

Lisbon Agenda

Integrated Guidelines for Growth and Jobs

National Reform Programme Ireland

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FOREWORD

In an increasingly global marketplace, the goal set in Lisbon in 2000, to make the European Union the most dynamic and competitive knowledge-based economy in the world, with more and better jobs and greater social inclusion, by 2010, is equally valid, and equally challenging, in 2005.

The mid-term review, initiated under Ireland's Presidency in 2004, revealed that the Union has a long way to go to achieve its goal. The pace of progress in other leading regions of the global economy shows that, for European enterprises, the competitive threat is increasingly coming more from outside than within.

We are at a point in time when, more than ever, all of us in positions of influence and authority across Europe – Governments, the European Commission, leaders of business, the workforce, the community and civil society – must demonstrate the importance, and value, of the European Union to the citizens of Europe.

It is fitting, therefore, that the relaunched Lisbon Agenda puts the spotlight, in particular, on growth and jobs. For our part, the overall policy framework in Ireland is shaped by the Agreed Programme for Government. And while maintaining strong economic performance and employment levels are crucial goals, they must be achieved in tandem with social equity, and in a sustainable environment.

Thanks to steady implementation of the Government programme, Ireland is performing well on many of the key Lisbon indicators. For example, we now have the lowest level of unemployment in the European Union, the second lowest national debt, and the highest level of investment in infrastructure.

But success cannot be allowed to turn into complacency. Work remains to be done, in areas such as continuing to tackle the infrastructure deficit and improving our Research and Development capacity. And we are fully aware of how quickly, in this global economy, things can change. Therefore, we continue to implement policies to manage the Irish economy prudently, to maintain a stable macroeconomic environment, to sustain the public finances and to manage inflation levels.

This National Reform Programme also sets out the work we are doing in areas such as regulatory reform, promoting innovation and entrepreneurship, including in the SME sector.

Since 1987, the social partnership process has helped to transform the economic and social landscape in Ireland. The current three-year agreement, covering not only business and trade unions, but also the farming organisations, and the community and voluntary sector, runs until December 2005. This National Reform Programme reflects the terms of that agreement and points towards the pending negotiations on a new agreement. It will be adapted as necessary to reflect new policies or measures agreed upon.

I, and my Government, remain fully committed to the Lisbon Agenda. I am confident that, with all twenty-five Member States working together, alive to the competitive threat from beyond the European Union while taking account of particular national circumstances, we can achieve the Lisbon goals which are so important for the people of Europe.



Bertie Ahern TD
Taoiseach.



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1.1 Overall Context

This National Reform Programme (NRP) brings together a broad range of policies and initiatives, the implementation of which aims to sustain Ireland's strong economic growth and employment performance as its overall contribution to the re-launched Lisbon Agenda over the period to 2008.

The NRP should be considered in the overall context of the Agreed Programme for Government¹, published by the coalition Government partners in 2002, and which set out the overall programme for the subsequent five-year period across the entire policy spectrum. The Programme for Government is reviewed annually to report on progress.

“Over eight years Ireland has changed dramatically. With changing times and a great deal of success new challenges and new opportunities have arisen

Ireland today has:

- ▶▶ The lowest level of unemployment in the EU
- ▶▶ The second lowest national debt
- ▶▶ The second highest minimum wage
- ▶▶ The highest investment in the EU on infrastructure
- ▶▶ The fastest growth of all OECD countries in spending per capita on health
- ▶▶ The most generous tax and welfare system in the world for single income families on the average industrial wage.”

Introduction to the Third Government Progress Report, July 2005²

While the Government welcomes the renewed commitment to improved economic growth and greater job creation across Europe, it also stresses the importance of achieving social equity and ensuring environmentally sustainable development as inter-related goals. Ultimately, the objective is to secure improved quality of life and improved living standards for all.

It was agreed in 2004 that Ireland's social partnership process should serve as the Irish National Reform Partnership under the Lisbon Agenda. The current social partnership agreement, *Sustaining Progress*³, covers the three year period to the end of 2005. Many of the objectives, policies and initiatives set out in that agreement remain valid and are key components of this National Reform Programme.

New policy directions or initiatives arising from negotiations with the social partners on a successor agreement will be incorporated into the ongoing reporting arrangements over the remainder of the Lisbon programme timeframe.

1. http://www.taoiseach.gov.ie/attached_files/upload/publications/1480.pdf

2. http://www.taoiseach.gov.ie/attached_files/RTF%20files/Progress%20Report%20on%20Implementation%20of%20Agreed%20Programme%20for%20Gov.rtf

3. <http://www.taoiseach.gov.ie/upload/SustProgagri.pdf>

Prior to the negotiation of a new social partnership agreement in 2002, the National Economic and Social Council concluded that, “as a regional economy, Ireland must retain and develop high value economic activity”, meaning that we have to focus on what is necessary to make the economy:

- ▶▶ Competitive in a changing world;
- ▶▶ Environmentally sustainable;
- ▶▶ Efficient through finding and implementing appropriate market and regulatory regimes indifferent areas; and
- ▶▶ Socially acceptable.

NESC 2002 Strategy Report - Investment in Quality: Services, Inclusion and Enterprise

In the subsequent agreement - Sustaining Progress - the social partners agreed that: “The shared overall goal for this new Agreement ... is to continue progress towards the realisation of the National Economic and Social Council vision for Irish society in terms of:

- ▶▶ Economic inclusion based on full employment;
- ▶▶ Consistent economic development that is socially and environmentally sustainable, social inclusion and a commitment to social justice; and
- ▶▶ Continuing adaptation to change;

In this period of considerable uncertainty, to do this by sustaining economic growth and maintaining high levels of employment and securing living standards for all, while strengthening the economy's competitiveness and thereby its capacity to resume trend growth in more favourable international conditions.”

Sustaining Progress, para 1.1

1.2 Summary of Priorities

In responding to the Integrated Guidelines agreed by the European Council, the policy priorities for Ireland under this National Reform Programme are:

Macro-economic policy/guidelines:

- ▶▶ Maintain a stable macroeconomic environment, sustainable public finances, and moderate inflation levels.
- ▶▶ Within this fiscal framework, continue to prioritise public investment in economic and social infrastructure and other growth-enhancing expenditures;
- ▶▶ Ensure that the economy will be in a position to meet anticipated long-run fiscal pressures, including those arising from the ageing of the population.

Micro-economic policy/guidelines:

- ▶▶ Promote, protect and enhance competitiveness.
- ▶▶ Increase R&D investment, capacity and output.
- ▶▶ Encourage greater innovation and entrepreneurship across the enterprise sector.
- ▶▶ Continue to address the physical infrastructure deficit, particularly in the transport sector.
- ▶▶ Continue to roll out regulatory reform.
- ▶▶ Support social inclusion and sustainable development.

Employment policy/guidelines.

- » Continue to achieve higher levels of employment, improved quality and productivity of work, and social cohesion.
- » Focus on education and training, including lifelong learning, to develop high skilled, innovative and adaptable workforce for the knowledge economy.
- » Ensure an adequate labour supply to meet economy's needs.

1.3. Preparation of the National Reform Programme.

The Department of the Taoiseach co-ordinated the overall preparation of the NRP. The Departments of Finance and Enterprise, Trade and Employment have lead responsibility for macro economic policies and employment policies, respectively. The Department of Enterprise, Trade and Employment also took the lead responsibility for preparation of material on micro-economic policies. These departments consulted extensively with other relevant departments and agencies in the preparation of the programme.

The social partners were consulted in the course of preparation of this NRP.

The programme was considered in both houses of the Oireachtas (Parliament), in sessions led by the Minister for European Affairs, Noel Treacy.

There was ongoing dialogue with the European Commission during the preparation of the Programme, including a major bilateral meeting in Dublin in July. Senior officials from all key departments, and from the relevant services of the Commission, attended.

Bilateral discussions were held with a number of Member States, regarding their overall approach to preparation of the NRP and key issues and priorities. The British and Irish Governments agreed a common contribution to their NRPs, in the context of the continuing partnership between both Governments to achieve the implementation of the Belfast Agreement and to build peace, prosperity and social inclusion on the island of Ireland. (See Annex 1).

A simple equality proofing exercise was carried out on this programme with the Equality Authority. This addressed the grounds of gender, marital status, family status, age, disability, sexual orientation, race, religion and membership of the Traveller community. A more sophisticated exercise will be developed by the Equality Authority for application to future programmes.

1.4 Political and socio-economic context

The Government's Agreed Programme for Government, published in 2002, set out the overall policy aims for the following five year period across the spectrum of policy areas. This programme covers actions and initiatives under the following broad headings:

- » Working for Peace
- » Sustaining a Strong Economy
- » Ensuring Balanced Regional Development
- » Building a Caring Society
- » Supporting Civic Life

Underpinning that programme, and policy development generally, are a range of horizontal and sectoral structures, frameworks and initiatives.

Since 1987, Social Partnership has been a key component of policy formulation in Ireland. A succession of six multi-year agreements between the Government and the social partners have influenced or determined policy in key areas such as employment, wages, industrial relations and fiscal policy. The social partnership process has also supported the development of a degree of consensus on macroeconomic policy priorities, which in turn has allowed an increased focus on structural and supply side policies, with an appropriate emphasis on social policy. The current agreement concludes at the end of 2005, and negotiations on a new agreement will commence shortly. Annex 2 describes the Social Partnership process in more detail.

Ireland's strategic approach to social inclusion is set out in the Government's National Anti-Poverty Strategy 2002 – 2007 and the National Action Plan against Poverty and Social Inclusion 2002 – 2005.

In 2000, the Government adopted the National Development Plan, providing for substantial investment in health services, social housing, education, roads, public transport, rural development, industry, water and waste services over the period 2000-2006. Recently, the Government announced the preparation of a new National Development Plan, covering the period from 2007 to 2013. The European Commission published its proposals for Cohesion Policy for the period 2007-13 in February 2004. In July 2005, the Commission proposed Community Strategic Guidelines that set out a framework for new programmes. Ireland will prepare a *National Strategic Reference Framework* (NSFR) setting out the Irish strategy for Cohesion Policy and providing a link with the Community Strategic Guidelines (see Annex 3).

A number of public bodies provide analysis, advice and recommendations on policy development, including the National Economic and Social Development Office (NESDO), the Economic and Social Research Institute (ESRI), the National Competitiveness Council (NCC) and the Enterprise Strategy Group (ESG).

1.5 Overall strategic approach

In the Agreed Programme for Government, the coalition partners stated that they are committed to sustaining economic growth and maintaining full employment in the Irish economy, with low inflation, responsible fiscal policies and effective investment policies central to this.

They also committed to:

- ▶▶ Keep the public finances in a healthy condition and keep down personal and business taxes in order to strengthen and maintain the competitive position of the Irish economy, and
- ▶▶ Within these constraints, to concentrate the available resources on improving the quality of public services and delivering further real improvements to pensioners and people on low incomes.

Agreed Programme for Government.



The key national economic and social development tasks to be accomplished relate to the following priorities, as agreed between the social partners:

- ▶▶ **Macroeconomic Policy:** to consolidate the progress of recent years and to achieve a medium term growth rate capable of sustaining high levels of employment and facilitating the evolution of a more equal society. Securing competitively low inflation, sustainable public finances, social, economic and environmental sustainability are central to achieving this;
- ▶▶ **Building, Maintaining and Sharing Economic Development and Prosperity:** to ensure that Ireland is provided with a level of physical and social infrastructure that is affordable and underpins economic development and participation in the fruits of that development by all sectors of our society;
- ▶▶ **Delivering a Fair and Inclusive Society:** to build a fair and inclusive society and to ensure that people have the resources and opportunities to live life with dignity and access to the quality public services that underpin life chances and experiences.

