure can provide short-term stimulus while also meeting long-term infrastructure needs. Chapter 5 reviews a number of long-standing issues that have continued to impede Ireland's competitiveness and highlights the importance of addressing these burdens on enterprises. And finally, the Conclusion section provides a summary of the NCC's findings in this *Competitiveness Challenge* report.

Chapter 2: Support Ireland's workers and leverage opportunities for upskilling

2.1 Introduction

The COVID-19 pandemic and the essential public health measures to contain the spread of the virus, have caused exceptional disruption to businesses across Ireland. In some sectors, where work has been able to continue remotely, we have seen a rapid and wholesale transition to remote working, particularly in those parts of the service sector where face to face engagement is not required. In other sectors, like tourism, hospitality or personal services, it is impossible to provide the service remotely. In these sectors, the first phase of the pandemic response saw a nearly complete closure of these services. In the second phase of the pandemic response, these services re-opened with social distancing in place, impacting on the profitability of these businesses, and requiring significant operational changes to be managed innovatively.

The Government has put in place a range of measures and initiatives in response to the crisis, including financial support to businesses and workers. Despite these measures, it is predicted that unemployment will remain elevated, at least in the short term⁴¹. In May, the then Department of Business, Enterprise and Innovation (DBEI) reported⁴² that 21% of Irish economic activity (as measured by GDP) took place in sectors most likely to be directly affected by the containment measures. The share increased to 32% when expressed as a percentage of modified GNI and to almost 37% when expressed as a percentage of 'domestic' gross value added.

This sudden displacement of labour has the potential to cause far-reaching damage to the Irish economy, if people are out of employment for a prolonged period. Evidence suggests that the longer a person is unemployed, the higher the chance that they will permanently stop looking for a job and leave the labour force⁴³. This can result in labour market scarring, so that if people eventually do come back to work, the work is in a lower quality job and likely to have lower earnings⁴⁴. Beyond this, there is reason to believe that long bouts of unemployment have lasting negative effects on people's physical and mental health⁴⁵. Ultimately, prolonged periods of unemployment mean lower future earnings, lost productivity, de-skilling, and a lost opportunity to build human capital on the job.

In the short term, the priority must be to keep workers from the hardest hit sectors close to the labour market to avoid them falling into long-term unemployment.

In the medium term, there is a clear need for a broad skills response with programmes and supports that can be flexibly delivered to a diverse range of learners whose labour market status may change over their working lives. In view of the link between employment prospects and skill levels, there needs to be a focus on re-training and up-skilling the unemployed and workers in occupations which are economically vulnerable. Providing them with new skill sets for jobs where there are likely to be future employment opportunities will help in tackling unemployment and in building a sustainable economy. This will require a joint approach across the Further and Higher Education Sector, incorporating a renewed focus on Lifelong Learning, where, as reported in *Ireland's Competitiveness Scorecard 2020*, Ireland lags on the international indicators. Such a systematic approach will

⁴¹ Central Bank of Ireland (July 2020) [Quarterly Bulletin](#): The Central Bank baseline scenario predicts employment to decline 11.9% in 2020 before rebounding 7.6% (156,000 jobs) in 2021. The unemployment rate is projected to be 14.5% in 2020 before falling to 9.2% in 2021.

⁴² [DBEI \(May 2020\) Economic Considerations for Reinstating Economic Activity](#)

⁴³ Huidan Lin (2016) [Risks of Stagnation in the Euro Area](#), IMF Working Paper

⁴⁴ OECD (2020) [Employment Outlook 2020](#)

⁴⁵ Irish Research Council (2020) [The 'High Road' Back to Work](#): Developing a Public Employment Eco System for a Post-COVID Recovery

help Ireland to meet the skills requirements of the economy, including those associated with COVID-19 and Brexit (e.g. skills for trade facilitation, movement of products across borders, and market diversification). In the wider context of skills requirements in the Irish economy, this year's *Competitiveness Challenge* focuses specifically on three key skills areas, namely *digital skills*, *management skills*, and *COVID-19 related skills* (skills arising from COVID-19) which are crucial to economic recovery.

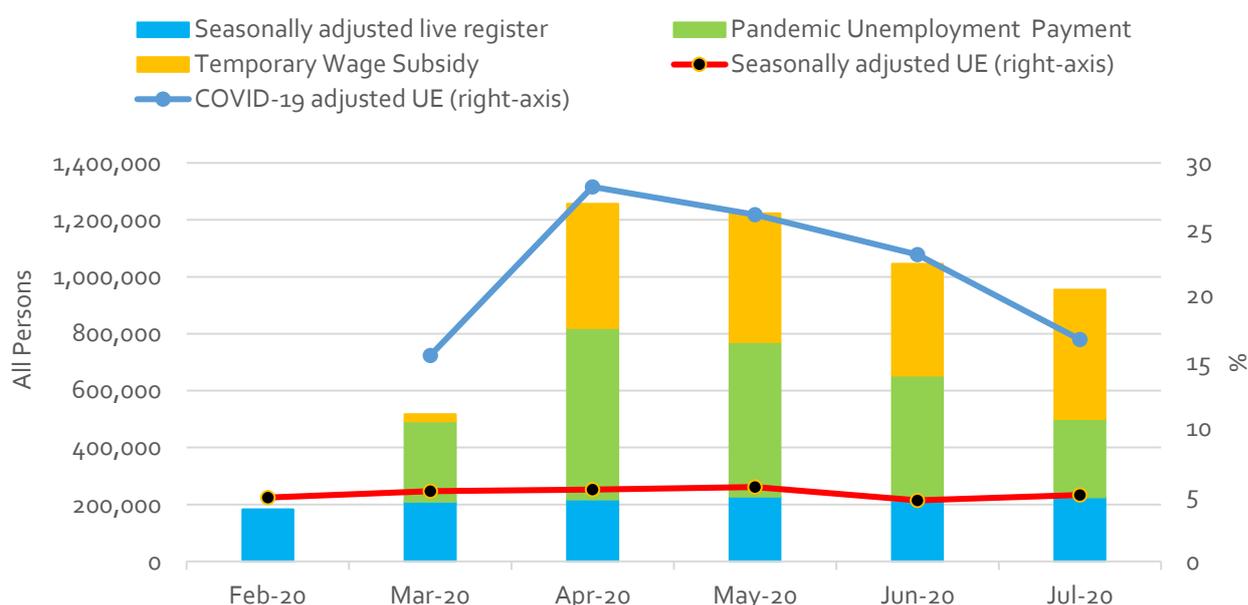
The remainder of this chapter is organised as follows: (i) an examination of the Irish labour market and the impact of COVID-19; (ii) the current policy interventions in place to deal with these issues; and (iii) an exploration of the Government actions that are crucial to the economic recovery.

2.2 Current situation and the Impact of COVID-19

2.2.1 Labour Market Overview

The COVID-19 crisis has led to the sharpest rise in unemployment in the nation's history and significant (and potentially long-lasting) changes in the way people are now working (see Chapter 1). Prior to the pandemic, the Irish labour market was close to full employment. Over 2.36 million people were in employment, and the unemployment rate was 4.7% in the fourth quarter of 2019⁴⁶. Data from the CSO for July 2020 show a seasonally adjusted unemployment rate of 5% (see Figure 2.2.1), but that rate rises to 16.7% when account is taken of those also on the Pandemic Unemployment Payment⁴⁷.

Figure 2.2.1 Number of Persons on the Live Register, in receipt of the PUP or TWSS, 2020



Source: Central Statistics Office

⁴⁶ DEASP (May 2020) [The Initial Impacts of the COVID-19 Pandemic on Ireland's Labour Market](#), Working Paper

⁴⁷ The COVID-19 Adjusted Measure of Unemployment is based on the assumption that recipients of the PUP would have been classified as "unemployed" if the payment did not exist and are therefore included in the adjusted unemployment rate. Further information available [here](#).

It is evident from Figure 2.2.1 that the COVID-19 induced job losses have been severe both in terms of speed and intensity. There were more than 900,000 people dependent on welfare and emergency COVID-19 payments, including those on the Pandemic Unemployment Payment (274,578)⁴⁸, the Temporary Wage Subsidy Scheme (447,639)⁴⁹ and the live register (226,600) in July 2020.

In terms of the sectoral impact of the crisis, it is evident that the employment effects of social distancing have been large in the high contact-intensive sectors – ones that rely more on face-to-face interactions. Data from the CSO show that, on week ending 9 August, employees from the Accommodation and Food Services, Wholesale and Retail sectors, and Administrative and support services accounted for over 57% of the total number of people on PUP⁵⁰. In Q4 2019, these sectors accounted for 26% of total employment. The sectoral share and breakdown in total number of people in employment and on the PUP and TWSS schemes, and their share of the Q4 2019 workforce is presented in Table 2.2.2.

Table 2.2.2 COVID-19 Labour Market Impact - Sectoral Overview (w/e, 9 August 2020)

NACE 2 Economic Sector	Employed (Q4 2019)	% of total employment (Q4 2019)	Number of people receiving PUP	Number of people receiving TWSS	% of Q4 2019 workforce on PUP	% of Q4 2019 workforce on TWSS
Wholesale & retail trade	310,200	13%	28,356	52,365	9%	17%
Accommodation & food services	179,200	8%	49,042	72,649	27%	41%
Industry ⁵¹	286,300	12%	10,737	27,676	3%	10%
Construction	147,100	6%	12,677	23,458	9%	16%
Administrative & support services	112,100	5%	20,545	8,836	18%	8%
Professional & scientific activities	141,100	6%	9,228	9,645	6%	7%
Arts & entertainment ⁵²	NA	NA	10,889	20,777	NA	NA
Human health & social work	294,300	12%	8,811	12,502	3%	4%
Transportation & storage	108,000	5%	7,962	7,937	7%	7%
Financial & insurance	115,100	5%	7,694	5,207	7%	5%
Education	191,600	8%	12,754	4,218	7%	2%
ICT	127,600	5%	4,832	2,233	4%	2%
Agriculture	106,900	5%	2,062	1,716	2%	2%
Public administration & defence	117,000	5%	3,253	252	3%	0.2%

Source: Central Statistics Office

⁴⁸ The Pandemic Unemployment Payment (PUP) introduced on March 24th, 2020 is a weekly payment available to workers who were laid-off on or after March 13th, 2020 due to the pandemic. See chapter 1 for more details.

⁴⁹ The Temporary Wage Subsidy Scheme (TWSS) introduced on 26 March 2020 provides income support to eligible employers where the business activities have been negatively impacted by the COVID-19 pandemic but who continue to keep employees on the payroll. See chapter 1 for more details.

⁵⁰ <https://www.cso.ie/en/statistics/labourmarket/liveregister/detailedcovid-19incomesupportandliveregistertables/>

⁵¹ The Industry sector encompasses Mining and Quarrying, Manufacturing, Electricity, Gas, Steam and Air Conditioning Supply and Water supply and Sewerage, Waste Management and Remediation Activities. Industry is dominated by Manufacturing which employs close to 90% of the persons engaged in that sector. Further details available [here](#).

⁵² No standalone employment figures available for Arts & Entertainment sector. It is aggregated with four other sectors and classified as other NACE activities by the CSO.

There is continuing uncertainty around the full impact of the pandemic. The latest data suggests that the job losses might be bottoming out (the COVID-19 adjusted unemployment rate has fallen for three consecutive months since the peak in April). Data from the Revenue Commissioners⁵³ for August show that, since the phase one reopening on 18 May 2020, 127,200 people have transitioned from PUP to TWSS, 260,900 from TWSS to non-PUP⁵⁴, 161,500 from PUP to non-TWSS employment and 21,900 from TWSS to PUP. The sectoral breakdown of the number of people who transitioned between PUP and TWSS and to non-TWSS employment since 18 May 2020 is presented in Table 2.2.3.

Table 2.2.3 Movement between PUP and TWSS and to Employment, by sector (as at 20 August 2020)

Industrial Sector	Number of employees moving from PUP to TWSS Employment	Number of employees moving from TWSS to Non-TWSS Employment ⁵⁵
Wholesale & retail trade; Repair of Motor Vehicles & Motorcycles	22,000	65,900
Accommodation & food services	49,200	9,200
Manufacturing	8,600	39,100
Construction	11,500	32,600
Administrative & support services	3,600	12,600
Professional & scientific activities	3,700	13,600
Human health & social work	6,100	7,500
Transportation & storage	2,300	17,000
Financial & insurance	500	4,100
Education	2,100	2,400
ICT	1,000	6,100
Agriculture; Mining and Quarrying	600	3,600
Public administration & defence	300	1,800
All Sectors	127,200	228,100

Source: Revenue Commissioners, COVID-19 Wage Subsidy Scheme statistics

2.2.2 Need for Upskilling

While the preliminary data shows that, as at 20 August 2020, 389,600 workers have exited the temporary schemes and transitioned back to work (161,500 from PUP to non-TWSS employment and 228,100 TWSS to non-TWSS employment), many others will need upskilling and reskilling to re-enter the labour market. Indeed, it is likely that the potential changes to production and consumption (in part, predicated on public health

⁵³ Revenue Commissioners (August 2020) [COVID-19 Wage Subsidy Scheme statistics](#)

⁵⁴ Out of 260,900, 228,100 people have moved from TWSS to non-TWSS employment, 1,800 on Jobseekers benefit, 1,200 on Illness benefit and 29,800 who aren't on payroll or on non-PUP schemes (i.e. inactive in the labour market).

⁵⁵ Includes employees remaining with the same employer and hired by new employer.

grounds) will mean that employment levels will not automatically rebound to pre-COVID-19 levels in many sectors and occupations for an extended period. For some occupations, this could necessitate an underlying restructuring of certain sectors – and/or an acceleration of underlying trends – such that some unemployment could extend into the longer term. For example, over 38% of the workers from the Accommodation and food sector and 36% from the Wholesale and retail sector who were on PUP on 5 May 2020 were still reliant on it on 18 August 2020⁵⁶.

As the recovery begins, it is vital that Ireland continues to meet the skills requirements of the economy, including those which will be pronounced due to Brexit. Up-skilling the existing workforce should also be a key focus to ensure that the skills base in enterprises continues to be strengthened. As sectors struggle to recover from the COVID-19 pandemic, some roles will become obsolete, and Ireland needs to prepare its workforce for the roles that are predicted to grow in the coming years.

In 2018, the World Economic Forum identified roles that are set to grow in the next few years. These are set out in Column 1 of Table 2.2.4, and the first four reflect the expected growth in the digital economy. Column 2 shows the key cross sectoral skills demand in Ireland identified by SOLAS in 2019. Significantly two skill areas are directly related to the digital economy – Basic and core ICT skills and Data Analytics. Also included are leadership and management skills which are growing in importance due to the challenges of managing COVID-19 and dealing with Brexit. Finally, Column 3 in Table 2.2.4 lists the skill requirements identified by the EGFSN as those arising from Brexit.

Table 2.2.4 Roles predicted to grow globally, key cross-sectoral skills demand in Ireland and skills requirements due to Brexit

Roles predicted to grow/remain stable through to 2022 globally, across multiple industries (WEF) Column 1	Key cross sectoral skills demand in Ireland (Solas) Column 2	Skills requirements likely to become more pronounced due to Brexit across sectors (EGFSN) Column 3
<ul style="list-style-type: none"> • Data analysts and scientists • Artificial intelligence and machine learning specialists • Big data specialists • Software and applications developers and analysts • Sales and marketing professionals 	<ul style="list-style-type: none"> • Basic and core ICT Skills • Data analytics • Leadership and Management Skills • Engineering • Foreign Language and Cultural Awareness 	<ul style="list-style-type: none"> • Customs clearance • Regulatory requirements • Foreign languages and cultural awareness • Procurement • Logistics

Source: World Economic Forum (The Future of Jobs Report 2018), SOLAS (National Skills Bulletin 2019), EGFSN (Addressing the Skills Needs Arising from the Potential Trade Implications of Brexit, 2018)

The table, taken as a whole, points to the need for investment in upskilling across a range of areas prior to the COVID-19 crisis. In addition to the ongoing requirements, COVID-19 and the resulting shift to remote working is giving rise to additional skills needs within businesses as they adapt to the new modes of operation. The next section looks at these three key areas of digital skills, management skills, and COVID-19 related skills.

⁵⁶ Department of Social Protection (August 2020): [COVID-19-Statistics](#).

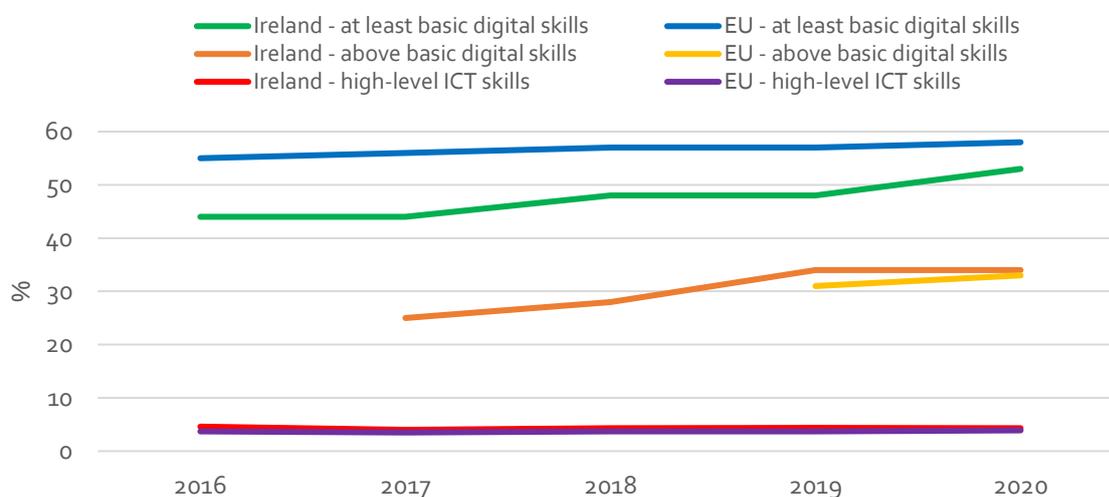
2.2.3 Digital skills

Digital skills refer to the wide-ranging set of skills relating to digital technology^{57 58}. Long before the crisis, digital skills were deemed essential for the modern workforce and one of the top ten workplace skills⁵⁹. In 2019, the OECD estimated that as many as 375 million workers - 14% of the global workforce- would have to switch occupations or acquire new skills by 2030 because of automation and artificial intelligence⁶⁰. In Ireland, a 2019 report⁶¹ by the Expert Group on Future Skills Needs forecasted a continued strong demand for people with high level ICT skills across the Irish economy in the coming years. In particular, the report forecast a potential 73,000 new high-level ICT job openings, arising from expansion and replacement demand, between 2018 and the end of 2022. Furthermore, a recent report from SOLAS⁶², on behalf of the National Skills Council, indicated that over 370,000 people were employed in occupations at high risk of automation. The report highlighted that many of the sectors that were most at risk also have the potential to be further impacted by COVID-19, including sales and customer service and hospitality occupations.

Within the broad classification of digital skills, this section focuses on three skill levels; (i) High-level ICT skills (ICT specialist), (ii) above basic level digital skills, and (iii) at least basic level digital skills.

Based on the EU Digital Economy and Society Index (DESI)⁶³, which monitors the performance of member states in digital connectivity, digital skills online activity, and digital public services, Ireland remains just ahead of the EU average in terms of the proportion of the overall workforce with high-level ICT skills in 2020 (4.3% compared with 3.9%). The proportions of these skills have remained broadly constant over the past five years (see Figure 2.2.5).

Figure 2.2.5 Human Capital Dimensions, DESI, Ireland, EU



[High-level ICT skills: develop software, applications; use computer syntax or statistical packages. Above basic level digital skills: use word-processor or create documents and/or spreadsheets. Basic digital skills: use a PC, tablet or mobile device for emailing or internet browsing]

Source: Digital Economy and Society Index 2020, European Commission

⁵⁷The European Parliament defines digital competence as "the confident and critical use of information society technology for work, leisure, learning and communication. Further information: https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Digital_literacy.

⁵⁸ The OECD categories ICT competencies to three different types: i) ICT specialists: ii) Advanced users: and, iii) Basic users. For further details see [Skills for the Digital Economy](#) (OECD 2013).

⁵⁹ World Economic Forum (May 2020) [A guide to thriving in the post-COVID-19 workplace](#)

⁶⁰ OECD (2019) [THE FUTURE OF WORK: Employment Outlook 2019](#)

⁶¹ Expert Group on Future Skills Needs (March 2019) [Forecasting the Future Demand for High-Level ICT Skills in Ireland, 2017- 2022](#)

⁶² SOLAS (May 2020) [Future of Jobs in Ireland – Automation Risk](#)

⁶³ European Commission (2020) [Digital Economy and Society Index \(DESI\)](#)

In terms of 'above basic digital skills' in the workforce, Figure 2.2.5 shows that Ireland has improved steadily in the last five years and was slightly above the EU in 2020 (Ireland, 34%, EU average, 33%). Similarly, Ireland has made significant progress in the last few years and is gradually catching up to the EU in terms of basic digital skills among the workforce, reflecting the prioritisation of the key skills issues within the education and training system in recent years. Between 2016-2020, Ireland recorded a 9 percentage points increase (from 44% to 53%) in the proportion of people with 'basic digital skills', but still remains below the EU average of 58%.

DESI 2020, Ireland

In aggregate, the DESI 2020 report finds that, Ireland is the fastest (in terms of progress made towards digitalisation of the economy and society as measured by the annual DESI score) growing Member State in the EU over the last five years. Based on data prior to the COVID-19 pandemic, in 2020, Ireland:

- is ranked 6th overall in the DESI ranking (i.e. the 6th most advanced digital economy in the EU),
- is 1st in the indicator 'Integration of digital technology' and in the use of e-Commerce by SMEs,
- has a digital public services' ranking that is 9th and remains above the EU average,
- has overall connectivity levels that remain low, at 23rd position,
- is ranked 6th for fast broadband coverage with 96% coverage compared to the EU average (86%),
- lags the EU average in overall fixed broadband take-up (76%, compared to 78%, the EU average) and in 100Mbps fixed broadband take-up (25%, compared to 26%, the EU average).