Sustaining Progress, para 1.6

Ireland's economic boom in the 1990s was underpinned by a strong global economic expansion and by a supportive policy in areas such as tax, education, social partnership and foreign investment, which together facilitated a rapid expansion of exports by, and employment in, Irish industry.

Since 1994, the Irish economy has grown very rapidly. GNP has increased at an annual average rate of 6.3%. Ireland's recent and current economic performance, as measured by the standard macro indicators of growth, employment and exports, has been undoubtedly very positive. Over the period of the Lisbon reform programme (2005 – 2007), average growth rates are forecast at 5.3% for GDP (4.9% for GNP).

Overall strategy is focussed on maintaining budgetary stability and sustaining competitiveness. In parallel, we will continue to address certain areas where significant improvement is still required, such as the acknowledged infrastructure deficit and the need for significant expansion of R&D capacity and investment. This overall strategy will also be shaped by other key policies, such as ensuring a sustainable environment and pursuit of continued improvement in key areas of social inclusion.

Data illustrating the extent of economic and employment progress over the past decade is set out in the table below:

Ireland 1994-2004

	1994	
Unemployment Rate (%)	14.7	
Employment Rate (%)	52.2	
Exports (€m)	29,891	
Government Debt % GDP	89.7	
Irish GNP per Capita (€, current prices)	11,640	
Irish GNP per Capita % EU Average	79.4	

2.1 Overview

The EU Stability and Growth Pact (SGP) provides the overriding framework for our budgetary policy. Under the pact Ireland has given a commitment to keep the finances of general government close to balance or in surplus and to take corrective action when there is an actual or expected divergence from this objective.

Agreed Programme for Government

The central macroeconomic objective is to consolidate the progress of recent years and to achieve a medium term growth rate capable of sustaining high levels of employment and facilitating the evolution of a more equal society. Securing competitively low inflation, sustainable public finances and social, economic and environmental sustainability are central to achieving this objective.

Sustaining Progress para 3.1

Public expenditure policy under this Agreement, in terms of overall composition and balance, will, subject to the overriding objective of keeping the public finances close to balance for the period 2003-2005, be informed by the following key points:

- ▶ Improving the efficiency and effectiveness of public expenditure by a greater focus on priorities, service standards, transparency and results secured;
- ▶ Targeting priorities by reallocating existing expenditure from lower to higher priority programmes, with a particular focus on growth oriented policies and actions, and by eliminating programmes that are no longer effective in serving economic or social priorities;
- ▶ Exploring new and innovative service delivery options and evaluating the role of user charges in effective service delivery on the basis set out in the NESC Strategy Report 2002;
- ▶ Sustaining public infrastructural investment, both directly and in partnership with the private sector, at a significant level;
- ▶ The continued targeting of resources and prioritisation of commitments at those most in need, sustaining social protection and inclusion expenditure at a level that addresses the key social deficits by continuing to protect and enhance the living standards of the disadvantaged and improving the delivery of social cohesion objectives;
- ▶ Value for money is as important in industrial and development policy as in any other area of public expenditure (including tax expenditures) and must be subject to rigorous evaluation; and
- ▶ Developing a stronger and more transparent monitoring and evaluation culture, and a sharper focus on evidence-based policy making.

Sustaining Progress para 3.1

A stable macroeconomic environment, and in particular a commitment to sustainable public finances, provide the necessary context within which the range of structural reforms envisaged under the Lisbon Strategy can be achieved.

Ireland is set to manage its public finances so that it continues to meet the terms of the Stability and Growth Pact. Sound public finances can provide the necessary underpinning for the achievement of GDP growth of the order of 5% p.a. over the 2005-2008 period.

In line with the Lisbon objectives, tax policy has been geared to promoting a job-friendly environment in order to facilitate robust employment growth. Since 2000, the Government has successfully continued its policy of alleviating the tax pressure on labour, particularly on the low paid. According to the OECD⁴, Ireland has the lowest tax wedge in the EU and one of the lowest in the entire OECD for 2004.

Ireland's level of public investment, at close to 5% of GNP, is among the highest in the EU and is about twice the EU average. Public investment under the National Development Plan is targeted at addressing the infrastructural deficit, in order to improve the potential growth of the economy over the longer term. Other productive investment (in Research & Development, Education, Employment Supports and Training and Social Inclusion and Equality) has also increased significantly and is helping to foster the transition to a knowledge-based society.

As regards the Broad Economic Policy Guidelines, Ireland welcomed the move in 2002 to multi-annual BEPGs, which provide a medium-term perspective. The multilateral surveillance framework provided by the Stability and Growth Pact and the Broad Economic Policy Guidelines are the basis for ensuring sound and appropriate macroeconomic policies. Ireland has welcomed the recent reforms to the Stability and Growth Pact which can make it more responsive to prevailing economic circumstances without compromising the commitment to fiscal discipline.

Overview of recent performance and outlook

The Government's economic and budgetary strategy is based on pursuing economic growth and full employment as the basis of continued prosperity and enhanced living standards for all. The key policies that underpin this overall strategy can be summarised as follows:

- ▶▶ maintaining sustainable public finances while pursuing a budgetary policy which facilitates the recovery of economic competitiveness;
- ▶▶ fostering employment and economic growth;
- ▶▶ enhancing public services and delivering further improvements to those on low incomes;
- ▶▶ continuing to redress the infrastructural deficit to provide the basis for future economic growth.

The framing of medium-term budgetary policy in accordance with the requirements of the Stability and Growth Pact facilitates confidence, investment and growth, and thereby supports the Government objectives for jobs, prosperity and balanced economic development. In particular, the growth of public expenditure must continue to be correlated with revenue growth, consolidating the achievements of recent years, and ensuring budgetary sustainability going forward. The Government is determined that Ireland's public finances will be well-placed to address additional fiscal pressures over the longer term, including the budgetary consequences of an ageing population."

Budget 2005⁵

Notwithstanding the recent increase in oil prices, the short-term outlook for the economy remains broadly positive.⁶ After increasing by 4.5% in 2004, GDP growth is projected to accelerate to 5.1% this year with domestic demand (particularly personal consumption and investment) the main engine of growth. The contribution of net exports is expected to be more modest. In part, this reflects the sectoral composition of manufacturing exports in Ireland, with some high-technology sectors performing relatively weakly. A reduction in competitiveness over the last number of years may also be having an impact on export volumes.

4. OECD Taxing Wages 2003-2004

5. <http://www.budget.gov.ie/Budget%202005.htm>

6. The most recent official economic forecasts for 2005 were published by the Department of Finance in *Economic Review and Outlook in August 2005*. Medium-term macroeconomic projections out to 2008 will be published in the *Stability Programme Update*, which will be published with the 2006 Budget on 7 December 2005.

Conditions in the labour market remain favourable with substantial net inward migration helping to alleviate labour shortages. Equality legislation safeguards the rights of all persons entering employment. Total employment rose by 4.5% on an annual basis in the first half of the year, with the construction and financial services sectors recording particularly strong growth. Moreover, unemployment remains low and should average around 4.25% for the year as a whole.

The improvement in the relative inflation performance has been sustained, with the virtual elimination of the HICP inflation differential vis-à-vis the euro area average. The moderation in services sector inflation and the stronger exchange rate have been the main driving forces behind the moderation in price inflation. For the year as a whole, inflation in Ireland (on a HICP basis) is forecast to average 2.2% this year.

The public finances remain in a sound position. In the September 2005 Maastricht notification, a General Government Deficit of 0.9% of GDP is projected for this year. The ratio of debt to GDP at under 30% remains amongst the lowest in the euro area. In addition, reserves of about 10% of GDP have been accumulated in the National Pensions Reserve Fund.

Notwithstanding this relatively benign outlook, there are a number of risks to the medium-term prospects for the economy, which will continue to be monitored closely over the programme period. On the external front, while the economy is less dependent on oil than in the past, the current and projected high level of oil prices still presents a threat to the economy. In addition, given the relatively high exposure to non-euro area trade, the economy is vulnerable to exchange rate developments, most notably with regard to movements in the euro-dollar and euro-sterling bilateral rates.

Developments in relation to competitiveness remain a cause for concern. The price level in Ireland is now among the highest in the euro area, although as noted above the inflation rate is now evolving in line with the euro area average.

Domestically, the sectoral composition of output shows a heavy reliance on the construction sector. This, in turn, mainly reflects the current very high level of new housing construction. The pace at which new housing output adjusts downwards to more sustainable levels, and the extent to which activity and employment transfer to other parts of the construction sector, will have short- to medium-term implications for the economy.

2.2 Detailed response to guidelines

2.2.1 Guideline 1. To secure economic stability

The Government is committed to the Stability and Growth Pact as the overall framework for budgetary policy. Ireland has consistently adhered to the close-to-balance requirements of the Pact through prudent budgetary planning. Going forward, public expenditure should not exceed the sustainable growth in resources. This will facilitate the maintenance of a low burden of taxation, protect competitiveness and maximise economic potential.

The Government will continue to address our remaining infrastructural deficit as this is essential to securing economic stability and supporting the future competitiveness of the Irish economy. Significant resources are being allocated towards enhancing the productive potential of the economy, through substantial investment in the public capital stock. Public investment will be at or close to 5% of GNP over the period 2005-09, considerably in excess of the EU average.

The decision by the Government to set aside 1% of GNP annually in order to partly fund the costs associated with the projected ageing of the population through the National Pensions Reserve Fund is also contributing towards longer term macroeconomic stability.

2.2.2 Guideline 2. To safeguard economic sustainability

Ireland's ratio of General Government Debt at end-2005 is forecast to be just over 29% and is expected to remain below 30% in the medium term. The Irish Government is committed to maintaining a low debt burden. Minimising the burden of debt service is seen as a crucial factor in addressing the implications of population ageing. Apart from this, a low debt ratio will help keep taxes low, thereby helping competitiveness.

With regard to meeting the economic and budgetary challenges posed by an ageing population, Ireland is in a reasonably favourable position⁷ by virtue of its low level of debt, a low tax ratio, an established record of sound budgetary management and a relatively high potential growth rate. Moreover, the importance of sustainability has become ingrained within Ireland's policy making process, as evidenced by the wide range of policy initiatives implemented in recent years.

These include:

The National Pensions Reserve Fund: The NPRF was established in 1999 with the aim of pre-funding in part, the future budgetary cost of social welfare and public service pensions. It requires the statutory investment of 1% of GNP annually until at least 2055. Drawdowns are prohibited prior to 2025. The Fund's value at end June 2005 was €13,294 million or about 10% of GNP.

Major reform of public service pension provision: Underway since 2004, reforms implemented to date have allowed for the raising of the minimum pension age and the removal of a compulsory retirement age for most new public servants. A cost-neutral early retirement scheme with actuarially reduced benefits (facilitating improved labour mobility) has also been introduced. In due course, further measures will be brought before Government for consideration and decision.

Personal Retirement Savings Accounts: Designed to encourage supplementary pension coverage, these saving accounts are currently being offered to consumers by the pensions industry. A formal review of the scheme's progress is being undertaken in the context of the National Pension Review due to be completed by end 2005

National Pensions Review: The National Pensions Review (due to be completed by end 2005) will examine key issues and challenges facing Ireland's pension system in the coming years. The Review will put forward the further reforms it considers should be undertaken to modernize the system in response to ongoing demographic, social and economic developments.

Tax incentives for private pension provision: A series of significant tax incentives have been introduced for the purpose of promoting pension provision amongst the self-employed, employers in non-pensionable employment and proprietary directors. These incentives are aimed at encouraging individuals to plan for pension provision early on in their careers.

7. The European Commission in its document 'The Sustainability of Public Finances based on the 2004 Updates of the Stability and Convergence Programmes' (April 2005), identifies Ireland as one of the Member States facing 'only limited risks' vis-a-vis long-term sustainability.

Old Age Pension Rates: Significant improvements have been made in State old age pension rates since 1997. Pension rates have increased by between 81% and 84% while prices have increased by 31% and industrial earnings by 51%. The Government is committed to increasing State social welfare pensions to €200 per week by 2007.

Financing long-term care: A study on the future financing of long-term care in Ireland was published by the Government, along with a review of the existing nursing home subvention scheme, in mid-2003. Follow up work has continued throughout 2004 and 2005.

Provision of childcare: The National Development Plan 2000-2006 is committed to the delivery of additional childcare places, thereby facilitating an increase in female labour force participation.

2.2.3 Guideline 3: To promote an efficient allocation of resources

Priority will be given over the programme period to the development of efficient public services consistent with levels of sustainable economic growth and broadly in line with revenue growth.

Efforts to enhance the management of current expenditure are being intensified to improve resource allocation, value for money and accountability.

Public capital investment will continue to be a key priority for public expenditure in the medium term. The 5 year rolling multi-annual capital envelopes for public investment introduced in 2004 contain a commitment to maintain public investment at or close to 5% of GNP or around twice the EU average to accelerate the pace of addressing Ireland's infrastructural deficit. The capital envelopes also incorporate a facility to carryover up to 10% of unspent capital to the following year which will lead to more effective and efficient management of programmes. Given the crucial importance of transport infrastructure and the scale and nature of major transport projects the introduction of a 10 year capital envelope for transport has been agreed in principle.

Revised arrangements were introduced in 2005 to improve the appraisal and management of capital programmes and projects and to reflect best practice. Planned reforms to public procurement arrangements for construction projects will see public sector construction projects tendered competitively on the basis of a fixed price lump sum contract in which appropriate construction risks are identified and transferred to contractors.

The rolling multi-annual capital envelopes, the revised capital appraisal guidelines and reform of public procurement for construction projects will radically improve the management of capital programmes and projects in response to the mid-term evaluation of the National Development Plan 2000-2006. These initiatives will also secure better value for money from public investment.

A new National Development Plan for the period 2007-2013 will set out a new strategy for economic and social public capital and human capital investment, including R&D, when the current plan expires at end 2006. There will be a wide-ranging consultation process on the new Plan. Further improvements to the Expenditure Review Initiative, introduced in 1997, are planned on foot of a recent review of the initiative in the period 2002- 2004. This will include the question of better follow up to recommendations and the communication of reports to relevant parliamentary committees. Expenditure reviews for the period 2005-2007 will take account of the new requirements.

The structure of Ireland's taxation system has changed over recent years to promote equity, employment, enterprise and efficiency.

Ireland has an open and transparent business tax system. The standard corporate tax rate has reduced steadily over the past 10 years (from 40% in 1993 to 12.5% in 2003) accompanied by significant base-broadening.

The standard and top rates of income tax have been reduced by 6 percentage points each, since 1997. The reductions in the rates of tax have been accompanied by major reform of the income tax code (the move to tax credits and the widening of the standard rate band). Taken together, these developments have reduced average tax rates and have helped to remove more of the lower paid from the tax net and to reduce the tax burden tax rates on those on average pay. At present, on a full year basis, approximately 92% of the value of the minimum wage is outside the tax net.

The Minister for Finance announced in Budget 2005 that he would consider how improvements might be made to the Budgetary and Estimates process in the context of three year economic and fiscal programmes in the EU Stability Programme updates, the introduction of rolling multi capital envelopes and the regular publication by Departments of strategy statements. The recommendations of a pilot project are being taken into account in this regard. It also envisaged that a set of annual financial and non-financial performance indicators will be developed for public expenditure.

2.2.4 Guideline 4: To promote greater coherence between macroeconomic and structural policies

Ireland's success in sustaining relatively high growth and low unemployment rates in recent years has been accompanied by progress in structural reforms that have aimed to increase the flexibility, mobility and adjustment capacity of the economy. The policies pursued in this respect range from the extension of existing measures to the introduction of new reforms across product, capital and labour markets, and in relation to the public finances and the health sector.

Ireland's structural policies have sought to promote efficient markets by means of encouraging competition in network industries and capital markets, and by increasing investment in knowledge and innovation through the introduction of tax credits for incremental R&D expenditure and the provision of funding for R&D research under the National Development Plan 2000-2006.

In product markets, the process of liberalisation has been speeded up. In particular, some markets that have traditionally been under direct control of government have undergone significant reform. Elsewhere, however, the pace of reform has been slower, with barriers to entry, in particular, remaining a feature of a number of markets, most notably in the services sector of the economy.

In line with the product market recommendations of the 'Annual Report on Structural Reforms' (EPC, 2004), emphasis has been placed on the need to increase competition in certain sectors such as retail distribution, insurance and the professions. In this context, the Competition Authority in 2005 published a preliminary report on competition in the Legal Profession, and in conjunction with the Department of Enterprise, Trade and Employment, issued its final report and recommendations on competition in the non-life insurance sector. An examination of non-investment banking services is also nearing completion. In addition, the Minister for Enterprise, Trade and Employment is currently considering the recommendation of the Consumer Strategy Group that the Restrictive Practices (Groceries) Order 1987 be revoked.

Progress has similarly been achieved in relation to public sector modernisation and flexibility. Benchmark wage increases under the current *Sustaining Progress* agreement are conditional on improvements in these areas and on the maintenance of industrial peace. A further benchmarking exercise is due to begin in late 2005. Moreover, the pay provisions for private sector employees agreed under *Sustaining Progress* are indicative of labour market flexibility and a recognition on the part of the social partners of the importance of competitiveness. With regard to structural reform and the public finances, the drive towards value for money has seen ongoing reform in the health sector while the continued roll-out of Public Private Partnerships, multi-annual budgeting and the Government's commitment to strengthening infrastructural development in the coming years should facilitate the delivery of higher growth.

Overall, it is anticipated that the coherent structural policies pursued to date, and those proposed for the future, will continue to serve the Irish macro-economy well in terms of promoting efficient markets and public interventions that lead to sustainable long term growth and employment.

Enhanced flexibility has been a feature of factor markets in Ireland in recent years. In the labour market, for instance, income tax reforms have had important demand- and supply-side effects, while it is generally acknowledged that the burden of labour market regulation in Ireland is somewhat lighter than elsewhere in the EU. Various OECD studies would tend to confirm this analysis. At the same time, capital markets in Ireland are increasingly integrated with those in the EU, a process which is being enhanced through membership of the single currency.

2.2.5 Guideline 5: To ensure that wage developments contribute to macroeconomic stability and growth and to increase adaptability

The contribution of wage developments to macroeconomic stability is well recognised in Ireland. At a national level, the evolution of pay in Ireland has been conducted within the social partnership framework since the late-1980s. The incomes component of this model has traditionally involved modest nominal wage increases complemented by reform of the income taxation system.

While centralised wage bargaining is an important feature of the public sector and parts of the private sector, large parts of the private sector are not formally covered by the terms of the agreements. In those sectors, labour market forces are the main determinant of wage outcomes. In this context, strong inward migration has been a feature of the labour market in recent years. This relatively elastic labour supply may continue to be a feature of wage developments going forward.

Real unit labour costs increased in 2003-04, following a long period in which they had declined. In addition, part of the increase in unit labour costs since 2003 reflects the slowdown in labour productivity during these years. This, in turn, reflects cyclical factors as well as the composition of growth, with the labour-intensive construction sector being a major driving force.

The Government will have as one of its key objectives in the talks on the pending national partnership agreement later this year, the need for pay increases which are not out of line with those in our major competitors.

Within the Public Service, the Government and the unions have adopted the benchmarking system which allows for periodic measurement of pay rates against pay rates for similar jobs in the private sector. It is recognised that benchmarking is a better system than the previous ways of settling pay in the public service. There will be a new benchmarking exercise beginning in late 2005.

The Government remains committed to the control of public service employment numbers, given the size of the public service pay and pensions bill as a component of overall Government expenditure.

2.2.6 Guideline 6: To contribute to a dynamic and well-functioning EMU,

Ireland's budgetary policy is to continue with prudent management of the public finances and keep them in a sustainable position in line with the requirements of the Stability and Growth Pact. The Government is committed to continuation of a low taxation policy, which combined with a number of other factors, has contributed to Ireland's strong economic and employment growth over the past decade.

Ireland welcomes the recent reforms to the Stability and Growth Pact, which will give it extra flexibility in achieving the medium-term objective. That flexibility can be availed of, if necessary, to maintain Ireland's high levels of public investment throughout the economic cycle in line with the Lisbon objective of prioritising investment within overall public expenditure. The pact recognises that countries with low debt and high investment needs can be accommodated in a reasonable manner without a threat to financial stability.

3.1 Introduction

Ongoing action is required to ensure that Ireland continues to be a world leader in knowledge-based industries.

Agreed Programme for Government

Renewing competitiveness both within the domestic economy and on the international stage is central to the overall macroeconomic policy of sustaining non-inflationary, economic growth and high levels of employment and ... will require action ... under the following broad policy headings:

- » a fiscal policy that contributes to stable non-inflationary growth;
- » a wage determination and incomes policy that keeps Irish output costs internationally competitive and ensures that a wage price spiral does not become embedded in the economy;
- » a competition policy that supports the strengthening of competitive forces across the economy and the removal of constraints on competition and market entry;
- » an infrastructural capacity and planning policy outcome through the effective implementation of the NDP that sharply diminishes infrastructure deficits, which add to economic and social costs;
- » a regulatory policy that provides for the screening of new and existing regulations in terms of their impact on the economy and society, that establishes the framework whereby regulatory arrangements can be optimised for particular market sectors, and renews the focus on reducing the burden being imposed through regulation on the citizen and business, including small and medium enterprises;
- » labour market policies that act to match labour market supply with demand and address skills and labour shortages, including policies to help those experiencing social exclusion to re-enter the labour market, policies to encourage female labour force participation, policies that encourage workers to remain in the labour force and appropriate policies on immigration;
- » promoting and investing in Lifelong Learning within available resources through the implementation of the Task Force Report on Lifelong Learning and the White Paper on Adult Education;
- » an agricultural policy that responds to the pressures emanating from the World Trade Organisation (WTO) and further Common Agriculture Policy (CAP) Reform, by promoting investment, sustainable development and structural change;
- » securing and maintaining a leading position for Ireland in the global information society through the implementation of the recommendations set out in New Connections - the Government Information Society Action Plan;
- » capacity-building policies that enhance innovation and upskilling, support productive investment, particularly the newer higher value forms of investment, and improve research and development capacity; and
- » integrated competition and social inclusion policies that recognise the reciprocal relationship between competitiveness and social inclusion, whereby competitiveness helps to generate the resources to enhance social inclusion, while increased social inclusion enhances competitiveness.