While the Council acknowledges that Ireland performs well in overall DESI measures, it is concerned at the low connectivity levels and broadband take-up rate in Ireland compared to the EU. The Council believes, expanding digital connectivity across the country has become urgent (see Chapter 4), particularly in the context of COVID-19 and the resulting shift to remote working.

Evidence suggests that the gap in Ireland compared to the EU in terms of basic digital skills is driven by large variations in the digital skills level across age groups and educational attainment levels, with the digital skills gap declining with greater levels of education attainment⁶⁴. In addition, the finding suggests a significant correlation between digital skills and lifelong learning activities with digital skills gaps more pronounced among those with the lowest levels of participation in lifelong learning (low education attainment, older age cohorts). While the Council acknowledges that comparing digital skills gaps amongst countries is complex and that digital skills levels vary across and within countries due to many factors (e.g. education level, age groups), there is a need to further increase the basic digital skills of workers specifically in the context of the constantly evolving labour market.

⁶⁴ SOLAS (2020) [Digital Skills Requirements of Workers in Ireland](#): An analysis based on CEDEFOP's European Skills for Jobs Survey 2016 (next survey due on 2021). The report found that only a fifth of workers in Ireland aged 25-39 years lack basic digital skills compared to over a third (36%) of those aged 55-64 years. In relation to educational attainment and the basic digital skills gap, it found that, at 23%, the digital skills gap amongst workers in Ireland was below the EU average (25%) for third level graduates, but above the EU average for those with, at most, lower secondary education (46% for Ireland compared to 37% for the EU average).

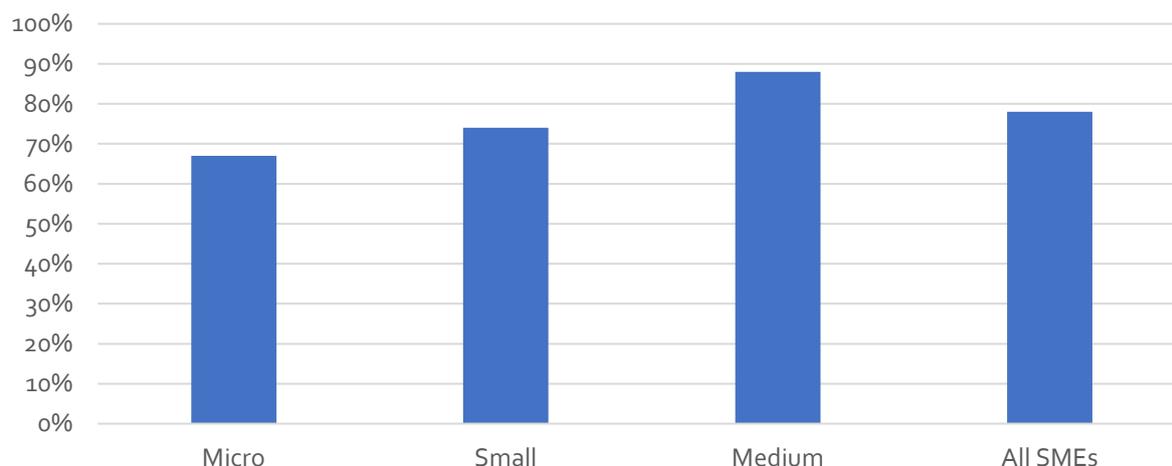
2.2.4 Management skills

Managerial skills encompass multidimensional competencies, which include behaviours, attributes and skills that managers need to perform effectively. It has been long established that good managers improve a firm's productivity through efficient utilisation of human and physical capital⁶⁵.

The role of management has taken on even more importance during COVID-19 where managers are required to facilitate the organisational changes and structures which will have a critical role in determining the organisation's ability to adapt to remote working. Managers are required not only to ensure that the logistics (digital infrastructure of the organisation, data privacy and cyber-security) around remote working are in place but also to keep employees productive, informed and motivated. We know that good managers make better decisions and respond better to changes in the workplace, including changes necessitated by COVID-19 and Brexit.

Research on management development in Ireland has been limited largely due to the lack of data⁶⁶. Evidence suggests that SMEs in Ireland are below average in many areas of management skills with limited investment in management and leadership development contributing to low productivity growth⁶⁷. A recent EGFSN survey⁶⁸ found that 78% of SMEs have engaged in some form of management development over the past three years with 88% of the medium-sized firms reported to have done so (see Figure 2.2.6).

Figure 2.2.6 SME engagement in formal management development by firm size (over last 3 years)



Source: National SME Skills and Practices Survey 2020, EGFSN

The survey also revealed a significant reliance on informal training, particularly for smaller firms and firms in certain sectors, such as agriculture/forestry, hospitality/hotel/restaurant/food supply, and retail and wholesale. The survey provides evidence that those firms that invest in formal training – as well as those that have developed a formal training and development plan and those that employ more data-driven decision-making – achieve significantly better innovation outcomes. More than half of managers surveyed identified the importance of management and leadership skills to achieve their organisation's goals. Three quarters of

⁶⁵ Bloom et al (2013) [Does Management Matter?](#)

⁶⁶ EGFSN (2020) Improving Management Development Standards in SMEs in Ireland (forthcoming)

⁶⁷ O'Connor et al (2006) [Management Development in Ireland: Justifying the Investment](#)

⁶⁸ EGFSN (2020): The National SME Skills and Practices Survey of 454 firms with employees range between 5 and 250 was conducted between November 2019 and January 2020.

them recognised the need for effective leadership and people management skills and for front-line supervisory skills in their businesses. Despite this, fewer than half of SMEs report having a dedicated budget for management development; the vast majority of SMEs cite lack of available time as the primary barrier to carrying out more management development.

2.2.5 COVID-19 related skills

In addition to existing skills needs in the economy, COVID-19 is giving rise to additional skills needs as employers reconfigure their business models and adapt to the new reality. As they begin to plan for the medium and longer term, new modes of operation are highlighting new skills needs. While comprehensive research on the wide range of these new skills needs arising from COVID-19 will emerge in time, Skillnet Ireland's COVID-19 Industry Insights Series⁶⁹ provides some insights into these emerging skills. Between April and early July 2020, Skillnet Ireland undertook research into the impact of the COVID-19 lockdown across major sectors of the economy: Food & Agriculture, Engineering, Construction, Professional & Financial Services, Hospitality, Tourism, Transport, Manufacturing, Retail and Technology. Skillnet Ireland engaged with partner industry bodies and individual firms to examine the current status of each sector and identify opportunities, threats, emerging trends and implications for skills and talent.

As its COVID-19 Industry Insights Series developed further, Skillnet Ireland identified and defined the upskilling and reskilling needs, both at sectoral and national levels in the areas of: COVID-19 Readiness Protocols, Technology Adoption & Digital Transformation, Leadership and Culture, Business Modelling and Customer Engagement.

The next section sets out the current policy interventions in place to deal with the unemployment crisis and the skills initiatives in the area of digital skills, management skills and COVID-19 related skills.

2.3 Actions Crucial to Economic Recovery

2.3.1 Labour Market Initiatives

In response to the COVID-19 induced unemployment crisis, the Government has introduced a range of temporary measures including the Temporary Wage Subsidy Scheme (TWSS) and the Pandemic Unemployment Payment (PUP) (see Chapter 1). In addition to these temporary measures, there is already a range of schemes and supports to help unemployed people to return to work under the overarching policy framework for Activation and Employment Policy. This was further strengthened with an additional €100m in funding provided in the July 2020 stimulus package. A brief summary of the selected labour market initiatives is provided in Table 2.3.1.

⁶⁹ Skillnet Ireland (April- July 2020) COVID-19 Industry Insights Series. For more information: <https://www.skillnetireland.ie/>.

Table 2.3.1 Selected labour market initiatives

Labour Market Initiatives	Key Features
Pathways to Work (PtW) Strategy	<p>First launched in 2012, the PtW strategy 2012-2020 is part of the Government's long-term economic plan to increase the number of people at work to 2.2 million by 2020 (which was surpassed in Q1, 2020 just prior to the impact of COVID-19 being felt).</p> <p>The employment activation initiative within the latest PtW (2016-2020) involves 6 key strands and 86 actions, including increasing the frequency of case officer meetings with jobseekers and expanding apprenticeships.</p> <p>Work is underway to develop a successor employment services strategy for the period 2020-2025 and is expected to be published in Q3 2020. It will reflect the challenges associated with COVID-19.</p>
JobsPlus	<p>Launched on 1 July 2013, JobsPlus is an employer incentive which subsidises businesses in the form of monthly cash payments for offering full-time employment to long-term unemployed.</p> <p>An additional €100 million, in the July 2020 Jobs Stimulus Package, to support an increased number of places on employment support schemes, comprises enhanced JobsPlus recruitment subsidies paid to employers. This is to fund an estimated 8,000 new hires from the Live Register. In the year to July 2020, 19,848 people were in the scheme. Exchequer expenditure on JobsPlus was €22.75 million in 2018 (latest available year).</p> <p>An evaluation of the programme, carried out jointly by the DSP and the European Commission's Joint Research Centre, is due to be completed and published in Q3 2020.</p>

Following the financial crisis of 2008-2010, Ireland redesigned the Public Employment Eco-system. The core different delivery mechanism, Intreo⁷⁹, the Education and Training Boards and other public employment service bodies already in place, offer a solid starting point to build the labour market activation programmes, albeit with adjustments to cater for the increased demand. In light of the crisis, it is vital that Ireland continues to evaluate and strengthen activation measures to ensure that they are effective in improving the employability of those who have lost their jobs.

To that end, the role of Intreo, the Education and Training Boards and other public employment service bodies will be central – providing job search, tailoring education and training supports, and skills profiling to identify individual's needs. In that context, the Council welcomes the measures announced in the July 2020 Stimulus to increase the capacity across Intreo and contracted Public Employment Services. The Department of Social Protection aims to finalise plans, in September 2020, on how it will increase this capacity, including additional case officer staff in Intreo Centres and increasing the capacity of the Local Employment Services and JobPath contracted providers.

⁷⁹ Intreo is a single point of contact for all employment and income supports. Designed to provide a more streamlined approach, Intreo offers practical, tailored employment services and supports for jobseekers and employers alike.

Recommendation 2.1: Strengthen supports for Jobseekers

- (i) Publish the evaluation of the JobPlus programme and ensure that the programme provides an effective response in the context of the COVID-19 labour market conditions.
- (ii) Increase the capacity of the Intreo Public Employment Service to provide additional case officers for job search and employment supports to jobseekers.

Responsibility: Department of Social Protection

2.3.2 Skills Initiatives

The importance of a skilled workforce for Ireland's long-term economic success has long been recognised by policymakers and has been supported by successive governments. Within the context of the wide range of skills programmes, key initiatives in the area of digital skills, management skills and COVID-19 related skills are briefly discussed below.

2.3.3 Digital Skills

The Technology Skills 2022: Ireland's Third ICT Skills Action Plan⁷¹ sets out priority actions to meet Ireland's high-level ICT skills demand. The plan aims to meet up to 70% of annual expected demand through a number of actions, including expanding the numbers of ICT graduates through higher education academic pathways, promotion of a new ICT apprenticeship model, and delivery of targeted ICT technical and management programmes to industry.

The plan outlines a series of measures within the education and training system to deliver up to an additional 5,000 graduates per annum, through additional Springboard places (2,103), ICT Conversion places (1,318), Human Capital Initiative Pillar 1 Conversion places⁷² (43% ICT) and additional places on existing CAO courses.

While the Council welcomes the ambitious target laid out in Third ICT Skills Action Plan, it also notes that the previous iteration of the plan (2014-2018 ICT Skills Action Plan) fell well-short of achieving its target⁷³. In that context, it is vital that the 2022 ICT Plan achieves its target to ensure that Ireland continues to meet the projected high-level ICT skills demand across the economy.

Recommendation 2.2: Intensify efforts to boost high-level ICT graduate output from the education and training system, in line with the target (70% of annual expected demand) set out in Technology Skills 2022. Publish a Technology Skills 2022 interim progress report.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Higher Education Authority; SOLAS; Skillnet Ireland

⁷¹ [Technology Skills 2022: Ireland's Third ICT Skills Action Plan](#)

⁷² The Human Capital Initiative (HCI) aims to increase capacity in higher education in focused programmes designed to meet priority skills needs for enterprise. The HCI consist of 3 main pillars: Pillar 1 – Full-Time Graduate Conversion Courses; Pillar 2 – Additional Places on existing Full-Time Undergraduate Provision; Pillar 3 – Innovation and Agility. Higher Education Institutions (HEIs) are invited to submit proposals for funding under the HCI. Over five years from 2020 to 2024, €300m has been allocated for the HCI. Further information: <https://hea.ie/skills-engagement/human-capital-initiative/>.

⁷³ ICT Skills Action Plan 2014-2018 ICT aimed to achieve an ambitious target of meeting almost three-quarters of these skills needs from the national education and training system. As of 2018, national graduate numbers accounted for only 57% of the demand.

Ireland's Competitiveness Challenge 2020

In terms of basic digital skills, the Government through Future Jobs Ireland 2019 (FJI) has committed to raising the proportion of workers with basic digital skills in line with or above the European average by 2025. Key initiatives include Skills for Work⁷⁴, Upskilling Pathways⁷⁵, the EXPLORE⁷⁶ programme, Digital Skills for Citizens Grant Scheme⁷⁷, and Skills to Advance⁷⁸, as well as the enhancement of the career advice service provided through the Public Employment Service.

The Council welcomes the FJI's commitment. As mentioned in section 2.2.3, in 2020, only 53% of workers had basic digital skills in Ireland compared to the EU average (58%). As FJI is aiming to equal, if not exceed, the EU average, this requires Ireland to improve its performance by over 30% in the next five years⁷⁹. To achieve this goal will require focus and resources.

Recommendation 2.3: Deliver on the Future Jobs Ireland target of bringing the proportion of workers with basic digital skills in Ireland at least in line with or above the EU average by 2025 (EU 2025 target: 70%).

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; SOLAS

COVID-19 measures

e-college, a key provision of the Skills to Advance initiative, is a fully online learning service funded by SOLAS which provides flexible online courses for those seeking to broaden their digital skills (from basic to in-depth specialisation in professional IT skills). While it is usually orientated towards the unemployed and vulnerable workers, eCollege support was expanded to those effected by COVID-19. In the three-month period from March to June 2020, eCollege had over 19,000 enrolments, in excess of a tenfold increase from the same period in 2019. The preliminary enrolment number for 2019 was 13,217.

Skills to Compete, launched as part of the July 2020 stimulus employment support measures, is an immediate activation initiative, giving those who lost their jobs as a result of COVID-19 the Skills to Compete if they are unable to re-enter their previous employment. This initiative combines the three strands of Further Education and Training provision - transversal skills development to help employability; building the digital capabilities and specific NFQ Level 4-6 courses targeting growth sectors and occupations – and linking this to tailored advice and support.

⁷⁴ Skills for Work initiative helps adults acquire a minimum level of literacy, numeracy and digital skills.

⁷⁵ Upskilling pathways targeted at adults with no upper secondary education and who are not eligible for Youth Guarantee support. They may be in employment, unemployed or economically inactive, with a need to strengthen basic skills.

⁷⁶ EXPLORE programme is aimed at upskilling the existing workforce and improving Ireland's lifelong learning rates. Among other aims, it seeks to address the lack of digital skills and targeted at persons over 35 years of age. Initially targeted at manufacturing workers, it has been extended to other sectors in recent years.

⁷⁷ Digital Skills for Citizens Grant Scheme is administered through third parties and provides free basic digital literacy training classes to people nationwide. In 2019, €2.2m was allocated to 12 organisations under the scheme.

⁷⁸ Skills to Advance provides targeted support for vulnerable groups in the Irish workforce, particularly those who have lower skills levels and who need more opportunities to advance in their working lives and careers, to sustain their employment and to avoid displacement or to avail of emerging job opportunities. A key provision of the initiative includes access to e-college – a SOLAS-funded online learning platform which supports online and blended learning courses in digital and business targeted at employees and employers.

⁷⁹ European Commission (July 2020) [European Skills Agenda for sustainable competitiveness, social fairness and resilience](#). The European Skills Agenda 2020 aims to increase the proportion of workers in the EU with basic digital skills to 70% by 2025.

2.3.4 Management Skills

The positive effects of investment in leadership and management development and particularly managerial capabilities in SMEs has long been recognised⁸⁰.

In 2018, Enterprise 2025 Renewed outlined the Government's broad agenda on Ireland's medium-term national enterprise strategy. One of its key aims is to deliver a demonstrable uplift in leadership and management capability across enterprises. Key initiatives include Spotlight on Skills, a regional SME skills analysis programme designed to help SMEs to develop a company skills plan and address their critical skills needs.

Management development is also a core focus of Future Jobs Ireland 2019 which includes pillars on improving SME productivity and enhancing skills and developing and attracting talent. Key deliverables are: strengthening the capacity of the Local Enterprise Offices (LEOs) to provide initiatives; supporting digital skills development; and, expanding the provision of management and leadership skills programmes for SMEs. The higher education institutes (HEIs) also provide shorter courses – e.g. Springboard, postgraduate courses, and professional development courses.

Management development initiatives

LEO Management Development Programmes provides owner managers with management, leadership, business skills and knowledge for business growth. The network of 31 LEOs also offer mentor programmes through which business mentors offer tailored advice, guidance and support to help build management capability.

Skillnet Ireland provides part-time management development programmes delivered by Skillnet networks (e.g. ISME Skillnet). Skillnet Ireland also offer a suite of other programmes such as the Training Networks Programme and Future Skills programme.

Enterprise Ireland's management development offering provides a range of initiatives from strategic programmes that create transformational business change to flexible short programmes addressing short term business needs. Programmes include Leadership 4 Growth and Go Global 4 Growth. The range of strategic and short programme in 2018 had 1,862 beneficiaries.

IDA Ireland provides training supports to their clients. IDA client companies can avail of Enterprise Ireland training and mentoring supports. IDA recently worked with the IMI to develop a leadership development programme, Leading with Strategic Intent. In 2019, 16 IDA client companies (64 managers) participated on the course.

Overall, a wide range of agencies and bodies, both public and private, provide supports to SMEs in training and management development. A forthcoming EGFSN study indicates that, in 2019, there were more than 1,100 management development related courses serving more than 81,000 participants in Ireland⁸¹ (see Table 2.3.2).

⁸⁰OECD (2019) [SME and Entrepreneurship Policy in Ireland](#)

⁸¹EGFSN (2020) Improving Management Development Standards in SMEs in Ireland (forthcoming)

Table 2.3.2 Number of management and leadership training courses and enrolments in 2019

Organisations	No. Courses in 2019	Enrolments in 2019
HEI – SME, entrepreneurship and management programmes (latest 2018 or 2019) (Under/post-graduate)	708	18,359
Springboard (SME and Entrepreneurship courses)	31	1,219
Education and Training Boards	69	2,463
Private colleges ⁸²	183	7,063
Skillnet Ireland (2020 annual intake)	126	2,891
Enterprise Ireland ⁸³	17	1,051
Local Enterprise Offices Network ⁸⁴	2	48,062
ISME – the Irish SME Association	1	20
Total	1,137	81,128

Source: EGFSN, *Improving Management Development Standards in SMEs in Ireland* (forthcoming)

Lifting productivity, especially of the SME sector, remains one of Ireland's top economic challenges. Ireland's capacity to improve productivity and sustain economic growth, however, is dependent upon its workforce's management capabilities and skill levels. In 2019, the OECD in its report, *SME and Entrepreneurship Policy in Ireland*⁸⁵, recommended the encouragement of a "wider take-up of the Skillnet Ireland programmes to develop management capabilities in Irish SMEs". The forthcoming EGFSN report⁸⁶ finds that while there is a wide range of training and supports available to SMEs on management development, many SME managers were unaware of these programmes. Of those who were aware, many found what was on offer to be complex, difficult to access and not relevant to their day-to-day operation. The EGFSN also report that the area of management development in Ireland lacks data, whether it be for monitoring progress over time, or evaluating the links between investment in training and better outcomes for firms. Furthermore, they also find a lack of cooperation at an operational level between management training providers in terms of sharing of data and knowledge.

COVID-19 has brought the issue of managerial skills to the fore with managers required not only to facilitate the organisational transition to remote working, but also to keep workers productive and motivated. The Council believes addressing managerial skills gaps in enterprises has become even more urgent, especially within the context of a large-scale shift to remote working across the economy.

⁸² Includes IMI courses.

⁸³ Includes IDA Ireland programmes.

⁸⁴ Covers (1) a range of Start Your Own Business and Short Management Development Programmes (37,306 participants) and (2) one-to-one Mentoring for Management Development (10,756 participants) delivered across 31 LEOs.

⁸⁵ OECD (2019) [SME and Entrepreneurship Policy in Ireland](#)

⁸⁶ EGFSN (2020) *Improving Management Development Standards in SMEs in Ireland* (forthcoming)

Recommendation 2.4: Address the lack of awareness among SME managers of the range of management development opportunities and supports currently available.

Responsibility: Department of Enterprise, Trade and Employment; Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland; Enterprise Ireland; Local Enterprise Offices; SOLAS; Higher Education Authority; Business representative bodies

Recommendation 2.5: Increase active cooperation at an operational level between management training providers, with a focus on sharing data, knowledge and good practice, to ensure the coherence and effectiveness of the overall training offer from the perspective of training participants.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland; SOLAS; Education and Training Boards; Higher Education Authority; Enterprise Ireland; Local Enterprise Offices; Private providers

2.3.5 COVID-19 Skills

Skillnet Ireland's research on the impact of COVID-19 across sectors has resulted in it funding and resourcing both network-wide and new standalone programmes in a focused and targeted way to ensure alignment with the needs of business through all stages of recovery and the return to growth.