Sustaining Progress para. 3.4

By 2004, Irish income per capita had overtaken the EU-15 average. The relative improvement in Ireland's living standards in recent years compared to other countries was driven largely by the very significant increase in the numbers at work. With employment rates in Ireland now above the EU average, further improvement in living standards will, relatively speaking, depend less on increasing employment, and more on increasing productivity.

Some areas lag behind due in large measure to differing levels of productivity. This “productivity gap” is particularly evident in those sectors of the Irish economy less exposed to international competition. But even in those sectors of the economy more exposed to competition, such as manufacturing and traded services, significant pockets of weak productivity and performance remain.

Policies over the period of this programme are designed to enhance competitiveness, by creating an environment where enterprise can flourish and consumers are protected. At the same time, policies seek to upskill the labour force, provide sustainable employment opportunities, improve workplace conditions, and help to build an inclusive society.

Ireland’s economic development strategy is now aimed at developing a more dynamic, enterprising and innovation-based economy, which can sustain higher living standards for all. This involves maintaining a supportive taxation regime and prioritising policies in the fields of research and innovation promotion, entrepreneurship, enhanced competition and consumer policies, policies to promote equality, regulatory reform, infrastructural development, human resource investment and public sector reform.

Global markets and global competition characterise the environment within which the Irish economy must prosper. Ireland competes in this market, not simply as a stand-alone economy, but as part of the European Union of twenty-five member states who share a vision for Europe’s role in the world economy as defined by the Lisbon goals.

The remainder of this chapter contains commentary on the microeconomic guidelines (guidelines 7 to 16). To facilitate a more coherent and co-ordinated approach to reporting on the guidelines and reduce unnecessary overlap, a number of the guidelines are grouped and reported on together (guidelines 7 & 8; guidelines 10 & 15).

3.2 R&D / Innovation

Guideline 7: Increase and improve investments in research and development, in particular in the private sector, with a view to establishing a European area of knowledge.

Guideline 8: Facilitate all forms of innovation.

Science, technology and innovation are key drivers of competitiveness. Ireland’s current stage of development means that different sources of competitive advantage are needed. One key source is the ability to develop, secure and apply knowledge and skills. For Ireland to make a successful transition to innovation and knowledge-based competitiveness, the framework conditions which permit, encourage and sustain innovative creativity must be significantly strengthened over the coming years.

3.2.1 National R&D System

The Irish economy has benefited greatly from the internationalisation of technology flows over the last two decades, in particular through the RTDI Framework Programmes (FPs) of the European Union, technology transfer from multi-national firms and the mobility and migration of trained science and technology graduates.

Ireland's gross expenditure on R&D is about two-thirds of the EU average, equivalent to 1.62% of GNP for 2005, (up from 1.4% of GNP in 2001). Enterprises perform 68% of R&D, the third level education sector performs 22% and Government research centres perform the remaining 10%.

Government investment in R&D increased five fold to €2.5 billion in the National Development Plan, 2000-2006, from €0.5 billion between 1994-1999. 87% of the public funding goes to research in the public sector (third level plus government agencies) with the remainder (13%) to provide matching funds for R&D projects in enterprises. Public funding of R&D in industry in Ireland, as in most other developed countries, represents only 5% of total business expenditure on R&D. Ireland has 5.1 researchers per 1,000 of total employment (EU average 5.4 per 1,000).

Under the National Workplace Strategy the National Centre for Partnership and Performance is establishing an innovation fund which will include a particular focus on innovation in equality and diversity practices.

Recent Developments

In June 2004 the Government took a number of decisions to strengthen the oversight and review framework for national science, technology and innovation (STI) policy. These new structures include:

- ▶▶ Establishment of a Cabinet Committee on STI;
- ▶▶ Establishment of an Inter-Departmental Committee (IDC) on STI of Senior Officials to support the Cabinet Committee;
- ▶▶ Appointment of a Chief Science Adviser (CSA) to Government;
- ▶▶ Establishment of an Advisory Science Council to act as the primary interface between stakeholders and policymakers in the STI arena.

3.2.2 Fiscal Measures to leverage private R&D.

Budget 2004 introduced a 20% tax credit for companies engaging in incremental R&D activities in order to enhance Ireland's competitiveness as a location for new internationally mobile research-related investment, and to encourage existing indigenous and overseas firms to add research functions to their operations in Ireland or to increase their level of research activity.

3.2.3 R&D Action Plan

Ireland prepared and is pursuing the implementation of a National R&D Action Plan, '*Building Ireland's Knowledge Economy – The Irish Action Plan for Promoting Investment in R&D to 2010*' (July 2004)⁸. The vision is that Ireland will be internationally renowned for the excellence of its research and be at the forefront in generating and using new knowledge for economic and social progress, within an innovation driven culture. In implementing the Action Plan the following targets have been established for 2013:

- ▶▶ Business investment in R&D should increase from 0.9% GNP in 2001 to 1.7% GNP;
- ▶▶ Triple the number of enterprises performing significant R&D (>€2m) to 250;
- ▶▶ R&D performance in the higher education and public sectors should double from 0.4% GNP in 2002 to 0.8% GNP;

8. <http://www.entemp.ie/publications/enterprise/2004/knowledgeeconomy.pdf>

- ▶▶ The number of researchers to increase from 5 per 1,000 of total employment in 2001 to 9.5 per 1,000;
- ▶▶ Gross expenditure on R&D to increase from 1.4% to 2.5% of GNP.

3.2.4 Next Step - Implementation

To give effect to the R&D Action Plan, a Strategy for STI is currently being prepared by the IDC. The strategy will propose mechanisms by which the delivery of public support for public and private R&D will be optimised and will seek to achieve a higher level of coherence, efficiency and effectiveness of investment. The IDC, reporting to the Cabinet Committee, will progress and monitor implementation of the strategy.

3.2.5 Starting up and Scaling up – Access to Finance

Ireland's national agency for enterprise support, Enterprise Ireland, supported 65 new high potential start-up companies in 2004. Under its new strategy 2005-2007 'Transforming Irish Industry' (May 2005)⁹, Enterprise Ireland will support the creation of 210 new high potential start-up companies by 2007.

Under the National Development Plan 2000-2006, a new Seed and Venture Capital Fund Scheme was set up to develop the seed and venture capital industry for SMEs in Ireland. Particular emphasis has been given to the development of geographical locations outside Dublin, early stage projects and sectors which are particularly difficult to finance. This scheme is currently being reviewed.

Annex 4 contains further detail on the range of initiatives underway to improve R&D performance.

3.3 Knowledge Society and eGovernment Policy

Guideline 9: Facilitate the spread and effective use of ICT and build a fully inclusive information society

Government is committed to securing and maintaining a leading position for Ireland in the global information society through the implementation of the recommendations set out in *New Connections* – the Government Information Society Action Plan.

Sustaining Progress para 2.11

Ireland established an Information Society Commission in 1997. The Government published its first Action Plan for the Information Society in 1999. Its second such plan, "*New Connections*" was published in March 2002 with a timeframe running until end of 2005. A progress report, published in April 2004, indicated progress across a range of policy areas (Telecommunication Infrastructure; Legal & Regulatory Environment; eGovernment; eBusiness; R&D; Lifelong Learning and eInclusion). The second Information Society Commission concluded its work in December 2004 with a final report on future policy directions. Building on the work of the Information Society Commission and achievements under the *New Connections* action plan, strategies will be developed which will also reflect the wider European thrust for the period 2006 to 2010 (2010) to be agreed with the European Commission by the end of 2005 or early 2006.

9. <http://www.enterprise-ireland.com/Publications/Corporate/Enterprise+Ireland+Strategy+2005-2007.htm>

A new mechanism is being put in place to continue the Knowledge Society Foresight exercise initiated by the Information Society Commission and looking at wider, longer term social and economic policy scenarios for a knowledge society supported by knowledge-based economic activities.

3.3.1 e-Government

The Information Society Commission published a report on e-Government in November 2003. Over eighty services have been identified as online priorities. Progress has been made in delivering a variety of online public services. The focus of 'e-Government' developments is now shifting from information and service delivery (1st and 2nd generation E-government) to integration in the administrative and public policy. This 3rd generation of e-Government will focus on aggregation (where possible) of common administrative processes and the development of information management practices or frameworks to achieve greater coherence in public policy.

3.3.2 Information Society Fund

The Information Society Fund was established in 1999 to progress the first Information Society Action Plan and runs until end 2005. The Fund is operated in partnership between the Departments of the Taoiseach and Finance and provides resources to "fast track" suitable Information Society initiatives which progress the objectives set out in the Government's *New Connections* Information Society Action Plan.

3.3.3 ICT in Schools

In its 'Action Programme for the New Millennium' the Government committed itself to a programme aimed at achieving computer literacy throughout the school system. During 2004 the Department of Education and Science developed a new policy framework with key objectives as follows:

- ▶▶ Further enhancing and maintaining computer facilities in schools;
- ▶▶ Providing broadband to all schools;
- ▶▶ Re-focusing ICT training and development programmes;
- ▶▶ Ensuring that ICT has a more central role in the curriculum and in student assessment;
- ▶▶ Promoting the development of quality online educational resources;
- ▶▶ Facilitating and encouraging industry/school collaboration on ICT issues;
- ▶▶ Monitoring the impact of ICT at school level.

3.3.4 National Digital Learning Repository

The *National Digital Learning Repository* (DLR) project will investigate and develop a framework to enable development and sharing of digital learning resources between Irish Universities. Following the initial focus on developing the repository and associated technical issues, it is envisaged that the project will look at the application of e-learning to specific disciplines, particularly those identified as relevant to national priorities.

3.3.5 eBusiness Strategy

Relatively low levels of Information and Communications Technology (ICT) usage (as distinct from ICT investments or ICT production) by European companies, particularly SMEs, outside of the ICT sector, has been a contributing factor to the failure of Europe to catch up with productivity growth rates of the US.

A new national eBusiness strategy was published in December 2004¹⁰, focussed on encouraging and assisting these SMEs to use ICTs in a way that will maximise their competitive advantage. The recommendations cover four broad areas :

- ▶▶ How to build ICT management and user skills
- ▶▶ Supports by the development agencies
- ▶▶ Provision of information
- ▶▶ Performance monitoring and research

The strategy also recommends that the development agencies should promote ICT and eBusiness development as part of an overall package to promote enterprise development rather than addressing eBusiness as a remote activity. A Working Group was established to oversee implementation of the recommendations and will report progress before the end of 2005.

3.3.6 ICT and Content Industries

Ireland already has a very strong ICT sector. As part of Enterprise Ireland's sectoral strategy for 2005-2007, software, services and emerging sectors will receive targeted support from the Agency. This will include developing partnerships and clusters together with a tailored programme of sectoral support.

3.3.7 Broadband Action Plan

The Government has assumed a leading role in driving broadband delivery and has devised a programme of phased, targeted investment. It has also put in place several initiatives to assist the private sector to address the existing gaps in communications infrastructure and services throughout Ireland, in both urban and rural areas.

Between 2004 and 2007, €140 million of Exchequer funding (€35 million per annum) is being invested to provide high-speed, open access broadband infrastructure in all cities and towns in the State with a population greater than 1,500. 19 Metropolitan Area Networks (MANs) have now been completed in the first phase, with a further seven under construction. In the second phase, 35 towns were approved for broadband networks in December 2004 and 47 were announced in January 2005. The programme is on schedule to complete high-speed broadband networks in 120 towns by the end of 2006.

The Government is currently engaged in talks with a number of companies on foot of investment by the State in their fibre trunk networks. This will enhance backhaul arrangements for the MANs.

Under the Group Broadband Scheme €25 million is being made available over three years (2004-2006) to facilitate the provision of broadband in rural communities of less than 1,500 people, empowering communities to deliver their own infrastructure.

10. <http://www.entemp.ie/enterprise/support/ebusinessstrategy.htm>

3.4 Business and Industry

Guideline 10: Strengthen the competitive advantages of its industrial base

Guideline 15: Promote a more entrepreneurial culture and create a supportive environment for SMEs

Entrepreneurial activity is vital to our national capacity to create wealth, to encourage innovation and to continuing adaptation and greater efficiency in the economy.

The Government recognizes the importance of fostering an enterprise culture and in fostering and supporting entrepreneurship. Specific initiatives in support of entrepreneurship will be taken, including, in particular, to support entrepreneurship by women and in the social economy.

Sustaining Progress para 4.4.5

Over the past decade the Irish economy has been characterised by strong foreign investment, exports and domestic demand, leading to sustained reductions in unemployment. These successes have been supported by favourable demographic factors that have differed from those experienced by most other long established European economies.

As Ireland's demographic features become more similar with developed economies and as globalisation and international competition increases their influence on low technology and low value added enterprises, a stronger emphasis on productivity is needed¹¹.

Ongoing analysis of the needs of the broad enterprise base (not solely the industrial sector) is undertaken by Forfás and the National Competitiveness Council (NCC). In addition, periodic reviews of enterprise policy form strategic, independent "policy health checks" at the broadest level on the direction of enterprise development and essential institutional/infrastructure supporting environment.

3.4.1 Enterprise Strategy Group

The Enterprise Strategy Group (ESG) was established in 2004. Its report, *Ahead of the Curve - Ireland's Place in the Global Economy*,¹² built on the 'Review of Industrial Policy & Performance', completed by the Department of Enterprise, Trade & Employment in Autumn 2003¹³. The ESG report found that while Ireland's economy remains strong, action is needed to ensure that potential threats do not adversely affect performance. The ESG set out medium term enterprise opportunities for the economy. A Group of senior enterprise executives has been set up to advise the Minister for Enterprise, Trade and Employment on progress being achieved in implementing the policy recommendations of the ESG. This will enable quick and appropriate policy responses to the needs of business both to help them build competitiveness and also better manage the rapid changes taking place in world trade and investment regimes.

11. In this context, we describe productivity as the effective use of innovation and resources to increase the value added content of products and services

12. <http://www.forfas.ie/esg/index.html>

13. <http://www.entemp.ie/publications/enterprise/2003/industrialperformanceandpolicy.pdf>

3.4.2 Tourism Policy Review Group

Tourism embraces a wide range of predominantly Irish-owned small and medium sized enterprises. In its September 2003 report, *New Horizons for Irish Tourism An Agenda for Action*, the Review Group proposed a coherent and integrated, 10-year strategy for Irish Tourism and a series of recommended actions to implement the strategy. The Group agreed that the ultimate determinant of success in Irish tourism industry would be an energetic, innovative and profitable private sector operating within an environment where Government policies and actions are supportive of business investment in tourism.

3.4.3 Enterprise Support

The enterprise support agencies now aim to provide their client companies with the capacity to respond strategically to emerging threats to business and to exploit new opportunities being presented by technological developments and business internationalisation. Programmes are now designed to enhance the existing enterprise base by identifying current capability gaps and acting to deliver the environment and skill set necessary for sustainable success in specific markets.

Competitive advantage is now based on winning greater market share in developing fast growth sectors such as internationally traded services and advanced manufacturing. Policy aims to get firms to complement existing production and operational strengths with superior expertise in market intelligence and market diversification, while building unprecedented technological and R&D capability. This will support development of high value products and services. The operating structure of the State agencies has been reshaped to reflect this imperative. State programmes now emphasise more collaborative activity and concentrate on stimulating collaborative R&D, developing networks of growth companies or getting greater involvement with EU co-operation programmes. These are linked with predetermined benchmarks for effectiveness and success.

3.4.4 Sectoral Approach

Enterprise Ireland's new strategy now emphasises market driven innovation and extending the reach of Irish companies deeper into international global markets. Under its strategy, Enterprise Ireland will :

- ▶▶ Work intensively with individual companies and sectoral groups to exploit market growth opportunities;
- ▶▶ Organise client fora to identify and drive sectoral development agendas;
- ▶▶ Join with industry partners to highlight the importance of innovation and increased productivity to SMEs nationwide;
- ▶▶ Use sectoral fora to ensure that Enterprise Ireland trade missions and trade fairs continue to meet client needs

3.4.5 Food Industry

Government assisted programmes of capital investment, research and development, marketing and training have transferred the capacity of the food industry. Prepared consumer foods now account for 26% of Ireland's €7 billion food exports. The industry's geographic distribution, low import content and linkages with the rest of the economy provide a distinctive contribution to sustainable industrial development.

Over the 2000-2006 period, investment of €70m in public good food research under the FIRM programme has funded the development by third level institutions of R&D in new generic technologies and food safety and also provided the food sector with a cadre of highly qualified food researchers. This research is actively disseminated

to the food industry, and commercial and market applications have begun to be developed. A quantitative and qualitative shift in the level of R&D is essential to maintain this progress

3.4.6 Small and Medium Enterprises

A strong SME sector is a globally recognised indicator of the strength and viability of a modern economy. As is the case in many other countries, the majority of Ireland's indigenous industrial companies are SMEs.

In July 2005, the Minister for Enterprise, Trade and Employment established a Small Business Forum to review the current environment for conducting small business in Ireland. The Forum has been asked to take into account the Lisbon Strategy, including the actions contained in the European Charter for Small Enterprises. The Forum is due to report to the Minister by end March 2006.

The social partners and the Equality Authority through the National Framework Committee on Equal Opportunities at the Level of the Enterprise are operating a new scheme to support SMEs to be planned and systematic in their approach to workplace equality.

3.4.7 Foreign Direct Investment

The level of foreign direct investment (FDI) in Ireland, relative to the size of the economy, is one of the highest in the world and certainly one of the highest in Europe. IDA Ireland will increasingly concentrate on securing foreign direct investment that will lead to high-value employment. IDA Ireland is now marketing Ireland as a global knowledge economy location for FDI.

As the more basic types of manufacturing migrate to lower-cost locations, it is necessary to attract those jobs using the latest technologies, in state of the art facilities and at the cutting edge of innovation, research and applied development.

3.5 Business Environment and Better Regulation

Guideline 14: Create a more competitive business environment and encourage private initiative through better regulation

The agreed objective is to ensure that whenever regulation is justified, it is prepared in a fully transparent way that maximises public participation in its formulation; that it is clear and that it achieves its objectives; that it is not overly burdensome and is properly enforced; and that it has no unintended effects and is regularly reviewed.

Regulatory reform will continue to be informed by ongoing developments at the National and EU level, and by internationally accepted overarching principles of good regulation, including necessity, proportionality, subsidiarity, transparency, accountability, accessibility and simplicity.

Sustaining Progress para 4.4.3

3.5.1 Better Regulation in Ireland

The approach to better regulation is set down in a 2004 White Paper - *Regulating Better*¹⁴. In this White Paper the Government undertook to consult more widely and systematically with stakeholders before introducing legislation and acknowledged the need for greater consistency in the approach to consultation. Guidelines on consultation for Public Sector Bodies.¹⁵ were published in June 2005.

The Government established a Better Regulation Group, composing senior officials and sectoral regulators, to promote better regulation across the public service and to oversee implementation of the commitments and action plan arising from the White Paper.

In June 2005, the Government introduced a policy of systematic Regulatory Impact Analysis (RIA) across all Government Departments and Offices to be applied to:

- ▶▶ All proposals for primary legislation involving changes to the regulatory framework;
- ▶▶ Significant secondary legislation (Statutory Instruments); and
- ▶▶ All draft EU Directives and significant draft EU Regulations on publication.¹⁶

RIA is a policy tool to identify and quantify in a more strategic way, through increased consultation with stakeholders and more structured analytical techniques, all the possible impacts, side effects, or hidden costs associated with a new regulatory proposal. RIA can contribute to economic efficiency by highlighting those aspects of a proposed regulation which may limit consumer choice, or the level of competition within an economy. RIA will also help to identify any anti-competitive, or protectionist regulations before enactment.

3.5.2 Statute Law Reform

It is essential that primary and secondary legislation (the Statute Book) is accessible and coherent. The coherence of legislation can be improved by revision, restatement, consolidation and repeal. The challenge of implementing regulatory reform policies in this area is being met by the Statute Law Revision Unit based in the Office of the Attorney General, supported by the Public Service Modernisation Division of the Department of the Taoiseach.

One of the actions set out in the White Paper, *Regulating Better*, is a review of the stock of legislation that pre-dates the foundation of the Irish State in 1922, some of which is clearly obsolete and some of which remains of central importance to Ireland's legal system. Maintaining the Statute Book is in keeping with good practice in the management of the regulatory framework to ensure the original objectives are still being met and that the purpose for the legislation is still valid. In excess of 200 Statutes/Acts in force from 1235 to 1922 have been identified for repeal. The next phase of Statute Law Reform will repeal all outstanding pre-1922 legislation with the exception of specified Acts/Statutes, the 'White List', which are still in force and must be retained. The work undertaken by the Statute Law Revision Unit is in addition to, and supports, actions being taken by individual Departments to consolidate, repeal, or restate legislation in specific sectoral areas.

14. http://www.betterregulation.ie/upload/Regulating_Better_html/index.html

15. *Reaching Out: Guidelines on consultation for public sector bodies*, Department of the Taoiseach, http://www.betterregulation.ie/attached_files/Pdfs/Consult%20english.pdf

16. See *Report on the Introduction of Regulatory Impact Analysis*, Department of the Taoiseach, http://www.betterregulation.ie/attached_files/Rtfs/RIA%20english.doc

3.5.3 Business Regulation Forum

A new *Business Regulation Forum* will be set up with effect from October 2005, composed of senior business and public sector members. It will report to the Minister for Enterprise, Trade and Employment and its work will include an examination of the burdens imposed on business by outdated or inefficient or disproportionate regulation, and advise on regulatory issues as they impact on business and competitiveness. Government Departments, Agencies and sectoral regulators will be invited to participate in the work of this Forum as appropriate.

3.5.4 Corporate Social Responsibility

The Government is committed to Corporate Social Responsibility (CSR) supporting a voluntary approach and focusing on raising awareness and promoting the use of CSR practices among employers. The Department of Enterprise, Trade and Employment actively contributes Irish input to the EU Expert Group, with particular reference to the recommendations of the Report of the European MultiStakeholder Forum launched in June 2004. The Department looks forward to a Commission Communication on CSR which is expected to be published this quarter.