Mentorswork and ReBounce Back to Business Safely were launched by Skillnet Ireland in April and June 2020 respectively with over 1,300 companies participating to the end of July. They are designed in collaboration with 17 industry and representative bodies (e.g. IBEC, Chambers Ireland, SFA) and other government partners. The resulting COVID-19 business recovery provision aims to ensure that businesses remain open, from a safety perspective through upskilling on new protocols, and from a commercial perspective, through provisions that address new operating models, delivery systems, digital adoption and transformation, customer engagement strategies, people management and remote working, supply chain management, management development and financial planning.

Recommendation 2.6: Address the demand for skills arising from the COVID-19 pandemic.

- (i) Publish the findings from the COVID-19 Industry Insights Series outlining the skills needs of enterprises in the context of COVID-19 labour market conditions.
- (ii) Examine the ongoing impact of COVID-19 on SMEs and engage with other enterprise agencies and industry bodies to design targeted industry-led responses to meet business needs in sectors severely impacted by the enterprise and labour market challenges posed by COVID-19.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Skillnet Ireland

2.4 Summary

As highlighted in this chapter, COVID-19 has had a profound impact on the Irish labour market. In just a few short weeks huge numbers of jobs have been lost, thousands of people are in receipt of State supports, and a large proportion of workers have moved rapidly to remote working. The immediate priority must be to continue to strengthen active labour market programmes to ensure that those most at risk of long-term unemployment are kept close to the labour market.

In the medium term, it is vital that Ireland continues to meet the skills requirements in the economy. Even before the crisis, rapid changes in the nature of work, influenced by the adoption of new technologies, and Brexit were already reshaping Ireland's labour market. Demand for a wide range of skills, including, digital skills and managerial skills is expected to increase across the economy in the coming years. In addition, the new methods of working induced by COVID-19 are giving rise to additional skills needs as businesses adapt to the new reality. A renewed focus is needed to urgently address these skills needs as Ireland seeks to meet the challenges of an evolving labour market.

Chapter 3: Address Climate Action in a Competitiveness Context

3.1 Introduction

Combatting climate change is a defining challenge for this generation. A global consensus has emerged, based on scientific evidence, that change needs to happen and that it needs to happen quickly. Climate action is at the forefront of the European Commission's agenda, with decarbonisation and environmental sustainability built into all current and future policies. The European Commission asserts that the EU will be climate neutral by 2050 and the European Council has endorsed this objective. The European Green Deal, launched in December 2019, outlines a roadmap for transforming the EU into a fair and competitive economy, where there are net zero emissions by 2050 and where economic growth is decoupled from resource use.

In May 2019, Dáil Éireann declared a climate and biodiversity emergency and went on to endorse Ireland's Climate Action Plan 2019 that sets out actions necessary to respond to this crisis and reflects the central priority that climate action will have in Ireland's political and administrative systems. In June 2020, the Programme for Government (PFG) committed to supporting the European Green Deal and to achieving an average of 7% per annum reduction in greenhouse gas emissions from 2021 to 2030 (a 51% reduction over the decade) and net zero emissions by 2050. The Government pledged that Ireland's 2050 target will be enshrined in law by a Climate Action Bill to be introduced in the Dáil within the first 100 days of government, alongside a newly established Climate Action Council.

The *Competitiveness Challenge* reports over several years have pointed to the absence of policy actions to realise Ireland's stated climate goals. Most recently, in Ireland's *Competitiveness Scorecard 2020*, the Council noted that Ireland is falling far behind its environmental commitments and is not well positioned to meet its targets, such as the commitment to achieving carbon neutrality by 2050. Given Ireland's position as the third highest carbon emitter per capita in the EU (see Figure 3.2.1), for this goal to be realised, major change will need to occur on an individual, firm, industry and societal level. Addressing the climate crisis will transform the way we work, travel, produce food and goods, provide services and heat our homes. It will require a rapid transition to a net zero-carbon energy system and a fully circular economy.

Both Ireland and the EU have embraced the target of net zero emissions by 2050, however the recent COVID-19 pandemic and accompanying economic crisis have brought substantial challenges. While noting the difficulties ahead in the context of COVID-19, the Council believes that the climate crisis must not be forgotten. Measures responding to Ireland's short-term economic needs must not derail efforts to tackle pressing environmental challenges. It is imperative that climate action is incorporated into the economic recovery and that economic activity and greenhouse gas emissions are decoupled.

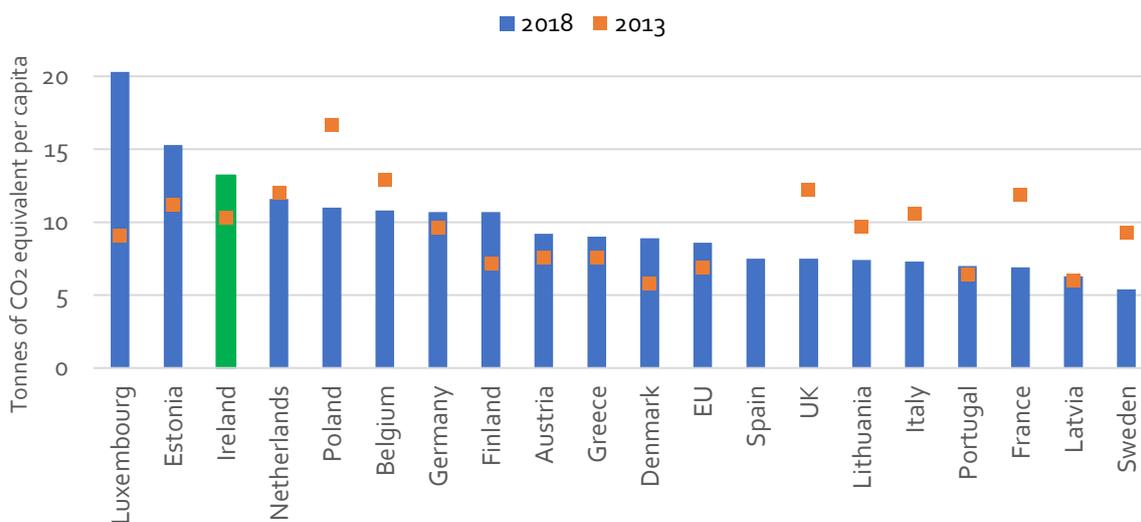
In this report, the Council focuses on enterprise's contribution to climate action, through reducing its carbon footprint. For businesses operating in Ireland, decarbonisation will have a significant impact on their operations, affecting their logistics, their premises, the materials used, the products supplied and the needs of their customers. In many sectors it will mean significant changes to operations, and for certain enterprises it will require new business models. A challenge for the enterprise sector is to establish how to decarbonise in the most efficient manner, so as to remain competitive, whilst availing of the opportunities arising from climate action. Subject to meeting Ireland's stated climate targets, this chapter considers actions that can be taken to strengthen competitiveness and support businesses in the context of the transition to carbon neutrality.

In order for the enterprise sector to do its part in achieving Ireland's climate commitments, the Council believes that short-term actions to facilitate progress at a firm-level are needed, and that these should be accompanied by government-led decarbonisation investments in the medium to long term. These government-led investments will provide a clear indicator to the enterprise sector of the direction of travel. Hence, this chapter takes a two-pronged approach, addressing both micro and macro areas that require attention to facilitate the transition to climate neutrality. Firstly, the Council examines the range of schemes currently in place to incentivise decarbonisation at a firm-level and outlines its views on what is needed to enable businesses to mitigate their emissions cost-effectively and remain competitive. Secondly, the Council considers the enterprise sector's heavy dependence on the gas network. This dependence is due to high-temperature industrial processes and the substantial costs and structural investments necessary to transition to alternative energy sources. The Council explains why a clear policy signal and trajectory for decarbonising the gas network is vital to mitigate enterprise's contribution to emissions in the longer term.

3.2 Current Situation in Ireland

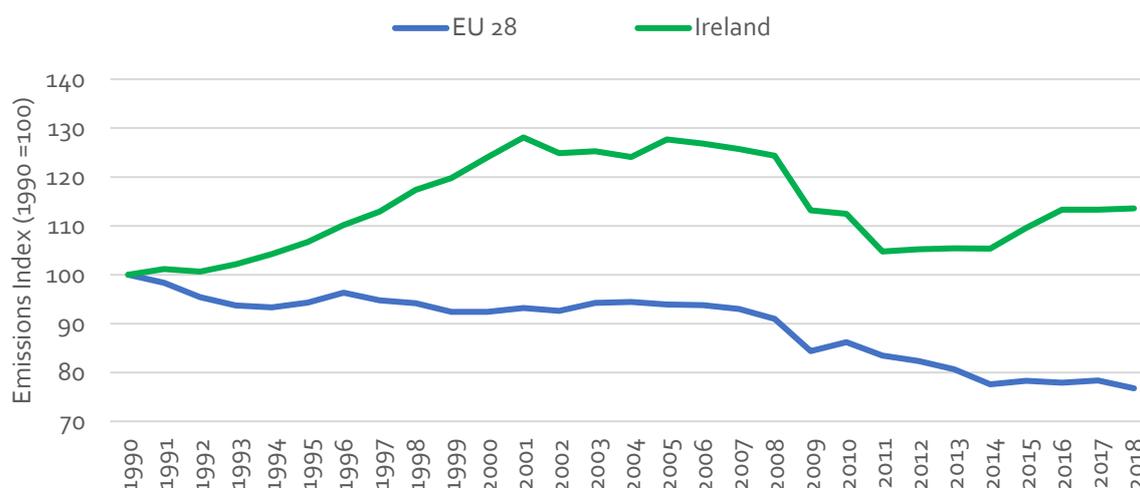
Ireland's greenhouse gas emissions per capita have increased since 2013 and were the third highest in the EU in 2018 (see Figure 3.2.1). In contrast, average EU emissions have been on a downward trend since 1990 (see Figure 3.2.2).

Figure 3.2.1 Greenhouse Gas Emissions Per Capita, 2018



Source: Eurostat

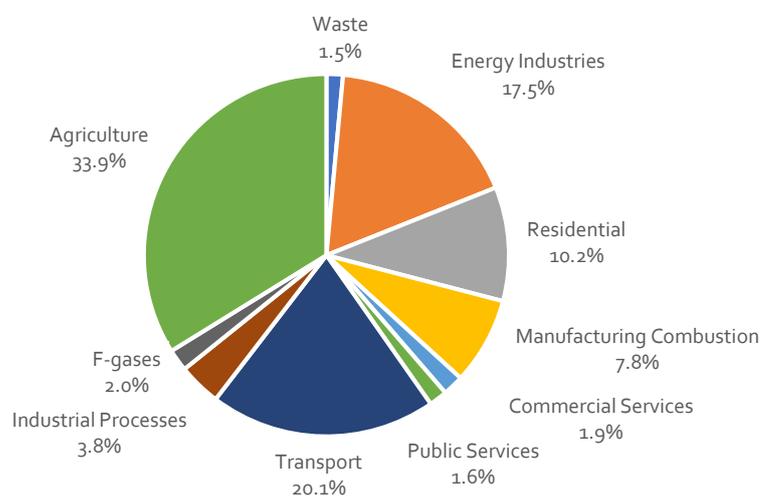
Figure 3.2.2 Greenhouse Gas Emissions (Kt CO₂ equivalent indexed to 1990), Ireland, EU28, 1990-2018



Source: Eurostat

Ireland is not on track to meet its emissions reduction targets set by the EU; non-ETS emissions are projected to be only 2-4% below 2005 levels in 2020⁸⁷, which falls considerably short of Ireland's binding EU target of 20% below 2005 levels by 2020⁸⁸. Responsibility for decarbonisation is not sector-specific but falls across all of society and the economy. Given Ireland's poor performance reducing greenhouse gas emissions, the commitment to an average 7% per annum reduction in greenhouse gas emissions from 2021 to 2030 and to achieving net zero emissions by 2050 will require major efforts across all sectors.

Figure 3.2.3 Greenhouse Gas Emissions Share by Sector in 2018 (excluding aviation)



Source: EPA

⁸⁷ The EU Emissions Trading System (ETS) is a market-based instrument designed to restrict emissions. Any company within the EU that emits a large amount of greenhouse gases is included in the ETS. This includes large industries, electricity generators, and the aviation industry. All greenhouse gas emissions that are not from companies in the ETS are called non-ETS emissions. Non-ETS emissions include greenhouse gas emissions from homes, cars, businesses and agriculture. Further information available at www.seai.ie.

⁸⁸ EPA (2020) [Ireland's Greenhouse Gas Emissions Projections 2019-2040](#)

Action is urgently required to decarbonise agriculture and transport, which collectively account for over half of Ireland's total emissions. Emissions from these sectors continue to rise; in 2018, agriculture and transport emissions increased by 1.9% and 1.6% respectively⁸⁹. Agriculture is the single largest contributor to emissions, accounting for 33.9% of total greenhouse gas emissions (see Figure 3.2.3)⁹⁰ and 45% of all non-ETS greenhouse gas emissions⁹¹. The Council recognises that work is ongoing in the Department of Agriculture, Food and Marine, Teagasc and the Environmental Protection Agency to mitigate agricultural emissions, but more progress is urgently needed to decarbonise agriculture. All sectors must play their part if Ireland is to achieve the targets of 7% annual emissions reductions and net zero emissions by 2050. Given Ireland's large agri-food sector, the Council believes that the decarbonisation of agriculture will be imperative to achieving these targets.

For the remainder of this chapter, the Council considers the enterprise sector's contribution to emissions and outlines its views on what is needed to expedite the decarbonisation of businesses operating in Ireland and enhance competitiveness as Ireland takes the necessary steps to address the climate crisis.

The role of enterprise in the transition to a zero-carbon economy

Greenhouse gas emissions arise from businesses through manufacturing combustion, industrial processes, industrial gases (F-gases)⁹² and commercial services. Businesses operating in Ireland also contribute to national emissions through their use of transport, energy and the built environment, in addition to emissions that arise from supply chains and waste. The largest share of enterprise emissions comes from the manufacturing sector, primarily chemicals, food processing, beverages, and cement and these are covered by the EU Emissions Trading Scheme (ETS). Enterprise emissions that fall outside the EU ETS are highly diverse, with a large proportion arising from Small and Medium Enterprises (SMEs), in particular those working with industrial gases⁹³.

Although total emissions from enterprise are lower than other sectors of the economy, enterprise emissions (up to the COVID-19 pandemic) were on an upward trend following the expansion of the economy since 2013. In the three years from 2015-2017, Ireland's total emissions increased by 6.4% (from 57.09 Mt CO₂ eq. to 60.74 Mt CO₂ eq.) and Ireland's Climate Action Plan 2019 projects that the enterprise sector's carbon emissions will increase from 8.1 Mt CO₂ eq. in 2017 to 9.0 Mt CO₂ eq. by 2030. Ireland's Climate Action Plan aims to reduce enterprise GHG emissions by 1 Mt CO₂ eq., (relative to the 9.0 Mt CO₂ eq. projection), equating to a 10%-15% reduction in emissions by 2030⁹⁴. However, the European Green Deal and new programme for Government bring more ambitious targets for carbon emissions reductions.

In addition to the EU and Government-led climate action targets and measures for carbon mitigation (such as the ETS and carbon pricing), enterprises are also facing increased pressure from consumers who are questioning their 'green credentials'⁹⁵. Potential employees are looking to work in companies with production processes that do not come at the expense of the environment, adding to pressure on enterprises of all sizes to

⁸⁹ <https://www.epa.ie/ghg/currentsituation/>

⁹⁰ In addition, a proportion of the agri-food sector is not included in agricultural emissions in Figure 3.2.3, for example activities in energy industries, manufacturing combustion and commercial services.

⁹¹ <https://www.seai.ie/data-and-insights/seai-statistics/key-statistics/co2/>

⁹² F-gases comprise of HFCs (Hydrofluorocarbons), PFCs (Perfluorocarbons), SF₆ (Sulphur Hexafluoride) and NF₃ (Nitrogen Trifluoride) and are largely emitted through enterprise. For further information, see: <https://www.epa.ie/ghg/manufacturing/>.

⁹³ *Climate Action Plan 2019* p62

⁹⁴ The Climate Action Plan uses the NDP projections as the basis for their emissions projections.

⁹⁵ Consumers are becoming more conscious of the carbon intensity of their purchases and seek information on whether the materials used in products are sustainable and ethically sourced.

explore decarbonisation options. Large companies are responding by committing to reducing their carbon footprint and improving the sustainability of their practices, and these responses are also resonating on international finance and insurance markets.

While climate action and decarbonisation will provide challenges for the business sector, they also provide opportunities for businesses in Ireland that are well placed to deliver this societal transformation; these opportunities are relevant to business in, for example, green technology, sustainable product design, green finance and digital services. Green transition funding, such as, the European Green Deal Investment Plan, the Just Transition Mechanism and Ireland's Climate Action Fund, present opportunities for investment by both public and private bodies in climate action measures. In addition, Ireland's excellent renewable energy resources offer great potential for the enterprise sector; Ireland is a global leader in onshore wind and is second only to Denmark in its share of electricity sourced from wind energy⁹⁶. Wind power provides significant export opportunities and has the potential to bring increased economic activity to some of Ireland's most peripheral regions. Further developing renewable energy production will strengthen Ireland's competitiveness by reducing dependence on imported fossil fuels and enhancing energy security and will place Ireland on a pathway to achieving its decarbonisation objectives. In this regard, the Council notes the importance of passing the Marine Planning and Development Management (MPDM) Bill in order to meet renewable energy targets and capitalise on Ireland's offshore renewables potential.

Ireland's main challenges in addressing the climate crisis arise primarily from being an island economy with a strong agricultural tradition and a large agri-food industry. Dealing systematically and equitably with meeting Ireland's climate targets is a complex socio-economic challenge beyond the scope of this report and the Council's remit. As progress is made in the transition towards a zero-carbon economy, changes in regulatory requirements, carbon pricing, supply chains and evolving consumer preferences will impact the competitiveness of the enterprise base. It is the Council's priority that Ireland leverages its strengths and competitiveness advantages in decarbonisation, and that the enterprise sector is supported to mitigate its carbon footprint cost-effectively so that Ireland can become an internationally competitive, carbon-neutral economy.

Changes in Ireland's energy mix

A target of net zero carbon requires the removal of fossil fuels from our energy mix and production processes. The Climate Action Plan 2019 sets out a wide range of measures in this regard. These include significant electrification of home heating systems (through retro-fitting homes to use heat-pumps), and transport systems (with massive increases in electric vehicle penetration) and decarbonising electricity generation (through the integration of high rates of wind and solar energy on the national grid). Enterprises will be required to switch to electric vehicles where possible, and to zero-carbon alternative fuels for vehicles in the freight sector (CNG, Hydrogen). Market pressures, regulatory standards and carbon pricing will be used to convince businesses to remove polluting fuels from their operations, with increased levels of electrification and use of renewables such as biomass and biogas the likely outcome.

The reliance on natural gas in Ireland's industrial sectors poses a significant challenge, as it is a relatively inexpensive and versatile fuel with no price competitive alternatives currently available and there are few incentives for companies to move away from this fossil fuel. While natural gas is less carbon intensive than coal or fuel oil, it nonetheless accounts for a significant portion of industrial emissions. For some manufacturing and

⁹⁶ REN21 (2020) [Renewables 2020 Global Status Report](#)

processing sectors it will not be technically viable (due to the heat intensity of their processes) to move from gas through electrification or fuel switching. In others, efficient use of natural gas (such as in combined heat and power processes, in which many have recently made significant investments) will be the least-cost path to reducing their carbon emissions in the short term but will nonetheless lock in a dependence on a fossil fuel. While a trajectory to decarbonised electricity in the period to 2050 is credible, for enterprises dependent on gas for their production processes, there is less certainty and they will need a cost-effective option of moving to decarbonised gas.

3.3: Short-Term Actions: Decarbonisation at a Firm-Level

The Council fully supports the commitment being made to transition to a carbon neutral economy and is keen that the enterprise sector plays its part in Ireland's decarbonisation while remaining cost-competitive. Transitioning to sustainable production practices in light of the national objective of carbon neutrality will bring opportunities, but it will also bring additional costs which will be felt most acutely by high energy users and those firms with lower margins.

3.3.1 Current Policy Interventions designed to reduce emissions

This section examines three key initiatives currently in place to incentivise enterprise decarbonisation and their competitiveness implications: the carbon tax, the Public Service Obligation levy, and the Emissions Trading System. The Council then outlines its views on what is required to enable businesses to remain competitive while making their contribution to Ireland's emission reductions of 7% annually up to 2030 and achieving net zero emissions by 2050.

Carbon Tax

Carbon pricing is seen as one of the most effective ways to reduce emissions. Applying the 'polluter pays' principle, in which the costs of pollution are borne by those who cause it, incentivises cost-effective decarbonisation while simultaneously spurring the development and deployment of new, sustainable technologies. The Council notes that carbon pricing is intended as a way of changing behaviour rather than raising revenue. A carbon tax was introduced in Ireland in 2010⁹⁷, starting at a rate of €10 per tonne of CO₂ emitted (2013), rising to €20 per tonne (2014)⁹⁸, and to €26 per tonne (2020)⁹⁹. Ireland's Climate Action Plan 2019 and subsequent budget 2020, signalled the aim to increase the tax to €80 per tonne of CO₂ emitted by 2030, while the new PfG (June 2020) increases the carbon tax rate to €100 per tonne of CO₂ emitted by 2030.

In implementing this policy instrument for carbon abatement, it is important to be aware of the competitiveness impacts for Irish based enterprises. A recent ESRI analysis¹⁰⁰ finds that the production sectors that drive Irish exports are relatively insensitive to a carbon tax increase; sectors with a significant share of exports, namely food, beverage and tobacco, chemicals and chemicals products, and basic pharmaceutical products, experience only a small increase in energy producer prices (less than a 1% increase) in the case of a €20 increase in the carbon tax. This suggests that an increase in the carbon tax will not have significant impacts on the international competitiveness of Irish exports.

⁹⁷ Ireland's carbon tax applies to kerosene, marked gas oil, liquid petroleum gas, fuel oil, natural gas and solid fuels.