3.6 Sustainability

Guideline 11: Encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

The objectives of policy on the environment are to promote sustainable development through ensuring the necessary balance between environmental, economic and social aspects of development and maintain a high quality environment as a source of competitive advantage by supporting our food and tourism industries, by developing a leading position in environmental technologies and by making Ireland an attractive location for people to work and live.

Sustaining Progress para 4.3

3.6.1 Sustainable Development at Enterprise Level

In recent years there has been increasing support for the concept of sustainable development at enterprise level. Eco-efficient innovations can make a positive contribution to the achievement of the Lisbon goals. To this end, Enterprise Ireland works closely with its client companies to improve their environmental performance. The Environmental Management Scheme provides financial assistance to companies to support and train management in the installation and running of an Environmental Management System.

A Working Group is exploring ways to implement the recommendations set out in the EU BEST project report to promote the uptake of Environmental Management Systems in Small and Medium Enterprises.

Enterprise Ireland also runs the Environmentally Superior Products Programme. This Programme was initially run as a pilot scheme from 1999 to 2001 and was subsequently extended. It aims to encourage companies to reduce the environmental impact of their products. Under this initiative, suitable applicant SMEs may receive grant support for projects to assess the potential for the programme within their existing or new product ranges.

3.6.2 Renewable Energy

Ireland is rapidly increasing its development of renewable energy resources and is well on track to meet the 13.2% target for electricity consumption generated from renewable sources under the EU Renewable Electricity Directive. Ireland is putting in place an advanced feed in tariff mechanism which offers different prices for different renewable technologies to ensure that a broad range of renewable technologies is developed in the future.

3.6.3 Energy Efficiency and Energy Emissions

Decoupling of energy and emissions growth from economic growth began in 2002. Economic growth grew by 3.7% in 2003 while energy consumption remained flat at 0.2% growth, and energy related emissions fell by 2.1%. Contributing factors include two new high efficiency electricity generation plants, an increased share of natural gas in the fuel mix for electricity generation and industry fuel mix, and a decrease in the overall consumption of energy by industry.

3.6.4 Sustainable Transport

In order to secure a sustainable transport network, the objective is to develop policies to minimise any adverse environmental impacts of the transport network, by controlling transport emissions and mainstreaming sustainability considerations into transport policy.

Supply side measures: Central to a sustainable transport system is the provision of an extensive public transport network which is an inherently sustainable form of transport. Traffic management measures are also being implemented throughout Ireland.

Demand side measures: The Steering Committee of the Dublin Transportation Office (DTO) is currently formulating policy recommendations in relation to demand management for the Greater Dublin Area that will respond to growing travel demand, in general, and to specific problems such as long distance commuting. Road pricing and congestion charging are options to be considered for managing traffic demand.

3.6.5 Technological Advances

The ability of new technologies and technical advances (such as biofuels and more fuel efficient engines) to reduce tail-pipe CO₂ and air pollutant emissions in the long term is recognised, particularly in the context of Kyoto commitments already made and likely future targets. The 2004 Finance Act introduced a scheme for excise relief to stimulate the market for biofuels, which can reduce our reliance on fossil fuels and reduce CO₂ emissions. Work is underway at an interdepartmental Steering Group to increase the market share of biofuels.

3.6.6 Environmental Technologies Action Plan (ETAP)

Development and early implementation of the EU Environmental Technologies Action Plan (ETAP) can help with sustainable development. As eco-efficient innovations require successful application of R&D in the market place, the potential for economic and fiscal instruments that will give innovations a better and more competitive "market perspective" is being emphasised. Eco-innovations can help Europe gain a strong competitive edge. Ireland supports the implementation of ETAP and is participating fully in its ongoing development.

The Environmental Protection Agency (EPA) has commissioned a study on environmental technology development in Ireland and to identify further opportunities compatible with ETAP. The EPA already operates the Cleaner Greener Project for environmental technology under the Environmental Research and Technical Development Initiative (ERTDI) programme within the NDP and the Agency is currently finalising a research call targeting environmental research projects that complement ETAP.

3.6.7 Public Procurement

Public Procurement is actively promoting environmental awareness in a number of ways, including :

- ▶▶ Encouraging and facilitating the Government Supplies Agency to include a range of environmentally preferable products in their supply contracts;
- ▶▶ Hosting Green Trade Fairs for procurement officers from across the public service;
- ▶▶ Participating in a tender for the supply of green electricity;
- ▶▶ Providing advice and information to local authorities.

3.6.8 Biodiversity

Ireland produced its first National Biodiversity Plan in 2002 to cover the five-year period 2002-2006. This plan is the main vehicle by which Ireland is meeting its commitments under the Convention on Biological Diversity and the EC Biodiversity Strategy. A mid-term review of implementation shows good progress.

Ireland's National Platform for Biodiversity Research has developed a draft framework for a Biodiversity Research Programme. This research will assist in the development of future national and sectoral strategies on conserving biodiversity.

3.6.9 Climate Change

Under the terms of the Kyoto Protocol, and the subsequent EU burden-sharing agreement, Ireland is committed to maintaining annual emissions of greenhouse gases at 13% above 1990 levels in the period 2008-2012. In 2003, the latest year for which figures are available, emissions were 25% above 1990 levels, down from 31% in 2001. The National Climate Change Strategy, published in 2000, sets out a framework for achieving reductions in national greenhouse gas emissions.

A pilot EU Emissions Trading Scheme (ETS) commenced on 1 January 2005. A National Allocation Plan (NAP) has been prepared by the EPA for the allocation of emission allowances to individual installations over the period 2005-2007, and was unconditionally approved by the European Commission in July 2004. Preparation of the second Plan, for the Kyoto Protocol commitment period 2008-2012, has commenced. A review of the National Climate Change Strategy to determine what additional measures might be necessary is under way.

3.7 Internal Market

Guideline 12: Extend and deepen the Internal Market

A fully functioning Internal Market, which enhances growth through increased integration, co-operation and the further removal of barriers, is essential for the competitiveness of the EU.

3.7.1 Implementation of EU Directives

In 2004, Ireland's internal mechanisms and procedures for monitoring the transposition of Directives were reviewed and strengthened. Best practices are followed, as outlined in the Commission's recommendations.

The Taoiseach has communicated to all Ministers the priority he attaches to the timely and correct transposition of EU legislation. A Cabinet Committee monitors progress in transposing EU Internal Market legislation. Timely transposition of EU legislation is incorporated into Departmental Strategy Statements, Business Plans and the role profiles of individual officers under the Government's Strategic Management Initiative. Work is under way to integrate the principles of better regulation into the negotiation and transposition of EU Directives and Regulations.

3.7.2 Better Enforcement

We look forward to reviewing actions proposed by the Commission on better enforcement and implementation following the questionnaire and consultation process undertaken by the Commission with Member States during 2005.

3.7.3 Eliminate remaining obstacles to cross-border activity

The Irish SOLVIT Centre is based in the Department of Enterprise, Trade and Employment. EU citizens and businesses can contact the SOLVIT Centre with cross-border problems where they believe they are being denied their rights in a Member State because the authorities there are misapplying Internal Market law. By means of an "electronic handshake" the SOLVIT Centres in the Member States involved agree to make every possible effort to find a solution within 10 weeks.

3.7.4 Deregulation of Electricity / Gas markets

Electricity

The first phase of electricity liberalisation was introduced with effect from February 2000 in line with EU Electricity Directive 96/92/EC, which set down common rules for the internal market in electricity. At that time, 31% of the market was opened to competition (representing about 400 customers). The market was fully opened in February 2005, well in advance of the July 2007 deadline for full liberalisation of electricity. There are currently six active independent suppliers in the retail market. That segment of the market is strong with 33% of total energy now being supplied by independent suppliers.

Gas

Following introduction of competition in the Irish natural gas market, final customers consuming more than 25 million cubic metres of gas per annum (approx 10 consumers) can use the Bord Gais Eireann network to source their own supplies of natural gas. From January 2004 all customers purchasing in excess of 500,000 cubic metres per annum became eligible. Further liberalisation in July 2004 made all non-household customers eligible to switch suppliers. This meets Ireland's obligations in relation to market opening under the 2003 Gas Directive. Over

17,000 industrial and commercial sites may now switch supplier or source their own natural gas. Overall market opening by volume has increased to 86%. The final phase of opening, for household customers, will come into effect later in 2005, ahead of the July 2007 deadline.

3.7.5 Public Procurement Reform

In April 2002 the Government approved a new national public procurement strategy which, in addition to compliance issues, involves policies and procedures that lead to better value for money. The National Public Procurement Policy Unit (NPPPU) was established within the Department of Finance in June 2002 to implement this strategy, with the following integrated set of actions :

- ▶▶ Capacity building in the public sector, which involves building organisational capacity to strategically manage procurement effort to maximise measurable savings and benefits;
- ▶▶ Procurement aggregation which aims to reduce costs through leveraging public sector demand in certain markets;
- ▶▶ E-procurement to improve efficiency through the targeted use of low risk and cost effective technologies in supporting various aspects of procurement effort;
- ▶▶ Training and education which helps to develop people who have the range of capabilities necessary to sustain measurable improvements in procurement performance.

A new National Public Procurement Policy Framework was published in May 2005 to drive this agenda.

3.7.6 Regulatory framework

Revised Directives on public procurement to simplify the rules and introduce greater flexibility into the EU public procurement regime must be implemented into the national law of Member States by January 2006. It is intended to use the flexibility available to the maximum extent. Many of the new features, such as provisions on using electronic means in procurement and entering into framework arrangements with suppliers and service providers, are key to implementing the new national strategy. Revised national guidelines reflecting the provisions of the new Directives were published in 2004. Additional comprehensive guidance is being developed on an ongoing basis.

3.7.7 Promote an Internal Market for services

Ireland supports the thrust of the draft Services Directive, with proper regard for necessary standards. This is a key provision of the Lisbon agenda and can enhance EU competitiveness in an increasingly globalised world economy.

3.7.8 Elimination of tax obstacles to cross border activities

Ireland is supportive of current EU Commission proposals to reduce the administrative burden on cross border traders through the simplification of VAT obligations. Ireland introduced rules in Finance Act 2005 to allow for tax relief for contributions to pensions schemes located in EU Member States which will help both migrants and cross border service providers.

3.7.9 Financial Services Action Plan

Ireland has made good progress in the transposition of the various Directives agreed under the Financial Services Action Plan (FSAP). With regard to enforcement, the Irish Financial Services Regulatory Authority has been closely involved in the negotiation of the Directives and in putting in place the necessary arrangements to ensure they are enforced effectively.

3.8 Competition Policy

Guideline 13: Ensure open and competitive markets inside and outside Europe, reap the benefits of globalisation

Competition policy seeks to encourage business to develop and prosper by eliminating unwarranted constraints on competition. This is achieved by guaranteeing access to the marketplace and by ensuring that those markets operate in a fair and efficient manner. Effective competition also benefits the consumer by providing a choice of goods and services at a range of prices.

The Competition Act 2002 updated the powers and functions of the Competition Authority. In addition, new EU competition rules have, since 1 May 2004, resulted in greater involvement on the part of national authorities in the enforcement and application of Community competition law. The resources of the Competition Authority were significantly increased in recent years to complement its new role.

3.8.1 Consumer Policy

The Consumer Strategy Group was established in March 2004 to advise and make recommendations on the development of a national consumer policy. This group published its report in 2005 (*Make Consumers Count*¹⁷) and implementation of its recommendations is currently under way. A major review of the existing body of consumer legislation is also under way, with a view to ensuring that it both meets the needs of consumers and is set out in a comprehensive and easily understood fashion.

3.8.2 International Competitiveness

Greater openness to trade and investment can reinforce the delivery of the Lisbon Agenda. In this regard a successful conclusion of the World Trade Organisation's (WTO) Doha Development Agenda (DDA) is of particular importance. Ireland supports a strengthening of the multilateral trading system and an ambitious approach to the elimination of remaining barriers to trade in goods and services. Ireland is actively engaged in the development of key objectives to the Doha Round negotiations to ensure the delivery of appropriate outcomes from an Irish perspective.

17. <http://www.irishconsumer.ie/report/>

3.8.3 State Aid rules

The European Commission's "Policy Framework to Strengthen EU Manufacturing", published in October, 2005, acknowledges that "EU companies are presented with an increased internationalisation of the world economy driven by improving transport linkages, falling communication costs, reduced barriers to trade and investment, and more vigorous competition. The EU is thus increasingly facing international competition as a location for investment, production, and R&D spending."

It is important that European State aid rules recognise this globalised environment in which business operates and the need for the EU to be internationally competitive in attracting investment. Europe has an opportunity now and over the period of this Reform Programme to adapt its state aid rules to reflect this new reality. Ireland will continue to stress the importance of encouraging high levels of investment in Europe and of making common rules that stimulate, encourage and attract investment which will contribute to growth and improved opportunities for employment.

3.9 Cross-Border Projects

Guideline 16: Expand, improve and link up European infrastructure and complete priority cross-border projects

The Government will continue to promote North/South and all-island consultation, co-operation and common action in all areas of mutual interest, including through the work of the North/South Ministerial Council and the Implementation Bodies.

Sustaining Progress para 4.4.7

3.9.1 North/South Trade

Enhanced economic prosperity, greater choice and new opportunities can be stimulated by unlocking the potential for North/South trade. In 2003 Northern Ireland exported more than €1.04bn worth of manufacturing goods to the Republic of Ireland. Just over one third of Northern Ireland's firms have export trading relationships with firms in the South. Firms in the Republic exported €1.41bn to the North in 2003. The Northern market accounts, at less than 2%, for a much smaller share of the South's total exports. Nevertheless, over 28% of Southern companies export to Northern Ireland. The key strategic objective of InterTradeIreland¹⁸ for the period 2005-2007 is to increase the number, effectiveness and value of all-island trade and business development networks.

18. InterTradeIreland (the Trade and Business Development Body) is one of six cross-border implementation bodies set up under the 1998 Good Friday Agreement. Its role is to exchange information and co-ordinate work on trade, business development and related matters.

3.9.2 All Island Energy Market

An All-island Energy Market Development Framework was published jointly by the Republic of Ireland and Northern Ireland in November 2004, setting out the high-level objectives and timeframes for that market. Current priorities are establishment of the Single Electricity Market by July 2007; progressing the development of a second electricity interconnector; completion of the South-North gas pipeline; harmonising future sustainable energy policies and increased cooperation on energy efficiency and research and innovation.

3.9.3 Electricity Interconnection

In November 2004 the two Energy Ministers, North and South, endorsed plans for a second north-south electricity interconnector. It is expected that the link will be operational in 2011. This second interconnector will increase the power transfer capacity between the Republic of Ireland and Northern Ireland, facilitate increased trade in electricity and further enhance security of supply and competitiveness.

Also in 2004, the Government gave approval to proceed with the development of two 500 MW interconnectors between Ireland and Great Britain, as a priority. The Commission on Energy Regulation is currently assessing processes for the delivery of East-West interconnection.

3.9.4 Gas Network

The gas network is being developed on an all-island basis. Bord Gais has commenced working on the South-North pipeline, which is due to be completed in 2006.

Bord Gais is planning to build, own and operate a pipeline from Mayo which will connect to the Pipeline to the West in Co. Galway.

3.9.5 Transport Infrastructure

Maintaining our competitiveness requires investment in both access transport infrastructure (ports and airports) and internal transport infrastructure (roads and public transport), including transport links to Northern Ireland.

The Minister for Transport is currently developing a 10-year Transport Investment Framework. This Framework is expected include the investment required to upgrade our TENs road and rail network and will take account of the need to have appropriate linkages to our international gateways.

The Framework will also take account of and support the National Spatial Strategy which in turns takes account of regional development in Northern Ireland. Improved linkages between the Republic and the North and enhanced linkages to our seaports and airports, will contribute to easier movement of people and goods within the island of Ireland, and between Ireland and the rest of Europe.

3.9.6 Tourism

Following the Good Friday Peace Agreement, a new organisation called "Tourism Ireland", was established to market the island of Ireland, both North and South, as a tourism destination to overseas markets. This initiative in practical, economic co-operation has proved to be a solid success despite the turbulence of the international tourism marketplace in recent years.

4. EMPLOYMENT GUIDELINES

The huge increase in employment and fall in unemployment which has been achieved in recent years cannot be taken for granted. Work is still required to protect employment levels and to expand both the distribution and quality of opportunity throughout the country.

Agreed Programme for Government

4.1 Labour Market Context

4.1.1 Labour Force

In quarter 2 2005, the labour force stood at 2,014,800. This represents an annual increase of 4.9% (50,700 females and 43,700 males). Demographic factors such as the increase in the working age population and changes in its age structure added an estimated 54,000 to the labour force with the remainder attributable to increased labour force participation rates. The continued trend in increased female participation is evident in the female participation rate rising by 2% to 51.4%.

4.1.2 Employment

Ireland continues to make progress in relation to the main Lisbon employment targets, with an employment rate in 2005 of 67.1%, a female employment rate of 58% and an employment rate of 50.7% for older workers (aged 55-64). Employment growth continued in the second quarter of 2005, with the number of jobs up 93,000 and the number of female and male workers in employment increasing by 5.1% and 6.2% respectively. This represents the largest year-on-year rise in employment since 2000, with the number of persons in employment now at 1.929 million. Full-time employment accounted for three quarters of the annual increase. Part time employment increased by 6.6% in the year with 331,700 persons now employed on a part time basis

Employment growth was strongest in labour intensive sectors, particularly in the Construction sector (+36,400), which now comprises 12.6% of total employment. It also increased in Financial and Other Business Sectors (+20,100), Health (+11,000), Other Services (+6,400) and Hotels and Restaurants (+3,200). Employment fell in Agriculture, Forestry and Fishing (-3,300), and Other Production Industries (-6,400). The majority of ILO occupational categories increased in the year with craft and related (+28,300) and clerical and secretarial (+15,600) showing the greatest increases.

4.1.3 Unemployment

The unemployment rate for Q2 2005 at 4.2% is down 0.2% on 2004. Rates for males and females stood at 4.6% and 3.8% respectively. Unemployment comprises 85,600 persons (53,200 males and 32,400 females). The long-term unemployment rate remains extremely low both by historical and international standards at 1.4%, with 27,600 persons long-term unemployed.

4.1.4 NUTS2 Regional Comparisons

In the year to the second quarter, the rate of employment growth was strongest in the Border Midlands and Western (BMW) region with the numbers employed increasing by 5.7% (26,600). Employment in the Southern and Eastern (S&E) region grew by 4.9% (66,400). The unemployment rate fell 0.1% to 4.2% in the S&E region and by 0.2% to 4.3% in the BMW region.

4.1.5 Labour Productivity

The sustainability of employment is increasingly linked to competitiveness in terms of labour productivity. By investing in education and training, fostering entrepreneurship and encouraging research and development the Government aims to help enterprise operate at higher levels in terms of skill and output. In terms of hourly productivity based on GNP, Ireland ranks 8th out of the 15 countries benchmarked by the National Competitiveness Council in 2005.

4.1.6 Labour Market Outlook 2005-2006

With favourable economic growth forecast to continue the indications are that employment growth will be maintained in 2005 and into 2006. The Department of Finance has forecast employment to grow by around 2.9% in 2005 and by 2% in 2006, with unemployment expected to remain at around 4.2%. However, these forecasts may be affected by rising energy prices, exchange rate values and the performance of the major euro economies.

4.2 Challenges facing the Irish labour market 2005-2008

Supporting the Long Term Unemployed, those who have become Redundant and those in Low-Skilled Employment:

The objectives are to equip people with the skills to give them access to good quality and secure employment over their lifetime and to continue the re-integration of the long-term unemployed and disadvantaged groups into the open labour market, with a focus on progression opportunities... Action must be focused on:

- ▶▶ making work pay;
- ▶▶ targeting low-skilled workers and the low-paid for training and further education to support their progression to better-quality and better-paid jobs;
- ▶▶ meeting the needs of workers who lose their jobs because of restructuring in the economy;
- ▶▶ fostering family-friendly employment practices and supporting women returners; and
- ▶▶ working to achieve the highest possible levels of employment in light of the NAPS target of eliminating long-term unemployment by 2007.

Sustaining Progress para 2.7

Over the period of the Programme, Ireland will continue to implement policies which lead to higher levels of employment, improved quality and productivity of work and social cohesion. Ireland will strive to reach and if possible exceed the EU employment rate targets for 2010 of 70% (overall), 60% (female) and 50% (older workers).

In order to ensure that labour market policy contributes to making the economy more knowledge based and innovation-driven, Ireland will focus in particular on two major challenges:

- ▶ Ensuring an adequate supply of labour to meet the needs of the economy and to sustain economic growth. Labour will be supplied through a number of sources: the underlying population increase; increased participation by the unemployed and those outside the labour force (including Lone Parents, Travellers and people with a disability), and migration.
- ▶ Maintaining a strong focus on education and training, including lifelong learning, to ensure the development of a high skilled, adaptable workforce.

4.3 Attract And Retain More People In Employment, Increase Labour Supply And Modernise Social Protection Systems

Employment Guidelines 19, 20, 21: To ensure inclusive labour markets for job-seekers and disadvantaged people; to improve matching of labour market needs; to promote flexibility combined with employment security and reduce labour market segmentation

This will continue to be a priority both as a means of contributing to economic growth and fostering social inclusion. Various supports to the unemployed and those outside the labour force, in particular for those in areas with higher than average unemployment rates will continue to be provided to encourage and facilitate access to the labour market. See annexes 5, 6 and 7 for details of labour market programmes and labour market data.

4.4 Prevention and Activation

4.4.1 Engagement with the Unemployed

There is active engagement by FÁS with the unemployed once they exceed six months on the live register threshold. This process has assisted the unemployed to progress towards employment, training or active labour market programmes. During 2004 52,328 persons were referred to FÁS with 35,136 persons attending for interview. Of those interviewed, 20,199 left the live register, with 9,718 placed in jobs, programmes, training and education. Persons unable to progress to training or employment accounted for 5% of FÁS interviewees. The High Supports process and the Bridging/Foundation programme are provided to assist them overcome personal barriers to the labour market.

An independent review of the Prevention and Activation process is being undertaken and will be completed shortly. The objective of the Review is to evaluate the effectiveness of the process. The outcome will inform future development in this area.

4.4.2 Expanding the Workforce

Expanding the Workforce (ETW) process offers a gateway for women wishing to return to the labour market, providing interventions suited to the needs of the individual and offers on-the-job training. Over 1,000 women participated in ETW training programmes in 2004. The greatest training needs identified by participants were in the areas of personal development and job-seeking skills. As part of ETW a Pre-Employment Preparation Programme has been introduced to provide participants with essential labour market skills.