⁹⁸ https://www.citizensinformation.ie/en/money_and_tax/tax/motor_carbon_other_taxes/carbon_tax.html

⁹⁹ In comparison, Sweden introduced a carbon tax in 1991 priced at €23 per tonne of CO₂ emitted and in 2020, Sweden's carbon tax is charged at €110 per tonne of CO₂ emitted (further details available [here](#)).

¹⁰⁰ De Bruin and Mert Yakut (2018) [The economic and environmental impacts of increasing the Irish carbon tax](#)

While projected increases in energy prices for exporting sectors are low for a carbon tax of €20 per tonne of CO₂ emitted, rising energy prices for non-exporting sectors and businesses at the margins could exacerbate difficulties following the COVID-19 crisis. Increases in the rate of Ireland's carbon tax must be signalled in advance and the impacts of rising energy prices on the enterprise sector should be closely monitored. Firms with tight margins that are already grappling with other costs associated with decarbonisation and a loss of income due to COVID-19 may struggle to afford further cost increases. Supports for firms to take early action to mitigate their carbon footprint would alleviate some of the cost pressures associated with the carbon tax.

Public Service Obligation Levy/ Renewable Electricity Support Scheme

The Public Service Obligation (PSO) levy is charged to all electricity customers in Ireland to support the generation of electricity from sustainable, renewable and indigenous sources¹⁰¹. The June 2020 PfG pledges to deliver at least 70% renewable electricity by 2030 as part of its commitment to the rapid decarbonisation of the energy sector. The proposed Renewable Electricity Support Scheme (RESS), funded through the PSO Levy, is intended to support the development of renewable energy projects across Ireland, with a particular emphasis on cost effectiveness.

Developing Ireland's renewable energy capacity is key to transitioning to a sustainable, carbon-free economy. However, it is important that electricity price increases designed to fund this are mitigated, so as not to deter firms from transitioning to electrification which is being promoted as part of Government policy to meet its climate targets. The Commission for Regulation of Utilities (CRU) has calculated that a PSO levy of €393.13 million will be required for the 2020/21 PSO year¹⁰². This represents an increase of €216.66 million (123%) on the 2019/20 levy of €176.46 million¹⁰³. Such a significant increase in the PSO Levy will put upward pressure on the electricity costs for businesses and hence reduce incentives for electrification¹⁰⁴. Consequently, it is important to consider ways to mitigate the impacts of these additional costs on enterprises, ensuring that firms are able to remain competitive and are encouraged to decarbonise in the changing cost environment.

The EU Emissions Trading Scheme

Since 2005, Ireland's largest energy users in the enterprise sector have been involved in the EU Emissions Trading Scheme (ETS), and hence are already on a carbon price trajectory to incentivise emissions reductions. The ETS is a market-based instrument designed to restrict emissions from energy-intensive industries in a cost effective and economically efficient manner. Companies are required to stay within an allotted quota of carbon emissions and can purchase more carbon credits in the event that they will not, thus incentivising decarbonisation. Emissions in the ETS sector decreased by 12.9% in the two years from 2017 to the end of 2018¹⁰⁵. In 2019, emissions from enterprise production processes accounted for 13.6% of Ireland's total emissions, and 68% of these fell within the ETS¹⁰⁶. Ireland's heaviest emitters in the enterprise sector are monitored and reported on each year by the EPA as part of the scheme. The price of EU allowances has been

¹⁰¹ Funds collected from the PSO levy, which were previously used to support the peat sector, are now solely used to support the renewable energy sector.

¹⁰² CRU (2020) [Public Service Obligation Levy 2020/21](#)

¹⁰³ Several factors determine the amount charged for the PSO levy in a given period, with the biggest influence being the wholesale price of electricity. There is an inverse relationship between the PSO levy and the wholesale electricity price. If the wholesale price of electricity is low, more money needs to be raised through the PSO levy to subsidise PSO support generators. This is because these generators receive less money from the wholesale market for the electricity they produce. The recent reduction in wholesale electricity prices has resulted in a higher PSO levy for the 2020/21 PSO year

¹⁰⁴ Volatility in electricity prices can also lead to uncertainty, which adversely impacts the competitiveness of Irish enterprises.

¹⁰⁵ <https://www.epa.ie/ghg/currentsituation/>

¹⁰⁶ Department of An Taoiseach (July 2020) [Climate Action: Enterprise and the Business Community](#)

steadily rising and pressure to decarbonise will further increase as emission allowances decline. Phase four of the EU ETS, between 2021 and 2030, will bring more stringent caps on emissions; the overall number of emission allowances will decline at an annual rate of 2.2% (compared to the current rate of 1.74%)¹⁰⁷, placing increased impetus on these businesses to decarbonise¹⁰⁸.

The rising carbon tax trajectory, PSO levy increases, and a lower overall allocation of emissions within the ETS will incentivise businesses to decarbonise and constitute necessary steps towards achieving Ireland's legally binding climate objectives. However, the costs that these will add to businesses, together with the costs of transitioning to decarbonised production processes, will engender substantial challenges for business over the coming years, particularly those operating at the margins. Awareness of the implications of carbon mitigation schemes for businesses in addition to the decarbonisation options, is necessary to develop cost-effective strategies for achieving Ireland's climate targets that enhance rather than hamper competitiveness.

3.3.2 Actions Crucial for Competitiveness and Climate Action

If businesses are to be successful in mitigating their emissions and, at the same time, remain competitive and financially viable, programmes that both incentivise and provide support to firms transitioning to sustainable practices are required. The Council recognises that decarbonisation must happen, but it would not serve Ireland well if this results in many businesses becoming uncompetitive due to major cost increases and falling profitability. A balanced approach would be optimal for Ireland's competitiveness: firms need to be liable for their emissions, but at the same time, they should also be supported to decarbonise to ensure their ongoing resilience and to mitigate carbon leakage to economies with lower regulatory requirements¹⁰⁹. If businesses are supported and well-informed of the options available to them, sustainability adjustments will be more widespread, cost-effective, and long-lasting.

It is clear that green credentials matter for a growing number of consumers and pressure for enterprise to decarbonise is likely to increase exponentially as the Government, EU and other key stakeholders act to expedite decarbonisation. To ensure that businesses are supported as they transition to sustainable production practices and that they remain competitive, existing decarbonisation measures should be evaluated and the need for further measures assessed. This work should consider the cost-effectiveness of each carbon abatement instrument, and their impact on competitiveness. Furthermore, the current suite of supports available to enterprises for energy efficiency should be reviewed and redeveloped to incentivise the decarbonisation agenda. The Council sees strong merit in the development of a one-stop-shop environmental hub and website that enables businesses, particularly SMEs, to assess their carbon footprint and easily-accessible information be made available on the supports to help firms to decarbonise.

To facilitate the achievement of Ireland's ambitious carbon mitigation targets, businesses would benefit from the ability to easily access information on the decarbonisation options available to them and technologies that are feasible and appropriate to their own operations. For this to happen, further research is required to understand CO₂ abatement opportunities and technologies available in Ireland that can be implemented by

¹⁰⁷ European Commission: [Revision for phase 4 \(2021-2030\)](#)

¹⁰⁸ Other sectors of Ireland's economy, such as the agriculture and transport sectors (other than airlines), are not included in the EU ETS and will not face such stringent targets.

¹⁰⁹ The European Commission defines carbon leakage as the situation that may occur if, for reasons of costs related to climate policies, businesses were to transfer production to other countries with laxer emission constraints. This could lead to an increase in their total emissions. The risk of carbon leakage may be higher in certain energy-intensive industries. Further information on carbon leakage: https://ec.europa.eu/clima/policies/ets/allowances/leakage_en

businesses to reach the sector's decarbonisation targets. Building on the Marginal Abatement Cost Curve (MACC model) developed by McKinsey & Company¹¹⁰ and international work on decarbonisation technologies (such as the IEA Clean Energy Technology Guide¹¹¹), it should be possible to estimate the cost of carbon abatement in different sectors, and the feasibility of businesses implementing carbon abatement technologies¹¹². Enabling factors to aid in the implementation of the emissions reductions and barriers to implementing the technologies could then be addressed and guide what incentives might be necessary to deliver the abatement levels required.

Recommendation 3.1: Undertake research with close engagement with businesses and key stakeholders, to identify a range of CO₂ abatement opportunities and technologies, by company size and sector, that would enable businesses to decarbonise in line with Ireland's national targets.

Responsibility: Department of Enterprise, Trade and Employment; Enterprise Ireland; IDA Ireland; Sustainable Energy Authority of Ireland

Recommendation 3.2: Assess the carbon mitigation incentives and supports available to enterprises to determine whether they are fit for purpose in achieving Ireland's climate targets and identify areas where further intervention is needed to support companies to decarbonise.

Responsibility: Department of Environment, Climate and Communications; Department of Enterprise, Trade and Employment; Sustainable Energy Authority of Ireland; Enterprise Ireland; IDA Ireland

Recommendation 3.3: Establish a one-stop-shop environmental hub and website that would allow businesses to assess their carbon footprint and access information on the supports available to help them to decarbonise.

Responsibility: Department of Enterprise, Trade and Employment; Department of Environment, Climate and Communications; Enterprise Ireland; IDA Ireland; Sustainable Energy Authority of Ireland; Irish Water; Environmental Protection Agency

3.4: Medium/Long-Term Actions: Decarbonising Ireland's Gas Network

Sustainable growth, a key priority for the Council, can only be achieved once Ireland's energy infrastructure is adequately equipped to enable Ireland to meet its carbon reduction commitments. The economy is dependent upon energy, and consequently the ability to generate, procure, and utilise energy will be critical to whether or not climate targets are achieved. This year, the Council has decided to focus on the gas network as Ireland's enterprise sector (particularly industry) is currently heavily reliant on natural gas, considerably more so than in competitor countries, and certain firms are unable to transition to zero-carbon energy alternatives. Accordingly, decarbonising the gas network will be critical for enterprise to achieve carbon neutrality in the longer term. At present, 30% of Ireland's energy requirements¹¹³ are sourced from natural gas and approximately 650,000 homes and 27,000 businesses rely on natural gas and the gas network to meet their

¹¹⁰ Further details are available in Ireland's [Climate Action Plan 2019](#).

¹¹¹ IEA (July 2020) [ETP Clean Energy Technology Guide](#)

¹¹² The model should assume an increase in carbon tax to €100 by 2030 in line with the Programme for Government.

¹¹³ Total Primary Energy Requirement (TPER)

energy needs. Natural gas is also the primary fuel used for power generation in Ireland; in 2018, 52% of electricity generated was sourced from natural gas^{114 115}.

Ireland's dependence on natural gas presents challenges for decarbonising the enterprise sector, particularly industry¹¹⁶. Energy supply for high temperature industrial processes has historically been sourced from the combustion of fossil fuels, with a large proportion of these operations reliant on natural gas. A common approach to decarbonising industry is through electrification, however this option is only feasible for low and medium temperature industrial processes¹¹⁷. Even as Ireland's electricity is increasingly generated from renewable sources, the enterprise sector's dependence on natural gas is likely to continue for the foreseeable future as many large industry emitters, such as food and beverage producers, continue to be dependent on gas for their processing systems and are unable to transition to zero-carbon alternatives to gas. They will consequently struggle to remove associated emissions from their operations while the gas supply continues to produce emissions. In addition, those firms that could use alternative energy sources, but would incur substantial costs in doing so, may not be able to decarbonise until the gas network is decarbonised due to the huge costs involved. The route to decarbonising involves transforming operations and replacing the natural gas currently used with renewable, zero-carbon alternatives (for example, hydrogen, biogas, biomass or electrification) which will require both public and private large-scale investments.

Given the difficulties transitioning away from gas for certain industries, the Council believes that the gas network must be decarbonised if Ireland is to achieve carbon neutrality by 2050, and significant progress will have to be made at a Government policy level to drive the decarbonisation of the gas network. In the following section, the Council examines progress in decarbonising the gas network and outlines why a Government-led policy pathway to a carbon-free gas supply is necessary to enable businesses heavily dependent on gas to play their part in Ireland's transition to carbon neutrality.

3.4.1 Gas Network Decarbonisation: Current Policy Interventions

In 2019, Gas Networks Ireland (GNI) published *Vision 2050 – A Net Zero Carbon Gas Network for Ireland* outlining its vision that Ireland's gas network will achieve carbon neutrality by 2050. GNI's vision is to replace half of Ireland's gas supply with zero carbon gases (green hydrogen, renewable gas, or a blend of carbon free substitutes) by 2050. At the same time, GNI envisions the remainder of the gas supply will come from natural gas, and carbon capture and storage (CCS) technologies will subsequently be used to abate the emissions associated with natural gas. There are challenges in ensuring that this plan is both sustainable and deliverable in line with Ireland's wider energy policies.

The PfG published in June 2020 contains a commitment to work with the European Commission to advance a stronger National Energy and Climate Plan (NECP) for 2030 that is consistent with the Government's climate ambitions. The PfG also commits to investing in research and development in green hydrogen as a fuel for power generation, manufacturing, energy storage and transport.

Ireland's National Energy & Climate Plan 2021-2030 published in August 2020 in accordance with the Governance of the Energy Union and Climate Action Regulation, sets out Ireland's policies, climate action measures, targets and trajectories across the energy sector up to 2030 required to meet EU targets, including

¹¹⁴ This figure can rise to 85% on certain days, according to Gas Networks Ireland.

¹¹⁵ Gas Networks Ireland: [Delivering a Reliable and Secure Gas Supply](#)

¹¹⁶ Further information is available in the Gas for Climate [2020 Gas Decarbonisation Pathways Study](#).

¹¹⁷ Certain industrial processes require large amounts of thermal energy at very high temperatures and are not suited to electrification.

the planned levels of natural gas and renewable gas. Also underway is the finalisation of Ireland's Long-Term Strategy on Greenhouse Gas Emissions Reduction which will provide a high-level overview of Ireland's pathway to 2050.

3.4.2 Actions Crucial for Competitiveness and Climate Action

Roadmap for the period 2030-2050

Although some progress has been made in setting the policy direction toward a carbon neutral future, further clarity is required for the future of the gas network post-2030. To date, there has been no explicit Government commitment that Ireland's gas network will in fact be decarbonised by 2050, and no clear communication on how the decarbonisation of the gas network will be achieved. The Council believes that there is a need for a firm Government commitment, in the Long-Term Strategy on Greenhouse Gas Emissions¹¹⁸, that Ireland will decarbonise the gas network within an explicit time-frame, followed by a detailed short, medium and long-term plan up to 2050, aligned with the NECP and developed in consultation with industry, that explicitly sets out the actions, targets and timeframes necessary for decarbonisation^{119 120}.

A Government-led pathway to a carbon free gas supply is required to give confidence to existing and new industry that they have a sustainable future in Ireland's carbon neutral economy. Policy clarity on the direction of travel, and a clear and detailed roadmap for the period 2030-2050 would provide industry with preparation time, enabling firms to establish how their operations will need to adjust, what lies ahead, and the costs they will face. Decarbonisation cannot be achieved in the most cost-effective manner if businesses are not sufficiently prepared. An explicit pathway to decarbonisation would enable those firms dependent on gas to commence investments in sustainable, green alternatives to natural gas, and allow them to make optimal investment decisions for their future operations.

Transitioning away from natural gas to sustainable energy sources

As progress is made on decarbonising the gas network, the Council believes it is important that Ireland implements 'no regrets' investments that are in line with long-term targets and lay the foundation for a sustainable, zero-carbon future¹²¹. Published plans for Ireland's gas network entail increased dependence on natural gas (which is largely imported)¹²²; Ireland's policy statement on Petroleum Exploration and Production Activities as part of Ireland's Transition to a Low Carbon Economy sets out the vision that natural gas will form a key component of the energy mix in the transition to a low carbon economy¹²³, however the new PfG commits

¹¹⁸ Article 15 of the EU Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action requires each Member State to prepare and submit to the Commission a [long-term strategy](#) for greenhouse gas emissions reduction with a perspective of at least 30 years.

¹¹⁹ For examples of gas network decarbonisation roadmaps, see the Gas for Climate [2020 Gas Decarbonisation Pathways Study](#) and ENA [Pathways to Net-Zero: Decarbonising the Gas Networks in Great Britain](#)

¹²⁰ The CAP requires that Ireland sets a target for biomethane to be included in the gas network by 2030. This is an example of a step within the pathway to decarbonisation and a clear signal for industry.

¹²¹ "No-regrets" actions are actions by households, communities, and local/national/international institutions that can be justified from economic, and social, and environmental perspectives whether natural hazard events or climate change (or other hazards) take place or not. "No-regrets" actions increase resilience, which is the ability of a "system" to deal with different types of hazards in a timely, efficient, and equitable manner. Increasing resilience is the basis for sustainable growth in a world of multiple hazards (see Heltberg, Siegel, Jorgensen, 2009; UNDP, 2010).

¹²² Natural gas is supplied by a combination of domestic production and imports via the pipeline from Scotland. In 2019, 53% of Ireland's natural gas use was imported from the UK and following the depletion of the Corrib gas field, Ireland is expected to be dependent on imports for over 80% of gas requirements by the mid-2020s and over 90% by 2030. Further information available [here](#).

¹²³ DCCAE (2019) [Policy Statement Petroleum Exploration and Production Activities as part of Ireland's Transition to a Low Carbon Economy](#)

to end the issuing of new licenses for exploration and extraction of gas. Natural gas produces less emissions than coal and peat¹²⁴ but natural gas is a fossil fuel and has a negative environmental impact¹²⁵. Investing further in natural gas over the coming decade will position Ireland on a path for increased reliance on natural gas and Ireland will have no alternative option but to decarbonise the gas network at a later stage if carbon neutrality is to be achieved by 2050.

Furthermore, investments made in the short-term will determine how cost-effective it will be for businesses to transition to green energy by 2050. Path dependency is important in this regard; choices made now will impact the ease and cost of decarbonisation later. To develop cost-effective pathways to decarbonisation, early and detailed assessment of future policy options and identifying 'no regret' investments in the energy infrastructure will be essential. A clear policy trajectory is required to ensure that investments made by both the public and private sector over the next decade will be fit-for-purpose in a carbon neutral environment.

Green Hydrogen – A sustainable alternative to natural gas

One potential solution particularly for decarbonising high temperature industrial processes is Green hydrogen. The European Commission considers it a sustainable alternative and potential replacement for natural gas and that it is key to the transition to carbon neutrality. Green hydrogen produces zero CO₂ emissions when combusted¹²⁶. Globally, it is accepted that green hydrogen will play an important role in moving towards zero-carbon, sustainable energy systems (see text box below). The European Commission published its Hydrogen Strategy for a Climate-Neutral Europe in July 2020. This strategy provides a context for Member States to plan the development of hydrogen policies and measures. Green hydrogen forms a major component of the Commission's plan to decarbonise industry and is considered a solution for decarbonising sectors where reducing emissions is hard to achieve.

¹²⁴ Natural gas emits 40% less CO₂ than coal and 22% less CO₂ than oil (Gas Networks Ireland).

¹²⁵ In 2018, natural gas accounted for 27.1% of energy related emissions (SEAI) and approximately one sixth of Ireland's total carbon emissions (Gas Networks Ireland).

¹²⁶ It is important to note that in order for hydrogen to be considered "green", it must be produced using renewable electricity that is additional to what would be consumed anyway; otherwise renewable energy will be diverted from existing uses and would likely be replaced by fossil fuels in electricity production (Dolci, 2018).

Decarbonising Gas Networks – International Progress

In recent months, much progress has been made internationally to decarbonise gas networks. Denmark, like Ireland, has committed to achieving carbon neutrality by 2050 and in Denmark, significant investments in green hydrogen are underway. The Danish government has agreed to provide \$19 million in funds for two large-scale hydrogen projects. Ørsted, Denmark's largest energy company, announced plans for a 2 MW electrolysis plant with appurtenant hydrogen storage, and the firm Maersk is collaborating with five other Danish companies for one of the world's largest green hydrogen projects which will involve having the first hydrogen facility powered by offshore wind running by 2023 and reaching full capacity by 2030. In Germany, the federal government recently adopted a National Hydrogen Strategy, funded with €7 billion from the German Government's Economic Stimulus Package, with an additional €2 billion committed to support international projects to access green hydrogen. It is hoped that this strategy will provide a double boost: both in climate protection and the sustainable recovery of the German economy post COVID-19. Germany is also establishing a National Hydrogen Council. Meanwhile, in the UK, the H21 project is underway which consists of a collection of gas industry projects, designed to deliver evidence to policymakers to support the transition of UK gas networks to a 100% hydrogen future.

Clarity for the future of Ireland's gas network

Investigation of renewably-sourced hydrogen production is underway in Ireland¹²⁷, but clarity is needed regarding its future role in the gas network. With a view to introducing hydrogen into the gas network in the long term, Gas Networks Ireland is planning to facilitate hydrogen trials¹²⁸, and the new Government has pledged to invest in research and development in green hydrogen as a fuel for power generation, manufacturing, energy storage and transport¹²⁹. Green hydrogen could in theory be distributed using existing gas network infrastructure¹³⁰ and as Ireland develops its offshore and onshore wind industry, the sector will be well-placed to produce green hydrogen during periods of surplus generation. However, notwithstanding the ambitions in the PfG, there has been no clear policy signal that hydrogen will be a part of Ireland's energy future. Meanwhile neighbouring countries are embracing green hydrogen, investing heavily in green hydrogen infrastructure and making rapid progress with their transition to carbon neutrality.

Progress on decarbonising the gas network is slow; Ireland continues to rely on natural gas and has no credible pathway post-2030 to a carbon-free gas system. This poses a significant competitiveness weakness and leaves Ireland lagging behind other countries in the transition to carbon neutrality. The Council believes that lack of action to decarbonise the gas network could be detrimental to businesses operating in Ireland; if investments in carbon-neutral alternatives to fossil fuels are not made imminently, Ireland risks falling further behind other countries which could severely damage Ireland's comparative advantage. Hydrogen offers great potential for Ireland's carbon-neutral future, particularly for decarbonising industry, and the European Commission is promoting movement in this area; however, for investment in this regard to commence, policy clarity is needed on the future of the gas network.

¹²⁷ For example, research on hydrogen is being carried out by energy cooperatives on Valentia Island, Rathlin Island and the Aran Islands which led to the creation of Hydrogen Ireland, the Community Hydrogen Forum and industry led Hydrogen Mobility Ireland, all of which are dedicated to the promotion of hydrogen.

¹²⁸ Gas Networks Ireland: [Vision 2050](#)

¹²⁹ Programme for Government, July 2020

¹³⁰ Further testing on the feasibility of this is required.

Recommendation 3.4: Decarbonise the gas network

- (i) Provide a clear policy signal, as part of Ireland's Long-Term Strategy, that the gas network will be carbon neutral by 2050.
- (ii) Develop a pathway of the steps that need to be taken to 2050 to decarbonise the gas network. This should include an early and detailed assessment of future policy options and cost-efficient renewable energy sources that can be used, with prioritisation for 'no regrets' investments in Ireland's energy infrastructure.

Responsibility: Department of Environment, Climate and Communications

3.5 Summary

Ireland is severely lagging with its progress on climate action, particularly in the pace of energy transitions, and currently faces some of the most aggressive carbon mitigation targets in Europe. As the economic recovery from the COVID-19 pandemic gets underway, policymakers are making momentous decisions over a short space of time on how best to reboot Ireland's economy. These decisions will shape economic and energy infrastructure for decades to come and will ultimately determine whether Ireland fulfils its climate commitments. With this in mind, the Council believes that now is the time to look at how the necessary transition to a sustainable, carbon-neutral economy will unfold, and what actions are needed for Ireland to achieve its stated climate ambitions.

Focusing on the enterprise sector, in the short term, the Council believes that CO₂ abatement opportunities and technologies that would enable businesses to decarbonise should be identified, and the carbon abatement instruments should be assessed to determine whether they are fit for purpose in meeting national targets while maintaining competitiveness. Furthermore, assisting businesses to assess their carbon footprint and access information on supports available would help them to decarbonise, and with supports in place, firms will be better positioned to seize opportunities in climate action.

In the long term, given the enterprise sector's dependence on gas, there is a need for policy clarity on the future of Ireland's gas network and a detailed roadmap for the period 2030-2050 that explicitly sets out the actions, targets and timeframes for the decarbonisation of Ireland's gas network. It is important that future growth does not cause irreversible damage to Ireland's natural resources; in this regard, the Council emphasises the importance of implementing 'no regret' investments that are in line with Ireland's long-term targets and lay the foundation for a sustainable, zero-carbon future.

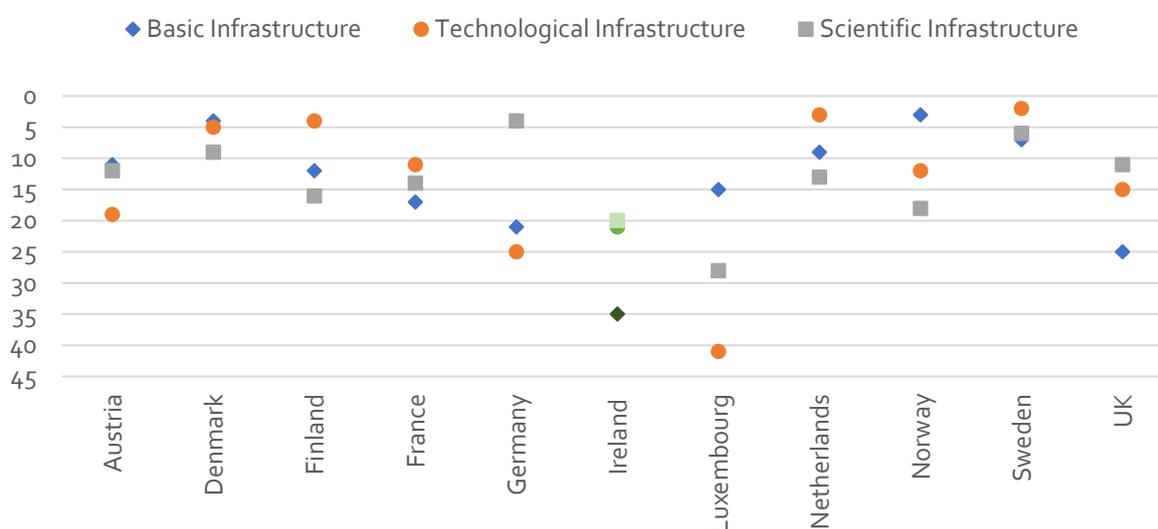
Chapter 4: Invest Strategically in Ireland's Physical Infrastructure

4.1 Introduction

Quality physical infrastructure is essential to ensure an economy has the capacity to achieve sustainable long-term growth¹³¹ and plays a key role in boosting productivity¹³². The IMF¹³³, the OECD and the G20 have all highlighted the importance of investment in high-quality, productive infrastructure for sustainable economic and social development. Strategic investments in infrastructure can lower the costs of doing business for enterprises, resulting in more efficient firms better able to compete internationally. A country's physical infrastructure includes a broad array of facilities, including housing, office buildings and factories, roads and motorways, air and seaports, telecommunications networks, water supply and sanitation, as well as electricity production and transmission. A country's social infrastructure also includes elements such as schools, libraries, hospitals, courts, museums and parks¹³⁴. Infrastructure can be produced and utilised by both the public sector and private firms and can on occasion be provided as part of a joint enterprise.

Shortcomings in Ireland's infrastructure have been identified by the Council in *Ireland's Competitiveness Scorecard 2020* and by other domestic¹³⁵ and international bodies in recent years. For example, in 2020, Ireland's competitiveness ranking slipped from 7th to 12th position according to the Institute for Management Development (IMD)¹³⁶, with the infrastructure sub-component being the weakest element of Ireland's performance (see Figure 4.1.1). In further evidence, an inadequate supply of infrastructure is perceived as the most important barrier for doing business in Ireland by the World Economic Forum's survey¹³⁷.

Figure 4.1.1 Institute for Management Development Competitiveness Ranking – Infrastructure Ranking



Source: IMD Database

¹³¹ De Jong et al. (2017) The effect of public investment in Europe: a model-based assessment, ECB Working Paper 2021

¹³² Romp & de Hann (2007) Public Capital and Economic Growth: A Critical Survey

¹³³ In the [October 2014 World Economic Outlook](#), the IMF found that, for a sample of advanced economies, a 1 percentage point of GDP increase in investment spending would increase the level of output by about 0.4% in the same year and by 1.5% after four years.

¹³⁴ See [Ireland's Competitiveness Challenge 2019](#) for further discussion on infrastructure.

¹³⁵ Hickey, Lozej and Smyth (2018) [Irish Government Investment, Financing and the Public Capital Stock](#), Quarterly Bulletin 03 - July 2018

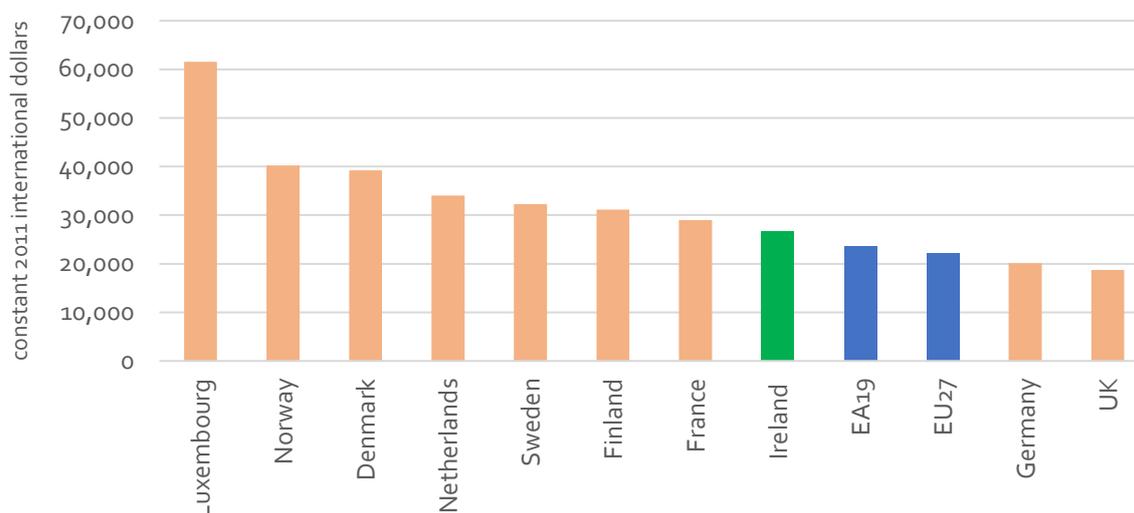
¹³⁶ [IMD \(2020\) World Competitiveness Rankings](#)

¹³⁷ World Economic Forum (2019) [The Global Competitiveness Report 2019](#)

Ireland's Competitiveness Challenge 2020

The IMF's Investment and Capital Stock Dataset 2019¹³⁸ shows that Ireland's public capital stock per capita is broadly in line with the euro area average but lags behind the best performing economies in Europe, and the Scandinavian countries in particular (see Figure 4.1.2). This places Irish firms at a competitive disadvantage relative to firms in those countries with better public capital stocks and may also make it more difficult for Ireland to attract high quality inward foreign direct investment.

Figure 4.1.2 General government capital stock per capita, 2017



Source: IMF Investment and Capital Stock Dataset 2019, NCC Secretariat calculations

Public investment¹³⁹ is the best available proxy for infrastructure spending in an economy, though it is an imperfect measure. It includes items that are outside of the scope of infrastructure (such as investment in government buildings) and does not include private investment in infrastructure. However, it is a useful metric when carrying out national and international comparisons. Public investment collapsed in Ireland during the previous recession, having reached a peak of €9.9 billion in 2008, equivalent to 6.3% of Modified Gross National Income (GNI*)¹⁴⁰ (see Figure 4.1.3). Reductions in public capital investment accounted for a disproportionate share of the fiscal consolidation programme implemented in Ireland from 2008-2014¹⁴¹ as typically the postponement of capital projects is more easily implemented than reductions in current government expenditure¹⁴².

¹³⁸ IMF (2017) [Estimating Public, Private, and PPP Capital Stocks](#)

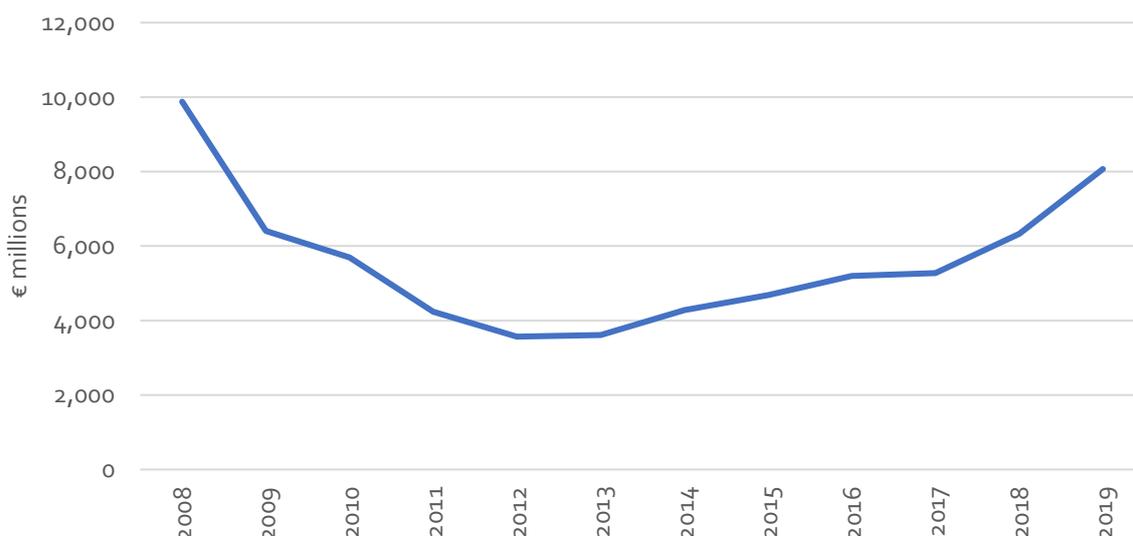
¹³⁹ Public investment is recorded as gross fixed capital formation by general government in the European System of National and Regional Accounts (ESA, 2010).

¹⁴⁰ GNI* is a supplementary measure of the level of the Irish economy designed to provide greater insight into Ireland's domestic economic activity. GNI* excludes globalisation effects related to highly mobile economic activities that disproportionately impact upon the measurement of the size of the Irish economy. The globalisation effects excluded from GNI to estimate GNI* are: factor income of re-domiciled companies; depreciation charged on capitalised R&D service imports and trade in intellectual property; depreciation of aircraft owned by Irish aircraft leasing companies. For further information, see <https://www.cso.ie/en/releasesandpublications/in/nie/in-mgnicp/>

¹⁴¹ Analytical Note No. 9: June 2016 Public Capital: Investment, Stocks and Depreciation Andrew Kennedy Irish Fiscal Advisory Council available [here](#).

¹⁴² Afonso and Souza (2012) The macroeconomic effects of fiscal policy, *Applied Economics*, 44(34), pp. 4439-4454.

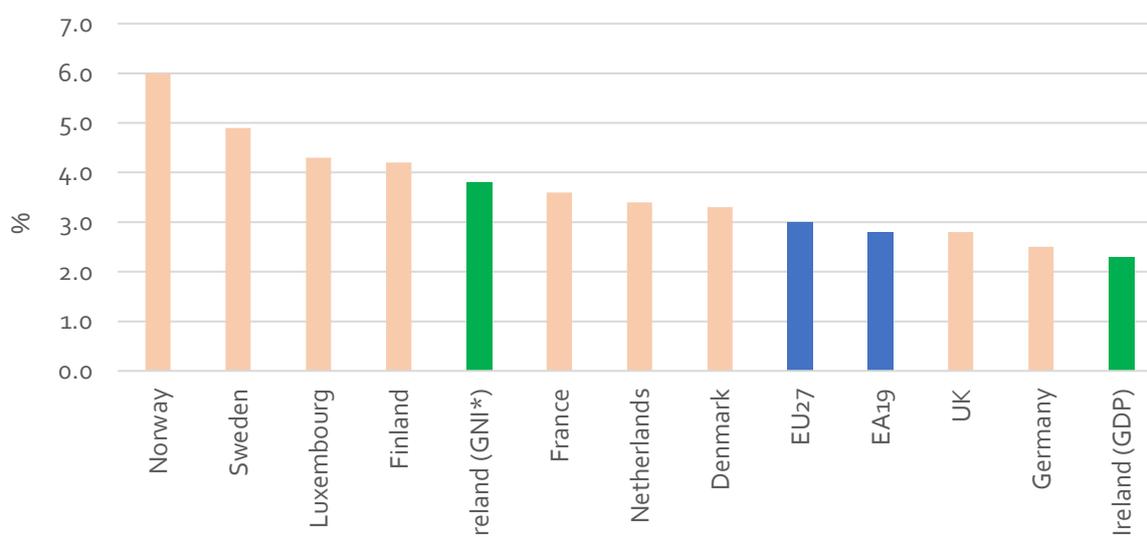
Figure 4.1.3 Public Investment in Ireland 2008-2019



Source: General Government Expenditure, Eurostat

As the Irish economy began to recover, public investment also began to increase slowly but steadily. A number of infrastructure deficits in transport, health, public housing, communication and education had emerged over the austerity period, necessitating significant increases in public investment in recent years, which has contributed positively to a growing capital stock. Using cross country data, Ireland compared favourably to its European neighbours in 2019 when public investment as a percentage of national income rose to 4%, compared to a euro area average of 2.8% (see Figure 4.1.4). However, Ireland continues to lag behind the best performing countries in terms of its share of public investment.

Figure 4.1.4 Public Investment (as a percentage of national income), 2019



Source: Eurostat, CSO, NCC Secretariat calculations for GNI* ratios

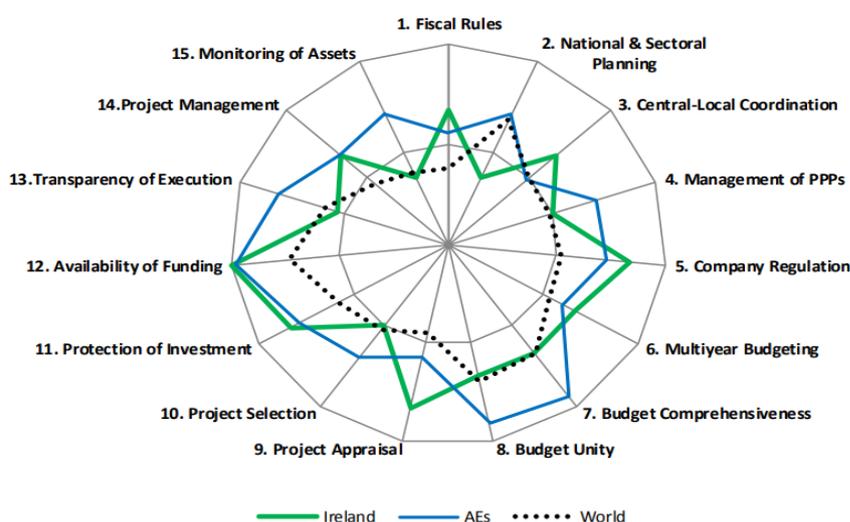
Below average spending on public investment during the austerity period and a fast-growing population have created a number of pinch points in Ireland's national infrastructure. COVID-19 related current expenditure will stretch fiscal resources this year and beyond, but the opportunity cost of pausing capital expenditure should

not be overlooked, and all funding options including public-private partnerships, the European Investment Bank and EU green funding should be fully explored. It is imperative that history is not repeated during the current economic crisis and that productive public investments continue to be made at a robust pace in order to address existing bottlenecks, provide capacity for future needs, and boost competitiveness.

Strategic investment in Ireland's future can also provide economic stimulus and employment in the short and medium term, while addressing long-term infrastructure needs. The Council welcomes the Government's commitment to grow infrastructure expenditure in 2021 by €1 billion to €9.1 billion, announced as part of the July Jobs Stimulus package. Multi-year budgetary planning is vital to ensure that funding for capital projects is ring-fenced so that productive infrastructure investment continues as the economy recovers from the impacts of COVID-19.

Given the role that infrastructure investment can play in boosting output and improving productivity, the increase in general government capital spending in recent years is clearly welcome. However, the quality of the investment decisions made is important for competitiveness, highlighting the need for rigorous assessment and appraisal of planned investment projects¹⁴³. In 2017, the IMF carried out a Public Investment Management Assessment (PIMA)¹⁴⁴ of Ireland's capacity to deliver quality public investment, including infrastructure. The report identified shortcomings in the effectiveness of past investment spending in Ireland relative to the performance of other Advanced Economies (AEs) and World averages (see Figure 4.1.5). It also highlighted a number of recommendations to improve the planning, allocation, and implementation phases¹⁴⁵ of capital projects.

Figure 4.1.5 Effectiveness of Public Investment Management Institutions in Ireland versus Advanced Economies



Source: IMF 2017, Staff Estimates (strength is higher further from the centre)

¹⁴³ The recent update of the public investment guidance in [The Public Spending Code: A Guide to Evaluating, Planning and Managing Public Investment](#) specifically strengthens the existing guidance to better reflect the realities of project delivery with a particular focus on financial appraisal, cost estimation and risk management.

¹⁴⁴ IMF Technical Assistance Report-Public Investment Management Assessment for [Ireland](#).

¹⁴⁵ The Planning Phase includes: Fiscal rules; national and sectoral planning; central-local coordination; public-private partnerships; and regulation of infrastructure companies. The Allocation Phase includes: multi-year budgeting; budget comprehensiveness; budget unity; project appraisal; and project selection. The Implementation Phase includes: protection of investment; availability of funding; transparency of execution; project management; and assets accounting.

Under the Planning Phase (1. fiscal rules; 2. national and sectoral planning; 3. central-local coordination; 4. public-private partnerships; 5. regulation of infrastructure companies), Ireland's PIMA scores were weaker than other advanced economies for national and sectoral planning, and for public-private partnerships (PPPs). The IMF made recommendations in these areas to improve linkages between planning and budgetary decision making and the management of PPPs. Under the Allocation Phase (6. multi-year budgeting; 7. budget comprehensiveness; 8. budget unity; 9. project appraisal; 10. project selection), Ireland's performance was weaker than our counterparts in advanced economies for budget comprehensiveness and budget unity. IMF recommendations in this area included better processes for monitoring, appraisal and selection of investment projects as well as budgeting for the maintenance of existing public assets. Under the final Implementation Phase (11. protection of investment; 12. availability of funding; 13. transparency of execution; 14. project management; 15. assets accounting), Ireland was weakest in terms of transparency of execution and assets accounting, with recommendations for ex-post reviews of investment projects and the development of a central register to monitor public assets. The Investment Projects and Programmes Office (IPPO), established within the Department of Public Expenditure and Reform, continues to drive reforms in relation to project appraisal and selection¹⁴⁶, and portfolio management of the overall public capital programme.

Recommendation 4.1: Provide supports such as resource packs and templates to complement the updated Public Spending Code and support public bodies in meeting their requirements in evaluating, planning and managing public investments.

Responsibility: Department of Public Expenditure and Reform

Other IMF research¹⁴⁷ comparing the value of public capital (input) and measures of infrastructure coverage and quality (output) across countries identified an efficiency gap of 58% in Ireland when compared to other advanced economies. This suggests that there is considerable room for improvement in Ireland's public investment efficiency which could in turn have a positive impact on economic growth. For example, higher quality public capital can lower transaction costs for the private sector and raise the marginal productivity of private human and physical capital. Improving investment efficiency could also create fiscal space by providing better infrastructure at a lower cost and release resources for more investment or growth-enhancing recurrent expenditure and/or reductions in taxes.

Difficulties and delays in obtaining approval for and executing infrastructure projects (both public and private) has long been a source of frustration to official planners and private enterprises alike¹⁴⁸. According to the World Bank's Doing Business 2020 report¹⁴⁹, Ireland ranked 36th globally in dealing with construction permits. In Ireland the process involves fewer procedures but takes more days and is more expensive than other high-income OECD countries. Requesting and obtaining planning permission from the local authority is the most time-consuming element of the process; particularly in cases where it may be necessary to submit an environmental impact study to accompany the planning application or where the local authority may request further information from the applicant. Where an application has been rejected, an appeal against the decision may be made to an Board Pleanála, which may include an oral hearing and can delay the commencement of construction by months.

¹⁴⁶ The updated [Public Spending Code](#) requires early engagement on project proposals, full consideration and evaluation of all options to identify the best option to achieve the stated objective, requirement for detailed project brief, project implementation plan, and full risk assessment and mitigation strategy.

¹⁴⁷ IMF (2015) [Making Public Investment More Efficient](#)

¹⁴⁸ IBEC (2020) [Better Planning: reforms for sustainable development](#)

¹⁴⁹ [World Bank Doing Business 2020](#)

Infrastructure projects can be further delayed by court proceedings by objectors, which can often take years to resolve. The Department of Housing, Heritage and Local Government has been developing legislation to assist in determining whether an applicant has sufficient interest to instigate a judicial review of a development. The Programme for Government (PfG) also proposed the establishment of the Environmental and Planning Law Court, that can offer a more efficient management of cases through specialisation. The Council welcomes the progress in bringing together the planning and court processes as improvements in both areas will be important to streamline the execution of infrastructure projects. Public participation should be encouraged at the earliest possible stages of project planning in order to ensure that public and private sector infrastructure projects benefit all of society.

4.2 The Current Situation and the Impact of COVID-19

Project Ireland 2040, published in July 2018, is the overarching policy and planning framework for the social, economic and cultural development of Ireland. The National Development Plan (NDP) 2018 -2027, part of *Project Ireland 2040*, sets out Ireland's public capital infrastructure priorities and commits €116 billion for the delivery of the National Planning Framework (NPF) over the next decade¹⁵⁰. Several governance and oversight structures have been introduced to ensure the efficient, coordinated and timely implementation of *Project Ireland 2040*, including the *Project Ireland 2040* Delivery Board, the Investment Projects and Programmes Office, the Land Development Agency, and the Investment Projects and Programmes Tracker¹⁵¹.

The PfG makes a range of commitments in relation to public investment, including bringing forward the mid-term review of the NDP from 2022. The Council welcomes this timely acceleration of the review of the NDP and acknowledges that projects and programmes will need to be re-evaluated in light of the disruptions to the economy caused by COVID-19. The public finances have come under significant pressure this year due to the exceptional supports introduced for individuals, enterprises and sectors in the wake of COVID-19. These additional current expenditure demands coupled with the new environmental commitments announced under the PfG have raised concerns that the capital envelope for the NDP may have to be revised upwards if it is to meet its planned outcomes.

The mid-term review should also be mindful of the regional aspects of *Project Ireland 2040*. The Council welcomes the publication in January 2020 and June 2020, respectively, of the Regional Spatial and Economic Strategies for the Southern and Northern & Western regions which set out the long-term, strategic development framework for the future physical, economic and social development of the regions. It is vital that regional towns and cities are supported to become vibrant places in which to live and do business, and that development occurs in town centres, so that the patterns of urban sprawl in the major cities are not replicated across the country. Balanced and sustainable growth has become even more pressing as the scale of the economic impact of COVID-19 has varied significantly across the regions (see Chapter 1).

¹⁵⁰ The NDP also details a number of investment programmes, coordinated by Enterprise Ireland, the IDA and SFI amongst others, that is broader than physical infrastructure.

¹⁵¹ The *Project Ireland 2040* Delivery Board, made up of the Secretaries General of the key infrastructure departments, has been established to monitor and oversee implementation and performance. The Investment Projects and Programmes Office (IPPO) has been established in the Department of Public Expenditure and Reform to drive value-for money reforms in relation to areas such as project appraisal and selection, and to improve the portfolio management of the overall public capital programme. The Land Development Agency has been established to coordinate the use of appropriate State-owned lands for regeneration and development – primarily for new housing. The Investment Projects and Programmes Tracker monitors over 270 projects and programmes and includes details on estimated costs, project status, commencement dates, completion dates, etc.

In December 2019 the World Bank¹⁵² produced a report comparing the ease of doing business in five Irish cities: Cork, Dublin, Galway, Limerick and Waterford. The World Bank assessed these cities in terms of five different metrics: (i) the ease of starting a business, (ii) dealing with construction permits, (iii) getting electricity, (iv) registering property, and (v) enforcing contracts. Despite all Irish cities operating under the same national legal framework, differences in performance are evident. No single city outperformed in all metrics used by the World Bank, suggesting there can be learning from best practices in other cities. Of most relevance for regional infrastructure is construction permits and the metrics are set out in Table 4.2.1. The World Bank analysis found that dealing with construction permits was easiest and fastest in Waterford, where the process involved 10 procedures, took 158 days and was half as expensive as Cork, the most difficult city, where it took more than 42 days longer to obtain a construction permit. The report's authors estimated that if all Irish cities could adopt the best practices observed nationally, then Ireland's standing in the World Bank's aggregate global rankings could improve by as much as nine places from the current ranking of 24th out of 190 economies in the World Bank's Doing Business 2020 report.

Table 4.2.1 Dealing with Construction Permits

	Overall Score (0-100)	Procedures (number)	Time (days)	Cost (% of warehouse value)	Building Quality Control Index (0-15)
Waterford	80.57	10	158	1.3	13
Limerick	78.69	10	165	2.4	13
Galway	78.59	10	189	1.1	13
Dublin	76.58	10	164	4.1	13
Cork	74.37	11	200	3.0	13

Source: World Bank 2019

Recommendation 4.2: Challenge regions and cities to learn from best practice across the country on ways to maximise efficiency in order to improve the business environment for local enterprises.

Responsibility: Department of Housing, Heritage and Local Government; Regional Assemblies; Local Authorities

A competitive and efficient construction sector is also important to ensure the smooth delivery of strategic investment projects. The Construction Sector Group (CSG)¹⁵³, established in 2018, facilitates regular and open dialogue between Government and stakeholders in the construction industry. The CSG's latest reports¹⁵⁴ acknowledge the initial impact of COVID-19 related disruptions on the sector; however, the reports suggest that by embracing innovation and technological change, improving productivity, and enhancing skills the economic and social infrastructure needs identified as part of Project Ireland 2040 can still be delivered, albeit with some delays.

¹⁵² World Bank (2019) [Doing Business in the European Union 2020: Greece, Ireland and Italy](#)

¹⁵³ The industry bodies represented are: Construction Industry Federation; Irish Congress for Trade Unions; The Building Materials Federation; Engineers Ireland; Society of Chartered Surveyors Ireland; Royal Institute of the Architecture of Ireland; Association of Consulting Engineers of Ireland; and Irish Planning Institute.

¹⁵⁴ DPER (June 2020) [Construction Sector Group - Building Innovation](#); DPER (July 2020) [Build 2020: Construction Sector Performance and Capacity](#)

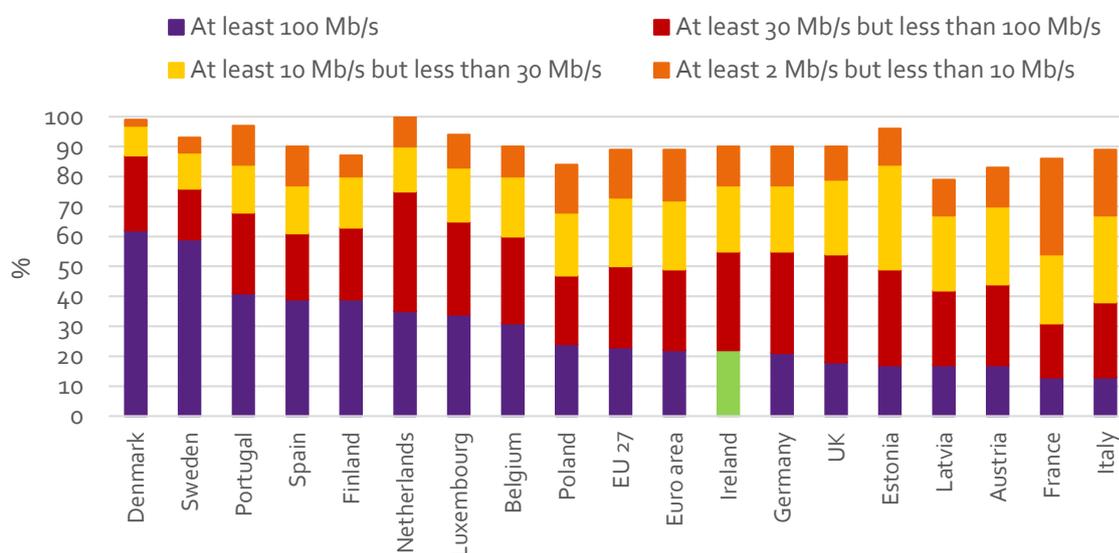
4.3 Actions Crucial to Economic Recovery

As noted above, the PfG in July 2020, reaffirmed the Government's commitment to the NDP. The expedited mid-term review will set out an updated scheme for the period to 2031. The Council welcomes the Government's commitment to stimulating the economy through investment in public infrastructure that will address bottlenecks in critical areas such as housing, healthcare, transport, education, digital connectivity and climate action. The Council supports the prioritisation and frontloading of projects that can enhance productivity and boost competitiveness and provide economic stimulus. Furthermore, the Council believes that infrastructure spending on digital connectivity, transport and housing will be particularly important to Ireland's economic recovery as it deals with COVID-19. While this section will focus on physical infrastructure, the Council recognises the benefits of other types of investment to Irish enterprises such as investment in human capital (see Chapter 2), as well as investment in innovation, research and development. The remainder of this section will focus on three key areas of physical infrastructure investment, that will be delivered by both the private and public sector.

4.3.1 Digital Connectivity

In terms of digital infrastructure, there is a clear gap between Ireland and the top performing economies globally. In 2019, 22% of enterprises in Ireland with fixed internet access had access to high speed internet, while 90% had speeds of at least 2 megabytes per second. These figures are broadly in line with the EU average but are significantly below the top performers (see Figure 4.3.1). Ireland also has one of the lowest proportions of fibre broadband connections in the OECD (see Figure 4.3.2).

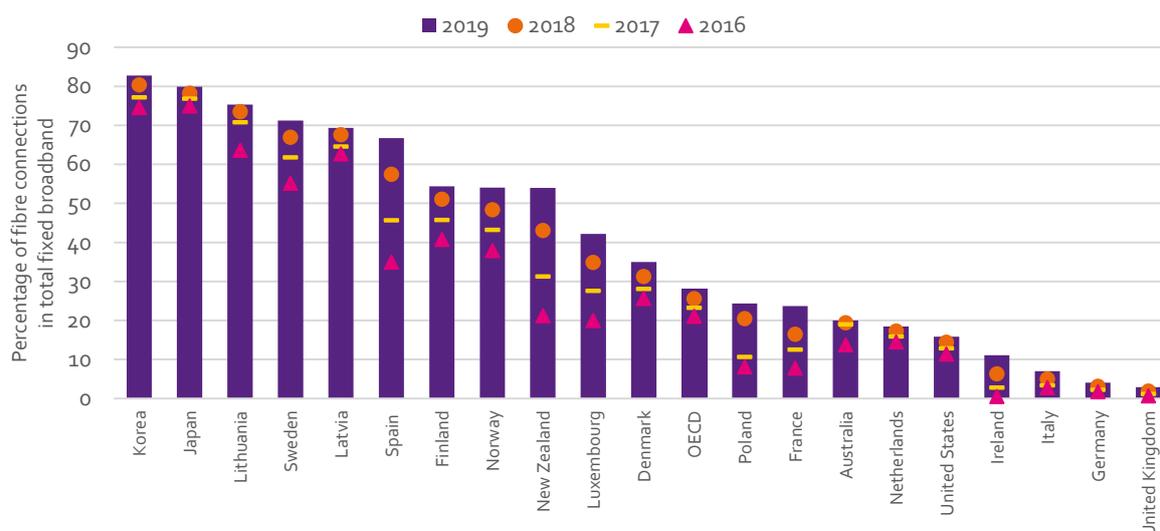
Figure 4.3.1 Enterprises¹⁵⁵ with broadband access by maximum contracted download speed of fixed internet connection, 2019



Source: Eurostat

¹⁵⁵ All enterprises, excluding financial sector (10 or more persons employed).

Figure 4.3.2 Percentage of fibre connections in total fixed broadband, 2019



Source: OECD Broadband Statistics

The rapid shift to remote working (see Chapter 1) by a significant proportion of the labour force following the onset of COVID-19 has highlighted the need for quality, high speed broadband across the country. The National Broadband Plan (NBP) has been designed to address the shortcomings in Ireland's digital infrastructure and the digital divide between urban and rural areas and previous Council reports have called for the continued roll out of this plan. The impact of the pandemic has made this even more vital, as we have seen the challenges for individuals and businesses working in areas where the quality of connectivity is low. The need to expand the digital skills of workers is also important as our ways of working have evolved in light of COVID-19 and there is scope for improvement in Ireland in this area (see Chapter 2).

In November 2019, the Government signed the contract for delivering the NBP with National Broadband Ireland and work commenced in early 2020. Nearly 300 Broadband Connection Points (BCP)¹⁵⁶ are due to be rolled out in 2020, providing high-speed wireless connectivity in local communities, with the potential for digital work hubs in every county. Research carried out by the Western Development Commission¹⁵⁷ indicates that there are already an estimated 370 hubs throughout the country. While these hubs are diverse in terms of size, mission and the services offered, the common baseline for all is the offering of broadband connectivity and remote working services to their clients. The provision of connectivity enables hubs to build out additional services to meet local and regional needs. It is important to understand the capacity, quality and demand for these facilities across the country to ensure that any further public investment is targeted where it is most needed.

The Local Authority library network also provides extensive connectivity and remote working facilities throughout the country. Combined with the approximately 300 BCPs being delivered as part of the NBP this represents a resource of significant scale, distributed across urban and rural localities throughout the country. The connectivity and services provided by hubs, libraries and BCPs have the potential to deliver a wide range of transformative impacts. By supporting remote working, these facilities can significantly reduce commuting times, traffic congestion and the associated carbon and air pollution.

¹⁵⁶ Broadband Connection Points (or BCPs) are public locations which have been selected to receive high-speed connectivity in the first year of the National Broadband Plan. The locations of the BCPs have been selected by the Department of Rural and Community Development and include public areas such as community halls, libraries, GAA facilities, enterprise hubs, tourist locations and other public spaces.

¹⁵⁷ Forthcoming publication: <https://westerndevelopment.ie/>

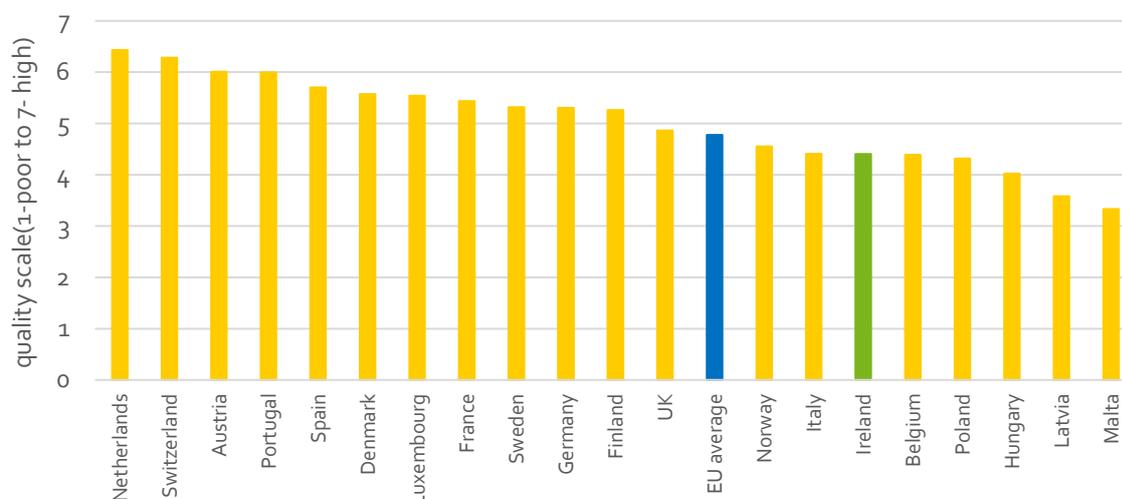
Recommendation 4.3: Complete a comprehensive mapping exercise of the types and capacity of remote working facilities currently available in order to identify where gaps exist to meet local and regional business needs. Create a single classification, website and central directory to inform individuals and enterprises of the facilities available in their locality.

Responsibility: Western Development Commission; Department of Rural and Community Development; Department of Housing, Heritage and Local Government; Department of Enterprise, Trade and Employment; Department of Environment, Climate and Communications; Local Authorities

4.3.2 Transport

High quality transport infrastructure plays a vital role in supporting economic activity in and between countries and has a positive effect on productivity and growth^{158 159}. Governments around the world invest substantial sums building, maintaining and managing their transport networks. In 2019, despite very significant investments in road infrastructure in the past two decades, the perception of the quality of road infrastructure was low in Ireland compared to perceptions in the EU on average according to the World Economic Forum Survey (see Figure 4.3.3). The perception of the efficiency of airport and seaport services in Ireland was above the EU average but was behind on efficiency of train services (see Figure 4.3.4).

Figure 4.3.3 Perception of Road Infrastructure Quality¹⁶⁰, 2019



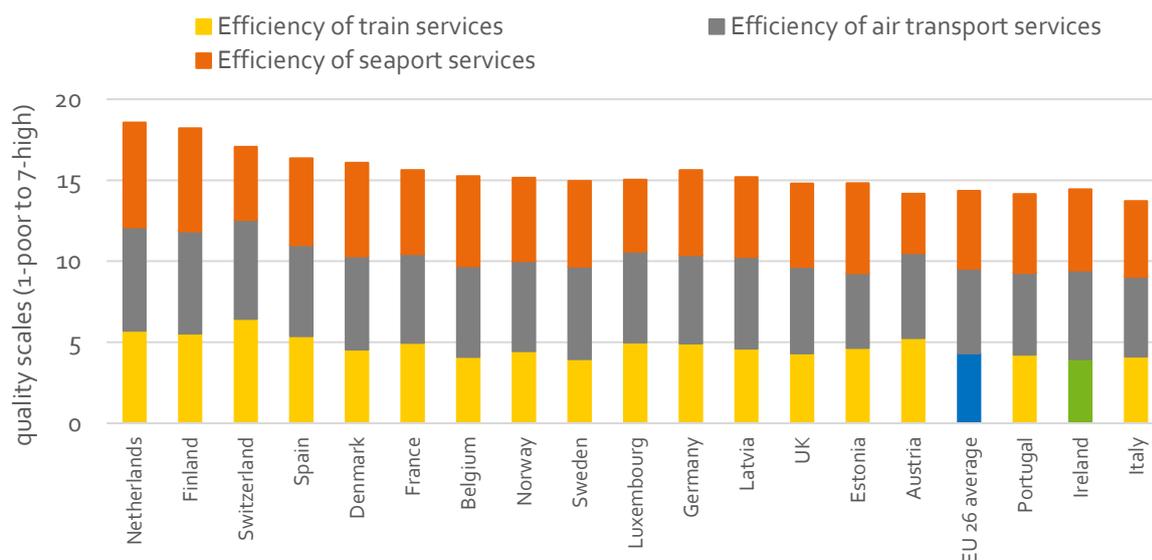
Source: World Economic Forum Survey

¹⁵⁸ Melo et al (2013) The productivity of transport infrastructure investment: A meta-analysis of empirical evidence, Regional Science and Urban Economics, Volume 43, Issue 5, September 2013, Pages 695-706

¹⁵⁹ IGEES (2014) Transport Infrastructure Investment and Economic Growth: A Review of the Evidence, Economic and Financial Evaluation Unit, Department of Transport, Tourism and Sport

¹⁶⁰ WEF data is based on a survey among business executives and is part of the dataset used in the calculation of the WEF ranking. The survey asks the participants to rank the answer from 1 (extremely poor, worst in the world) to 7 (one of the best in the world) to the question "In your country, what is the quality (extensiveness and condition) of transport infrastructure for the following: road, railroad, airports, and seaports". More details available at: [WEF Executive Opinion survey](#).

Figure 4.3.4 Perception of Efficiency of Train Services, Air Transport & Seaport Services, 2019



Source: World Economic Forum Survey

In relation to new transport infrastructure, the Government has committed to a 2:1 ratio of expenditure between new public transport infrastructure and new roads over its lifetime, with the ratio to be maintained in each Budget. The PfG has signalled the Government's intention to continue to invest in public transport to improve bus, light rail, commuter, and inter-city rail network infrastructure across the country. Increased capacity in public transport and the roll out of electric and electric-hybrid trains and buses will all contribute positively to the decarbonisation of Irish transport and ensures that the nascent economic recovery supports Ireland's environmental commitments (see Chapter 3).

The PfG has also signalled the Government's intention to support cycling and walking infrastructure, with a commitment to allocate 10% of the total transport capital budget for cycling projects and a further 10% of the total capital budget for pedestrian infrastructure, and to promote cycling and pedestrian safety through improved design, increased separation and better signage and marking. As well as the environmental benefits, a move to more sustainable modes of transport, such as walking and cycling, will have positive effects on physical and mental health and improve the standard of living for all in society.

Public transport projects that enhance regional and rural connectivity, in line with the National Planning Framework, will also play an important role in supporting Ireland's rural towns and villages as they deal with the economic effects and social distancing requirements resulting from COVID-19. Less densely populated areas may become more attractive places to live and work as society adjusts to a new reality.

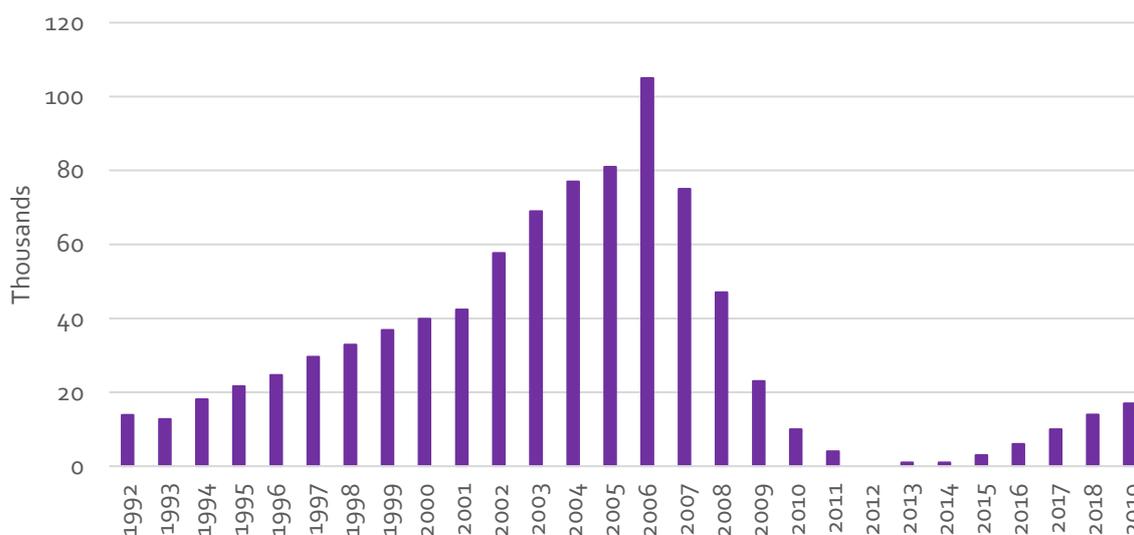
Recommendation 4.4: Prioritise the roll-out of better and greener transport links so that traffic gridlock is avoided when the economic recovery gathers pace and more people return to work.

Responsibility: Department of Transport; Department of Environment, Climate and Communications

4.3.3 Housing

Ireland's housing market has experienced considerable volatility in the past two decades¹⁶¹, with annual changes in the nation's housing stock ranging from more than 100,000 units in 2006 to virtually stagnant between 2012 and 2014 (see Figure 4.3.5). The construction sector was particularly hard hit following the global financial crisis and the bursting of Ireland's property bubble, with house prices plummeting and activity in housing construction grinding to a halt. As house prices stabilised a tentative recovery began, but housing completions increased only very gradually (see Figure 4.3.6) and fell far short of the estimated demand from a growing population¹⁶².

Figure 4.3.5 Year-on-Year Change in Estimated Stock of Dwellings



Source: Department of Housing, Heritage and Local Government

The prolonged undersupply of new housing has led to chronic shortages of properties in both the rental and home ownership markets, resulting in house price increases, rent pressure zones and homelessness, as households are priced out of local markets. The disfunction in the housing market has spill-over effects on private enterprises as firms struggle to recruit skilled labour, and face wage pressures as employees demand higher compensation packages in order to afford the cost of living, particularly in urban areas.

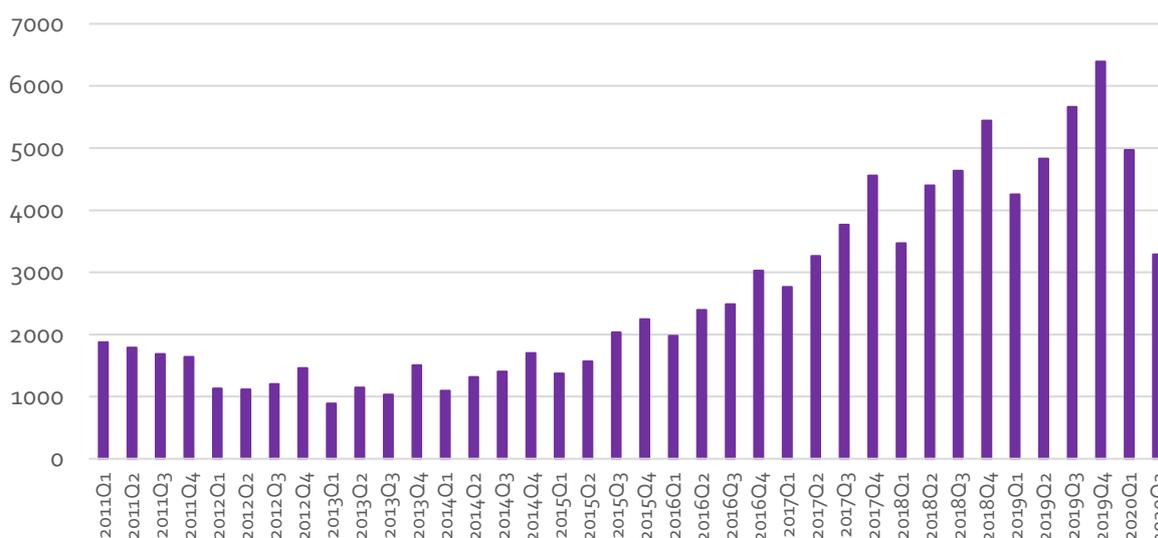
The COVID-19 related disruptions negatively impacted on activity in the construction sector, with new dwelling completions falling sharply in the second quarter of 2020 (see Figure 4.3.6). Although the construction sector was one of the first sectors to resume activities as pandemic related restrictions were eased, ongoing social distancing requirements are likely to hamper the delivery of sufficient additional housing stock this year, with Central Bank of Ireland estimates of housing completions in 2020 ranging from 11,000 units to 15,000 units, depending on the severity of COVID-19 related disruptions¹⁶³.

¹⁶¹ McQuinn K. (2017) Irish house prices: Déjà vu all over again? QEC Special Article, ESRI

¹⁶² Conefrey T. and Staunton D. (2019) Population Change and Housing Demand in Ireland, Economic Letter Series, Vol. 2019, No. 14

¹⁶³ [Central Bank of Ireland \(July 2020\) Quarterly Bulletin 03](#)

Figure 4.3.6 New Dwelling Completions



Source: CSO

Housing infrastructure can be delivered by both the private and public sector and addressing supply bottlenecks is crucial to a well-functioning housing market. The PfG has committed to prioritising the increased supply of public and social housing through local authority schemes and Approved Housing Bodies, with the social housing stock targeted to increase by 50,000 units over the next five years. Affordable home ownership will be supported by a state backed affordable home purchase scheme, expansion of the Help to Buy Scheme, and broadening the Rebuilding Ireland Home Loan programme. The Government will also seek to address challenges faced by the private sector in delivering new housing stock through its continuous engagement with the Construction Sector Group¹⁶⁴. These challenges are many and include viability, access to finance, land availability, the delivery of infrastructure, building quality, building standards and regulation, and an adequate supply of skilled labour. The Council strongly welcomes the Government's announcement to establish a Commission on Housing, to examine issues such as tenure, standards, sustainability, and quality-of-life issues in the provision of housing.

Recommendation 4.5: Establish the proposed Commission on Housing without delay and ensure it has sufficient resources to deliver on its work.

Responsibility: Department of Housing, Heritage and Local Government

4.4 Summary

The PfG has committed to providing a Recovery Fund which will be available for 2020, 2021 and 2022. It will fund investment for both current and capital projects. The Council believes that investing in vital digital and transport infrastructure can enhance productivity and boost competitiveness in the long run, while simultaneously providing economic stimulus for the nascent recovery. Investment in housing infrastructure can also provide economic stimulus in the short run and address shortages in the housing market which are impacting on the cost of living in Ireland, with spill-over effects to enterprise in terms of the ability to attract skilled labour and demands for higher wages. These investments can provide facilities for a new way of living,

¹⁶⁴ DPER (July 2020) [Build 2020: Construction Sector Performance and Capacity](#)

moving, and working in Ireland's cities, towns and countryside. Every effort should be made to ensure that environmental considerations are to the fore so that Ireland's infrastructure is not created at the expense of future generations and that all future investment projects are assessed through a green lens and aligned with Ireland's long-term climate action goals.

The Council is mindful to maintain a long-run view of infrastructure spending. While capital projects can provide a short-term stimulus in the aftermath of the COVID-19 related shock, they are long-term projects and should be planned with a view to improving Ireland's international competitiveness position and enhancing the productivity of Irish firms. Continued investment in Ireland's infrastructure needs to take account of the wider macroeconomic context and the new global realities while ensuring value-for-money is secured. Exchequer finances are forecast to remain under significant pressure over the coming years and so all available funding options should be fully explored, including European co-financing and public-private partnerships (PPP). The Council welcomes the timely update of Government guidelines¹⁶⁵ for the use of PPP in this context. It is important that the capacity and capability of the public sector to deliver large scale projects continues to improve with appropriate training and accumulation of expertise. Maintaining a pipeline of future projects and ringfencing funding where appropriate will be important as the recovery progresses, as a stop-start pattern can be destructive in terms of market confidence and ability to attract co-funding from the private sector.

¹⁶⁵ DPER (December 2019) [Guidelines for the use of Public Private Partnerships](#)

Chapter 5: Resolve Long-standing Issues

5.1 Introduction

While the high-level evidence – prior to COVID-19 – suggested that the Irish economy is very competitive, it has been known for some time that structural issues may put an undue burden on Irish businesses that make it more difficult for them to compete internationally. The Council has focused on many of these long-standing structural issues previously. In the *Competitiveness Challenge 2019*¹⁶⁶, the Council focused on credit, insurance, and legal costs in detail. In this report, the Council has decided to examine what progress has been made in these areas, and the impact that the COVID-19 pandemic has had on costs in these sectors. Alongside these business focused costs, the Council has also chosen to focus on two factors that directly impact the cost of living, and have an impact on wages, namely, early learning and care and school-age childcare and housing costs. Similar to the business costs examined, these costs of living issues have been examined previously by the Council, and further detail on these topics can be found in the Council's previous publications. The rest of this chapter: (i) gives an overview of the costs in Ireland relative to other countries; (ii) sets out the reasoning why costs in these areas may be higher, and what policies are in place to address these cost differentials; and (iii) sets out actions that the Government can take to address unexplained differences.

5.2 The Current Situation and the Impact of COVID-19

Prior to the outbreak of COVID-19, the Council had identified a number of structural issues within the Irish economy that may have been placing higher costs on Irish businesses and consumers relative to other European countries. The business costs identified are the cost of credit, the cost of insurance and the cost of legal services, while the consumer costs (which impact on real wages) examined are the cost of housing and the cost of early learning and care and school-age childcare.

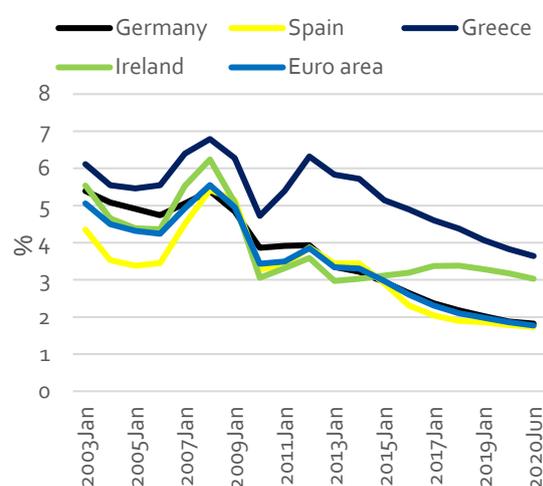
5.2.1 Business Costs

There is clear evidence that – prior to the COVID-19 pandemic – Irish businesses faced much higher interest rates (3.17%) relative to the average interest rate for euro area businesses (1.86%) when borrowing from banks. This gap appears to have reduced somewhat since the outbreak of the pandemic. In June 2020 in Ireland, the average interest rate had fallen by 4.4% (to 3.03%) relative to the start of the year, while the average interest rate in the euro area only fell by 3.2% (to 1.8%) (see Figure 5.2.1). Along with these higher interest rates, among the SMEs that applied for bank finance, 39% had to provide some type of collateral, with the main collateral types required being buildings (12%) and land (8%), the personal assets of the owner (8%) and machinery and equipment (5%).¹⁶⁷

¹⁶⁶ [Ireland's Competitiveness Challenge 2019](#)

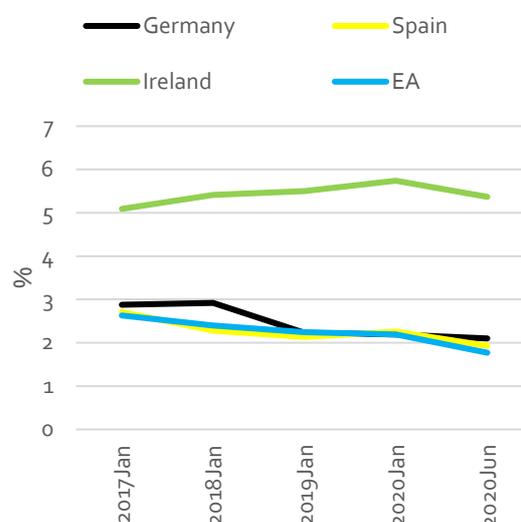
¹⁶⁷ Department of Finance (2019) SME Credit Demand Survey – October 2018-March 2019

Figure 5.2.1 Average annual interest rates for non-financial companies (selected countries and the euro area) – All Loan Values



Source: ECB MIR

Figure 5.2.2 Average annual interest rates for non-financial companies (selected countries and the euro area) – Loans up to €250,000



Source: ECB MIR

As regards insurance, as noted in last year's report¹⁶⁸, there are no hard data publicly available on the cost of public liability, and employer liability, insurance in Ireland. However, as set out by the Cost of Insurance Working Group¹⁶⁹ (CIWG) there is evidence from the sectors most affected by the cost of insurance to suggest that – pre-COVID-19 – the price of insurance had been increasing and become more difficult to secure for certain types of business. This is consistent with the data gathered by business organisations on this issue, which indicated there had been a slow, but steady, rate of increase in public liability insurance premiums over recent years^{170 171}. To fill this gap in the data, the Central Bank (in a feasibility study to the CIWG¹⁷²) found that there is merit in extending the scope of the National Claims Information Database to include data on Employers' and Public Liability Insurance, with the first report to be published in the first half of 2021. The Council is very supportive of this initiative and looks forward to the publication of the data. In addition, the Competition and Consumer Protection Commission (CCPC) is expected to publish its market study on the public liability insurance market in 2020. Once completed, the findings of the report should be published and acted upon without delay. For example, if the CCPC finds that there is a lack of competition in the market, increased competition needs to be supported.

Finally, the available international evidence suggests that Irish businesses also face higher legal costs than their counterparts in other countries (see Figure 5.2.3). The World Bank *Doing Business Report* considers a number of hypothetical situations that a typical business might face and determines how complicated and costly it is for a business to deal with these issues. One of these scenarios is around enforcing a commercial contract. These data suggest that the legal fees associated with enforcing a contract in Ireland amount to 18.8% of the claim

¹⁶⁸ [Ireland's Competitiveness Challenge 2019](#)

¹⁶⁹ Cost of Insurance Working Group (2018) [Report on the Cost of Employer and Public Liability Insurance](#)

¹⁷⁰ IBEC (2016) Time to reduce the burden of personal injury claims

¹⁷¹ ISME (2019) Business Trends Report Q3 2019

¹⁷² Central Bank of Ireland (May 2020) [Merits and feasibility of including Employers' and Public Liability data in the National Claims Information Database](#)

value. This means that legal fees (as a proportion of claim value) are lower in 111 countries when compared with Ireland. It is also quite stark when compared with top performing countries like Hungary and Denmark, where legal fees account for just 5% of the claim value.¹⁷³

Figure 5.2.3 Legal Fees (Ireland and Selected Countries), 2019

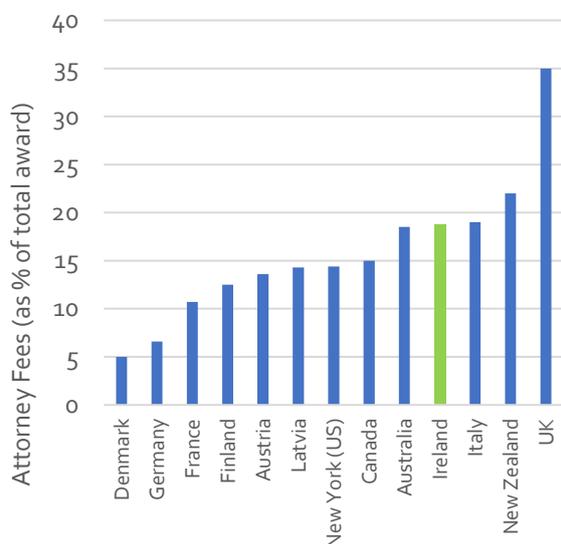
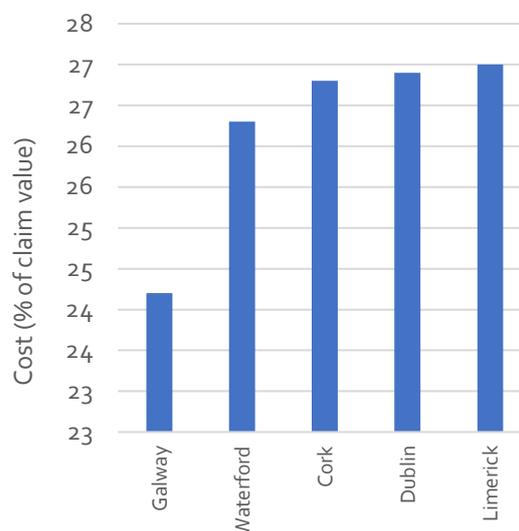


Figure 5.2.4 Cost of Enforcing a Contract (as % of claim value in Irish cities), 2019



Source: World Bank Doing Business

Source: World Bank Doing Business

As noted in Chapter 4, there are regional variations in various business costs in Ireland, including the cost of legal services (see Figure 5.2.4). In 2019, the World Bank study was extended to cover legal costs in five cities of Ireland in addition to the annual national data which addressed legal costs in Dublin. This study showed that there was some regional variation with regard to the cost of enforcing a contract. In Limerick, the cost of enforcing a contract was the equivalent of 27% of the claim value, while in Galway the corresponding figure was 24.2%.

The COVID-19 pandemic has had an impact on all these issues in the short term, but it is too early for this to be captured in the data. In time, it will become clear the extent to which COVID-19 impacted these costs, but there is an important long-term dimension to these issues too, which is examined in the section 5.3.

5.2.2 Consumer Costs

For many businesses, labour costs are one of the most important operating expenses. If the costs of essential consumer goods, such as, residential housing and early learning and care and school-age childcare services are disproportionately expensive, it reduces people's real wages, which are closely related to living standards and quality of life. On the other hand, if costs in these areas are reasonable, it creates the potential that real wages can sustainably increase. Prior to COVID-19, there was evidence that both housing costs, and the cost of early learning and care and school-age childcare services, were higher than the prices of these essentials in our EU counterparts.

¹⁷³ In recent years, the CSO (and others) have taken welcome steps to fill in some of the data gaps that the NCC has identified, something that the Council are pleased to note.

In early 2020, while not reaching the levels seen in 2007, residential property prices in Ireland had increased substantially above the values seen during, and following, the recession¹⁷⁴. When compared to a selection of other European countries, it is also clear that property prices in Ireland have been increasing faster than France or the UK and have been increasing much faster than the EU average¹⁷⁵ (see Figure 5.2.6). The same is true of Irish rental prices. In 2019, the average rent in Ireland had increased by 30% compared to 2015, the second highest price increase of any country in the EU (see Figure 5.2.5). Over the same period, the rental price overall in the EU remained fairly flat, increasing by only 3% since 2015.

The COVID-19 pandemic is likely to have an impact on housing prices in the short term. According to Daft¹⁷⁶, while national sales prices in April 2020 fell by 5.3%, sales prices rose by 2.3% on average between June and July. They noted that this rise is not spread evenly around the country, with Dublin (2.7%) - and Leinster (3.4%) seeing the strongest price gains in July. In Connacht-Ulster, prices are 4% below their March level. They note that this appears at odds with the emerging narrative the COVID-19 pandemic is allowing people to move away from urban centres, because of the ability to work from home, but go on to say that it remains to be seen if such a shift in preferences in the housing market will take place. The Daft report also showed that Dublin rental prices – after dropping by 2.5% in April from their March level – have actually made back some ground in the subsequence three months and are now just 2.1% below their March level.

The ESRI¹⁷⁷ has produced an analysis indicating that Irish house prices are set to fall – in the short term – as a result of COVID-19 due to the decline in household disposable income and a sharp fall-off in mortgage market activity. However, it goes on to say that the greatest impact of COVID-19 on the housing market over the longer term may be on the supply side of the market with social distancing requirements making it more difficult to build houses, and economic uncertainty reducing investor incentives. Given the shortage of housing already present, these factors acting to reduce further housebuilding may put additional upward pressure on house prices in the future.

¹⁷⁴ CSO data

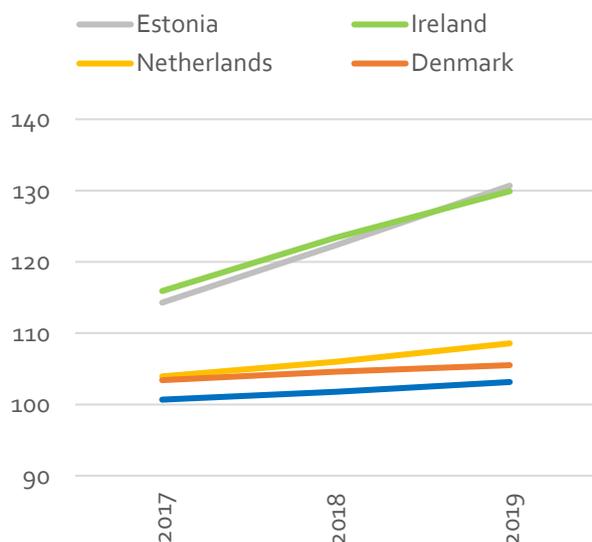
¹⁷⁵ House Price Index, Eurostat

¹⁷⁶ Daft (2020) Irish Housing Market Report (July 2020)

¹⁷⁷ ESRI (2020) Property prices and COVID-19 related administrative closures: What are the implications, Working Paper No. 661

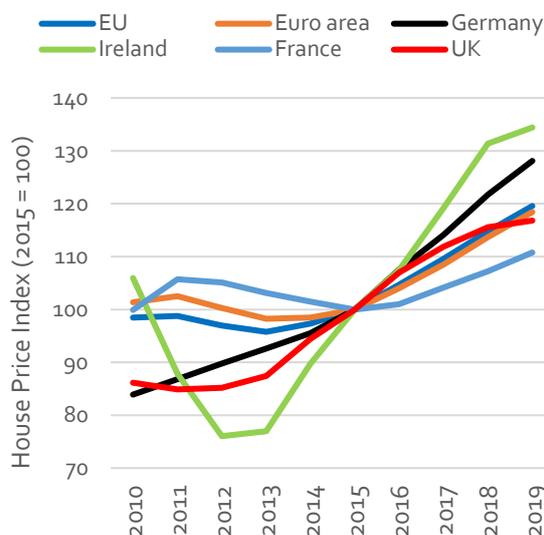
Ireland's Competitiveness Challenge 2020

Figure 5.2.5 Rent price index (2015 = 100), selected countries



Source: Eurostat

Figure 5.2.6 Housing Price Index (2015 = 100), selected countries



Source: Eurostat

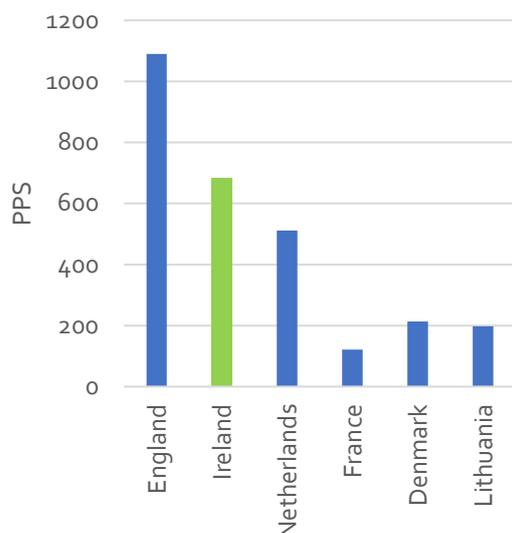
In terms of early learning and care and school-age childcare, it is clear that COVID-19 has had a significant impact on the sector. All services were required to close on 12 March due to COVID-19. Full year services (which account for approximately 40% of all services) began to re-open on 29 June with the remaining services scheduled to re-open from 24 August. On re-opening, services must implement new public health guidance to minimise the transmission of COVID-19 and protect the well-being, health and safety of children, their families and those working in the sector. Any reduction in demand for 'early learning and care and school-age childcare', coupled with new public health requirements will put upward pressure on costs, and compound the situation that existed previously.

Prior to COVID-19, the European Commission¹⁷⁸ noted that Ireland, the Netherlands, the UK and Switzerland had the highest average monthly fees for 'early learning and care and school-age childcare' (see Figure 5.2.7). However, the Commission¹⁷⁹ has also recognised the work that has been done in this space in Ireland, noting that substantial progress has been made in terms of increasing access to affordable and quality 'early learning and care and school-age childcare'.

¹⁷⁸ Eurydice (2019) Key Data on Early Childhood Education and Care in Europe

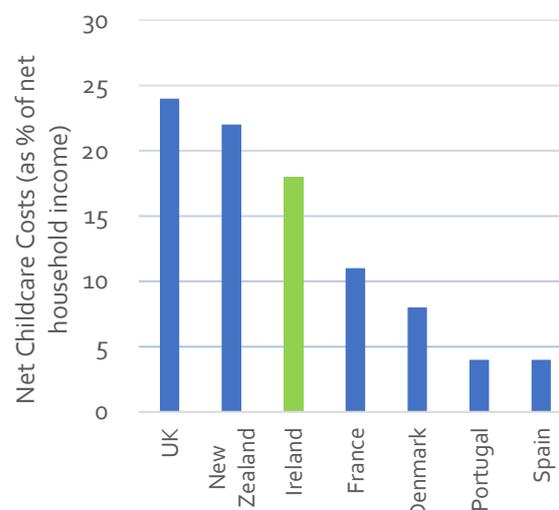
¹⁷⁹ European Commission (2020) Country Report Ireland 2020

Figure 5.2.7 Average monthly fees for ECEC for children under 3 years old, 2018/2019¹⁸⁰



Source: Eurydice

Figure 5.2.8 Net Childcare Cost (as % of household income)¹⁸¹



Source: OECD

In the short term, COVID-19 will have an impact on these costs in a number of different ways, but there is no clarity on the size of this impact yet. In the long term, market fundamentals and the structural factors underpinning the Irish economy will continue to have a large impact on these costs.

5.3 Actions Crucial to Economic Recovery

Prior to COVID-19, there were processes in place that were designed to address these business and consumer cost issues. In some cases, it is likely that the actions that have been proposed (or that have already been taken) will not bear fruit for a number of years. Furthermore, as these policy interventions take time to implement, there is a risk that the proposed reforms may be implemented even more slowly than initially planned (or implemented in a less impactful way), and so the Council calls for the reforms be fully implemented to benefit the competitiveness of Irish enterprises, and particularly SMEs.

5.3.1 Business Costs

Higher costs of bank credit reflect a number of factors, including higher risk weighted assets, as banks are required to treat loans to Irish businesses as riskier – and consequently hold more capital against these loans – because of higher historic default rates. The small number of banks in the Irish market may also be a factor in higher costs as there is less incentive for competition^{182 183}. In addition to the COVID-19 related loan schemes, there are several pre-existing Government initiatives designed to address potential market failures for certain

¹⁸⁰ PPS is an artificial common reference currency unit used to express the volume of economic aggregate for the purposes of comparisons in such a way that price level differences between countries are eliminated. In Eurydice, the French data is presented as a range. However, this figure only shows the average fee paid in crèches (which corresponds with the lower end of the scale). The higher end of the scale is 274 PPS.

¹⁸¹ OECD data used is based on a couple both earning the average wage with two children.

¹⁸² James Carroll and Fergal McCann (2018) Observables and Residuals; Exploring Cross-Border Differences in SME Borrowing Costs

¹⁸³ James Carroll and Fergal McCann (2016) Understanding SME interest rate variation across Europe (Quarterly Bulletin Articles, Central Bank of Ireland, pages 60-76)

businesses attempting to access finance. For example, under the *Credit Guarantee Scheme* (CGS), the Government provides a partial guarantee to banks against losses on qualifying loans; the *Future Growth Loan Scheme* provides long-term debt financing for strategic investments to eligible Irish businesses; and, the Microenterprise Loan Fund provides loans to micro-enterprises at different stages of their development across all sectors. Another aspect of the credit landscape is the fact that Irish businesses are not limited to borrowing from banks, and there are alternative forms of market-based finance that businesses can seek. There is a forthcoming initiative to promote better financial awareness among business managers that would address one of the recommendations in the OECD's SME report¹⁸⁴ (i.e. to develop an action plan for financial education with an emphasis on SME business owners and entrepreneurs).

Recommendation 5.1: Ensure that SMEs are aware of the financing options available to them by progressing the launch of the Business Finance Advisory Hub that should signpost learning options for SMEs to improve financial knowledge.

Responsibility: Department of Enterprise, Trade and Employment

In relation to insurance costs and legal services costs, there are also processes in place designed to deal with current inadequacies. The Cost of Insurance Working Group (CIWG) – a cross-departmental group with the objective of examining the drivers of the cost of insurance – was established in 2016 to recommend short, medium- and longer-term measures to address the issue of increasing insurance costs, taking account of the requirement for a financially stable insurance sector. Beyond the calls for greater transparency and better data through the establishment of the National Claims Information Database in the Central Bank of Ireland, of which the Council is very supportive, one of the key actions recommended by the CIWG was to address the higher cost of settling a claim in Ireland relative to comparable jurisdictions. There is evidence that award levels in Ireland are much higher than award levels in England and Wales. For example, the Personal Injuries Commission report¹⁸⁵ in 2018 found that the award level of general damages for soft-tissue (whiplash) injuries in Ireland was 4.4 times higher than award levels in England and Wales.

In April 2020, a Personal Injuries Guidelines Committee (PIGC) was established by the Judicial Council pursuant to the Judicial Council Act 2019, with the purpose of drafting guidelines on award levels in personal injury cases for the adoption by the Judicial Council. In line with the Act, the PIGC is required to submit a first draft of the guidelines to the Executive Board of the Judicial Council not later than 28 October 2020 (6 months after its establishment). These guidelines will replace the Book of Quantum. The National Competitiveness Council is hopeful that, once adopted, these guidelines will be implemented consistently and will bring award levels closer to those observed in similar jurisdictions. The National Competitiveness Council welcomes the intention in the PfG that the new Cabinet Committee on Economic Recovery and Investment will prioritise the issue of insurance reform and hopes that these efforts to reduce the cost of insurance will be successful in reducing business costs, especially for SMEs.

¹⁸⁴ In 2019, the OECD published a report that made a series of recommendations on how to improve the business environment for Irish SMEs.

¹⁸⁵ Personal Injuries Commission (2018) [Second and Final Report of the Personal Injuries Commission](#)

Recommendation 5.2: Personal Injuries Guidelines

- (i) Adopt Guidelines on Personal Injuries.

Responsibility: Judicial Council (PIGC)

- (ii) Monitor the use of these Guidelines and their impact on award levels, and ultimately on the cost of insurance.

Responsibility: Department of Justice

In relation to legal costs, the Legal Services Regulatory Authority (LSRA) was established in October 2016, after a series of delays. It has a substantial reform agenda including examining new business models for the delivery of legal services and oversight of legal practitioner education and training. The Council sees the potential for the LSRA to drive overdue reforms in this sector which will improve transparency and competition in the provision of legal services and deliver better, and timelier, outcomes for businesses, and especially SMEs.

Box 5.1 LSRA Work Plans

The LSRA is the independent regulator responsible for overseeing both branches of the legal profession. It has six key statutory objectives: (i) protect and promote the public interest; (ii) support the proper and effective administration of justice; (iii) protect and promote the interests of consumers relating to the provision of legal services; (iv) promote competition in the provision of legal services in the State; (v) encourage an independent, strong and effective legal profession; and (vi) promote and maintain adherence to the professional principles of legal practitioners.

The LSRA has already introduced several key reforms in the delivery of legal services in the State which will have a wide and lasting impact for legal practitioners and consumers of legal services. In October 2019, the independent complaints function for all complaints regarding solicitors and barristers was commenced, and in November 2019, the regulations to allow partnerships of solicitors to apply to the LSRA for authorisation to operate as Limited Liability Partnerships was signed. The LSRA's work on reviewing the education and training of legal practitioners in the State continues.

In their current work plan, the LSRA has committed to finalising the commencement of the remaining sections of the 2015 Legal Services Regulation Act. This includes a consultation on whether the professions of barrister and solicitor should be unified; further consideration of the introduction of the profession of conveyancer; and, consultation on the advertisement of legal services.

Furthermore, in March 2017, a group tasked with a review of the administration of civil justice was established and charged with making recommendations for changes to improve access to civil justice in the State and reducing the cost of litigation. The PFG underlines the importance of reforming the legal system by committing to implement reforms to the administration of civil justice (guided by the report from the Review of the Administration of Civil Justice Group). The Department of Justice is also undertaking complementary research in this space, and the outcomes of that research should complement the reform efforts that will be outlined in the Review of the Administration of Civil Justice Group's report.

Recommendation 5.3: Take action to bring legal costs for businesses into line with other common law jurisdictions and improve access to justice, primarily by implementing the recommendations of the Review of the Administration of Civil Justice Group.

Responsibility: Department of Justice

5.3.2 Consumer Costs

The Council welcomes the PFG's recognition of the importance of addressing long-standing issues related to both housing and childcare.

The Government has set out that everybody should have access to good quality housing to purchase or rent at an affordable price, built to a high standard and located close to essential services offering a high quality of life. The Government has committed to a series of policies that are designed to make homes more affordable, including a State-backed affordable home purchase scheme, a target for the delivery of affordable homes over the lifetime of the Government to be available for qualifying purchasers as a matter of priority, expanding the Rebuilding Ireland Home Loan and strengthening the Mortgage-to-Rent scheme and ensure that it is helping those who need it.

The Government has also committed to improve the standards, security and affordability for renters by developing a cost rental model, examining the creation of a system of holding rental deposits, and continuing the Residential Tenancies Board's (RTB) change programme and transforming it into an independent and strong regulator for tenants and landlords.

It is important that these commitments lead to concrete actions being taken – and that the impact of these initiatives is measured, and the effectiveness of the programmes is reviewed periodically to determine whether elements in the initiative need to be modified

Recommendation 5.4: Prioritise the implementation of the proposed actions designed to make housing and renting more affordable as outlined in the Programme for Government, and periodically review the effectiveness of these measures to determine whether they are sufficient or need modification.

Responsibility: Department of Housing, Heritage and Local Government

In relation to early learning and care and school-age childcare services, whole of Government emergency measures and funding have attempted to mitigate the adverse impact of COVID-19 in the short term on all those involved in providing these services. The design of the Temporary Wage Subsidy Childcare Scheme and the Re-opening Funding Package should assist in ensuring financial viability of these services so that the services and their staff are retained, and parents can return to work in the near term. These schemes included a freeze on fees charged to parents to pre-COVID-19 levels in an effort to ensure the additional costs of the pandemic are not borne by parents. There are the two main State funding schemes for early learning care and school-age childcare that help to reduce the cost burden on parents: the Early Childhood Care and Education (ECCE) programme and, the National Childcare Scheme (NCS)¹⁸⁶. Through the ECCE programme, the State

¹⁸⁶ The National Childcare Scheme will begin to replace existing targeted programmes (e.g. the Community Childcare Subvention Plus programme and the Training and Education Childcare programme).

funds 15 hours weekly of pre-school education for all children in the relevant age category for the two years prior to starting primary school¹⁸⁷, and in 2019, the total budget allocation for this programme was €298.1 million. In November 2019, the NCS, the first statutory entitlement to financial support for early learning and care and school-age childcare was introduced. The NCS provides both universal and income-related subsidies. The highest level of subsidy is for families with the lowest incomes, with the level of subsidy tapering down as income rises. Parents who are working, studying or who meet other conditions qualify for an enhanced-hours subsidy. Parents are required to cover the cost of childcare that arises over and above these supports, and there are currently limited restrictions on the fees that providers can charge.

Given the Government commitment to at least double investment¹⁸⁸ in early learning and care and school-age childcare by 2028, it is important to ensure that increased funding delivers for all stakeholders. In September 2019, an Expert Group was established to review the current funding model and make recommendations for a new funding model that should (operating alongside the above-mentioned schemes) maximise additional public investment in order to deliver accessible, affordable, and high-quality early learning and care and school-age childcare services. This Group will develop proposals for a new funding model for Government consideration in 2021. The Council welcomes the focus on early learning and care and school-age childcare measures in the PfG, the support for the *First 5* strategy (a whole-of-Government strategy to improve the lives of babies, young children and their families), and continued commitment to the examination of new funding models for early learning and care and school-age childcare.

Recommendation 5.5: Make childcare costs more affordable by adopting the recommendations from the Expert Group currently examining the funding model that will allow for the delivery of accessible, affordable, high-quality childcare. Prioritise the implementation of other actions set out in the PfG designed to make high-quality early learning and care and school-age childcare more accessible and affordable.

Responsibility: Department of Children, Disability, Equality and Integration

5.4 Summary

As discussed earlier in this Chapter, the immediate economic priority for the Government has been to address the short-term issues that are impacting the Irish economy now. However, Irish businesses are facing into a period of extreme stress with continued fallout from the COVID-19 pandemic along with the transition to a new trading relationship between the EU and the UK. To continue to compete internationally, and to support a sustainable economy that delivers for everyone in Ireland, businesses (especially microenterprises and SMEs) need the competitive advantages that a vibrant and productive domestic economy brings. In the face of all these headwinds, Irish businesses cannot continue to be hamstrung by well-known challenges in the domestic economy that remain to be addressed. It is becoming increasingly clear that ignoring long-standing burdens on competitiveness cannot continue, and there is now a small window for Ireland to seize the opportunity to take the steps necessary to addressing these long-standing issues that have hampered Irish businesses, and especially SMEs, for too long.

¹⁸⁷ This is from a minimum entry age of 2 years and 8 months, and it available over 38 weeks for two programme years (September to June).

¹⁸⁸ As set out in [First 5: A Whole of Government Strategy for Babies, Young Children and their Families](#).

Conclusion

As mentioned at the beginning of this report the Council's role is to advise the Government on the steps needed to ensure continued competitiveness of Irish businesses, especially Irish SMEs, which ultimately provides the foundation for sustainable economic growth and improvements in living standards.

In the context of the COVID-19 pandemic, and the uncertainty that it has brought for businesses across the world, this task has become much more challenging. Alongside COVID-19, there are also further threats to Ireland's competitiveness that the Council has been concerned about for quite some time. These include the future trading relationship between the UK and the EU, increased international trade tensions, and developments on international taxation.

Building on the evidence presented by the Council in May 2020 in *Ireland's Competitiveness Scorecard 2020*, this *Competitiveness Challenge* report makes 20 tangible, actionable policy recommendations to specific Government actors that will improve the environment for Irish-based businesses, and in particular, Irish SMEs. These recommendations have been grouped under four themes.

The Council strongly supports the Government's measures to get people back to work as quickly and safely as is possible to prevent unemployment becoming entrenched (**Recommendation 2.1**). As the Council believes that remote working is going to play an increasingly significant role in the workplace, digital skills (**Recommendations 2.2 and 2.3**) and management skills (**Recommendations 2.4 and 2.5**) will be needed to support the required changes. The Council also recognises that there will likely be other areas where upskilling is required arising from COVID-19, and it will be necessary to map these out and begin to address them (**Recommendation 2.6**).

Whilst the Council's recommendations relating to economic challenges that accompany the COVID-19 pandemic are a key focus in this year's *Competitiveness Challenge*, for many years the Council has emphasised the importance of climate action and pointed to the absence of policy actions to realise Ireland's stated climate goals. The Council is supportive of the momentum at a national level to address the climate crisis and in this year's *Competitiveness Challenge*, focuses on enterprises' contribution to climate action. Subject to meeting emissions reduction targets, the Council outlines actions that can be taken to strengthen competitiveness and to support businesses in the transition to a sustainable, carbon neutral economy. In the short term, CO₂ abatement opportunities and technologies that would enable businesses to decarbonise in line with Ireland's stated ambition should be identified. Furthermore, Ireland's carbon abatement instruments should be assessed to determine whether they are fit for purpose in meeting national targets while maintaining competitiveness (**Recommendations 3.1 – 3.3**). In the long term, given the enterprise sector's dependence on gas, there is a need for policy clarity on the future of Ireland's gas network and a detailed roadmap for the period 2030-2050 that explicitly sets out the actions, targets and timeframes for the decarbonisation of Ireland's gas network (**Recommendation 3.4**).

Reinforcing this point, it is even more crucial now that the Government continues to invest strategically in the future of the Irish economy. In the wake of the last recession, capital budgets were cut dramatically, leading to significant bottlenecks in Ireland's physical infrastructure, most acutely in housing. The Council has welcomed the increase in Government expenditure on capital projects in recent years. It is important that any potential planning issues that may jeopardise key infrastructure projects are identified early in the process to avoid costly delays or revisions (**Recommendation 4.1**) and that government bodies at regional levels adopt best practices

to maximise efficiency in the business environment, including in managing infrastructure ([Recommendation 4.2](#)). Continued capital investment in the National Broadband Plan is vital to support wider access to quality broadband services and remote working facilities ([Recommendation 4.3](#)). Capital investment is also needed to support delivery of our climate action agenda ([Recommendation 4.4](#)) and deficiencies in the housing market ([Recommendation 4.5](#)).

Finally, the Council identifies a number of long-standing issues that continue to impact negatively on the ability of Irish businesses to compete. These are difficult issues, for which there are no easy solutions. Lack of progress in achieving the desired outcome from a competitiveness perspective may reflect a resistance to change among entrenched interests and will require concerted efforts across all areas of Government and high-level political buy-in to drive reforms forward.

For example, Irish businesses face higher interest rates on lending (relative to EU countries). These higher rates are largely driven by prudential banking concerns but may also reflect inadequate competition and a failure to promote sufficient awareness of other financial options ([Recommendation 5.1](#)). Insurance costs are another issue for businesses. In order to introduce greater stability in the cost of insurance, the Cost of Insurance Working Group identified the need for consistency in personal injury awards across settlement channels and the Judicial Council has begun to formulate Guidelines for personal injury awards ([Recommendation 5.2](#)). In relation to legal costs, a Review Group has been established to consider ways of addressing high legal costs in Ireland and the Council is supportive of their efforts ([Recommendation 5.3](#)).

The Council has also focused on two issues that impact competitiveness through their impacts on consumer costs – housing ([Recommendation 5.4](#)) and childcare ([Recommendation 5.5](#)). COVID-19 related disruptions have impacted on activity in the construction sector, with new dwelling completions set to fall sharply in 2020, amplifying the housing crisis with implications for sustainable and inclusive growth, competitiveness, and social cohesion. Successfully addressing these long-standing issues and hence reducing consumer costs would simultaneously improve people's quality of life and businesses' ability to compete internationally.

Taken together, these concrete policy actions will help Irish businesses, especially SMEs, to weather the current period of deep uncertainty and ensure that they will have a supportive business environment in which to operate into the future. Moreover, in the longer term, these policy actions will improve the quality of life in Ireland and contribute to sustainable economic growth.

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