4.4.3 Lone Parents

Under ETW, specific attention is being given to lone parents, the majority of whom are women. It is estimated that 43% of lone parents are in employment. The earnings disregard under the One-Parent Family Payment has helped to increase employment with many people taking up part time employment. One of the key tasks of the 'Ending Child Poverty' initiative under *Sustaining Progress* is to further increase incentives for lone parents to take up full time employment and avail of opportunities for education and training. Policy areas currently being examined include: income supports; employment; education; childcare and support programmes and information. An Action Plan for Lone Parents is being developed by FÁS.

4.4.4 Redundant Workers

FÁS (in co-operation with the industrial development agencies and local organisations) has developed a process of engagement with workers being made redundant. This process involves: information sessions; skills audits; training and engagement under the Preventive Strategy. It also explores new start-ups in whole or in part by the industrial development agencies.

4.4.5 Active Labour Market Programmes

A total of 66,086 places were supported in 2004 under various active Labour market programmes. Community Employment, Job Initiative and Social Economy programmes are being maintained at existing levels and provide 25,000 places annually. By including a greater training element, increased emphasis is being given to strengthening the employability qualities of these programmes. FÁS with the support of the Equality Authority is conducting a series of reviews to enhance the capacity of these programmes to accommodate a diversity of participants. Details of the various active labour market programmes are outlined in Annex 5.

4.4.6 Expenditure Review of State Supports for the Long Term Unemployed

The objective of this Review is to evaluate the range of state supports for the long-term unemployed. It will examine whether these supports continue to meet their objectives and assess their contribution to the effective and efficient elimination of long-term unemployment. The Review is expected to be completed by the end of 2005.

4.4.7 Social Partnership Group on Labour Market Issues

The Social Partnership Group on Labour Market Issues will provide a forum for dialogue between the social partners and the Government on a broad range of labour market issues.

Future Directions

- ▶▶ The range and scale of interventions and programmes will be maintained at existing levels;
- ▶▶ Future policy will be developed taking into account the outcomes of the reviews detailed above.

4.5 Making Work Pay

Tax benefits and welfare payments aim to reduce the numbers of working poor and eliminate inactivity, unemployment and poverty traps. A number of measures have helped encourage participation in the workforce, particularly, strengthening conditionality for unemployment payment and structural changes to the taxation and social welfare system.

4.5.1 Income Tax

Irish income tax policy is aimed at maintaining full employment and strengthening and maintaining the competitive position of the Irish economy through alleviating the tax pressure on labour. The policy also includes a particular focus on the low paid and the elderly. The Government removed all those on the national minimum wage from the tax net in 2005. As a result of a subsequent increase in the minimum wage in May 2005, it slipped back and at present on an annualised basis approximately 92% of it is outside the tax net. Nonetheless, this compares to a situation in 2000 when the minimum wage was first introduced where less than 64% annualised was free from tax.

4.5.2 Social Welfare System

A number of measures have been introduced to social security schemes to make them more employment friendly. These measures are helping remove potential barriers in the decision to take up or return to employment in the event of a sudden loss of social security. Examples of such measures include:

- ▶▶ Means disregards and tapered withdrawal of benefits as earnings increase;
- ▶▶ Exemption from liability for social insurance contributions;
- ▶▶ Employment support schemes such as the Back to Work Allowance and Back to Education Allowance Schemes;
- ▶▶ Family Income Supplement;
- ▶▶ Retention of Rent/Mortgage Interest Supplement and other secondary benefits on a tapered basis.

4.5.3 Future Directions

- ▶▶ Ensuring that 80% of all earners pay tax only at the standard rate;
- ▶▶ Ensuring that those earning the minimum wage remain out of the tax net;
- ▶▶ Welfare measures which have been revised will continue to be monitored to ensure their effectiveness;
- ▶▶ The development of further incentives for those on welfare payments to return to the workforce will be considered.

4.6 Increasing Female Participation

Reflecting the overall employment trend, the past decade has seen a significant increase in the number of women employed. Between 1998 and 2005, the number of females aged 15 and over in employment has increased by 38% to 819,000. Improved provisions in relation to maternity leave, parental leave, adoptive leave, the national minimum wage, and part-time work have facilitated entry to the workforce. In addition, changes in personal taxation, particularly, the move towards individualisation of tax allowances and band has helped increase the incentive to work.

However, there is still scope for greater female participation, particularly among those who wish to enter the workforce. As mentioned above, a number of supports/programmes are available to help unemployed/job seeking women gain employment. In particular, the Expanding the Workforce process engaged with over 2,000 women in 2004 and training has been provided to over 1,000 to facilitate to their return to work.

4.6.1 Gender Pay Gap

The report of the consultative group on male/female wage differentials informs a range of Government policies (including childcare, equality legislation, education, tax reform and employment rights) aimed at reducing the gender pay gap and occupational segregation. The gender pay gap has fallen consistently in Ireland and at 14% is now slightly below the EU average. The biggest root cause of this disparity is the time women take out of the workforce. To address this, Government policy is focused on facilitating access to affordable quality childcare services for parents and work/life balance.

The Department of Education and Science, through the school system, encourages increased female uptake of courses in the science and mathematics fields. The Department of Justice Equality and Law Reform, under its Equality for Women Measure, supports a number of projects aimed at increasing the number of women in science, engineering and technology. Science Foundation Ireland has also undertaken an initiative aimed at boosting the number of women scientists in Ireland and addressing the gender imbalance in the research community.

Arising out of the recommendations in the Report on Male/Female Wage Differentials, the Department of Justice, Equality and Law Reform engaged the Economic and Social Research Institute to undertake research into the Graduate Gender Pay Gap. This is due to be published shortly.

4.6.2 Gender mainstreaming

Gender mainstreaming complements and augments the promotion of gender equality and is a requirement for all policies and programmes funded under the NDP. The NDP Gender Equality Unit of the Department of Justice, Equality and Law Reform assists the work on gender mainstreaming. Gender mainstreaming in the Employment and Human Resources Development Operational Programme (EHRDOP) aims to promote gender equality across all areas of employment, education and training. The aim is to encourage and facilitate female participation and address sectoral and occupational segregation. Each measure under the EHRDOP is required to meet specific gender equality commitments, including providing gender-disaggregated data, carrying out gender impact assessments, incorporating gender equality in project selection and evaluations and reporting on gender equality impacts to twice-yearly Monitoring Committees.

Future policy directions with regard to gender mainstreaming are planned as part of the development of the National Women's Strategy and in response to the requirement on Member States to implement Gender mainstreaming in the areas covered by the amended Gender Equal Treatment Directive of the EU.

4.6.3 Equality for Women Measure

The Equality for Women Measure is designed to tackle the attitudinal, cultural and structural barriers to women's equal participation in economy and society, addressing women in poverty, women in the labour market and the economy and women in decision-making. Under Phase I of the Measure, of a total of 70 projects funded, 17 specifically addressed participation in education and training, and entering and progressing within employment.

Phase II of the Measure was launched in March 2005 with €5.7m allocated to 41 projects with the aim of improving women's access to education, training and employment, focussing on provision of structured training courses tailored to the particular needs of marginalized women. To date, approximately 3,000 women have benefited from training provided under the Measure. It is anticipated that a further 2,500 women will benefit from the training courses provided during the period 2005-2007. The Equality Authority has been resourced to implement a scheme of Employment Equality Reviews to support enterprises to review their policies, procedures and practices for their impact on equality and to prepare action plans.

4.6.4 Childcare

Under the Equal Opportunities Childcare Programme (EOCP) investment in childcare services has increased significantly in recent years. Total expenditure (including EU funds) will amount to just under €500 million for the period 2000-2006, in the form of capital, staffing and quality improvement grants. Under the programme, 26,000 new childcare places were in place at the end of June 2005. Programme commitments already in place should lead to the creation of a further 13,000 places. The programme is also contributing towards the staffing costs of approximately 30,000 new and existing places in community-based childcare facilities to support disadvantaged parents in employment, education and training.

In addition, the programme contributes to the staffing costs of approximately 700 childcare centres supporting social inclusion, enabling them to operate a reduced fee scale to assist disadvantaged families. The programme has also supported the creation of the 33 City/County Childcare Committees which oversee the development and enhancement of childcare at local level. It also supports National Voluntary Childcare Organisations to promote training, quality assurance measures and a range of other initiatives among their members.

In addition, the up-skilling of workers in the Childcare sector is taking place through the Competency Development Programme. These training initiatives involve increasing the volume of childcare trainers and improving management and IT competencies.

Meeting the demand for childcare has also been addressed through child benefit payments to parents. Child benefit is a universal payment and is not liable for income tax. Successive budget increases in payments have seen expenditure increase from €638 million in 2000 to €1,916 million in 2005.

A High Level Working Group on Early Childhood Care has been established to develop proposals for an integrated national policy on childcare and early childhood education.

4.6.5 National Women's Strategy

An interdepartmental group chaired by the Department of Justice, Equality and Law Reform and supported by a social partnership consultative group is preparing a National Women's Strategy. This is intended to provide a framework within which the outstanding gaps in the position of women in Irish society are addressed over a 10-year period.

Future Directions

- ▶ Gender mainstreaming policy will continue to be developed as part of the National Women's Strategy and in response to the amended Gender Equal Treatment Directive;
- ▶ Childcare will continue to be developed in the context of the successor to *Sustaining Progress*, the National Development Plan; and the Report of the High Level Working Group on Early Childhood Care will be considered.

4.7 Greater integration of specific groups into the labour market

4.7.1 Persons with Disabilities

The Disability Act 2005 aims to underpin mainstreaming and provide for positive action measures to advance the participation of people with disabilities in society. The Act requires six Government Departments to draw up individual sectoral plans covering the provision of services to persons with specified disabilities.

In relation to the labour market, the policy emphasis is to ensure disabled people have an equal opportunity to participate in mainstream employment and training programmes. Where this is not possible there are a number of training and employment supports targeted specifically at people with a disability are provided. For example, Specialist Training Providers provide vocational training services to persons requiring additional supports during their training. (See Annex 5). In addition, policy also aims to raise awareness amongst employers of the contribution disabled employees can make. FÁS is working with the Equality Authority to review the implementation of this mainstreaming policy. Further developments will be considered on foot of this review.

A Wage Subsidy Scheme to further help people with disabilities make the transition into mainstream employment was introduced in 2005. This will replace the existing Pilot Employment Programme and Employment Support Scheme by offering financial support to employers employing individuals with a disability who work 20 hours plus per week.

Employment is also encouraged through income disregards. These exempt a proportion of earnings for means tested payments. It is also possible for those in receipt of disability-related payments to receive exemptions from the general "no work" conditions in the case of certain rehabilitation employments.

4.7.2 Travellers

A High Level Group on Traveller issues is working to ensure that the relevant statutory agencies involved in providing the full range of services to Travellers, focuses on the improvement in the practical delivery of such services. A review of FÁS provision for Travellers will be conducted later this year. A report providing recommendations for a five-year Traveller Education Strategy is currently being prepared. It is expected that the report will be submitted, by the Educational Disadvantage Committee, to the Minister for Education and Science by the end of 2005 for her consideration. It addresses Traveller education across the lifelong spectrum from pre-school to further and higher education.

4.7.3 Prisoners

The Irish Prison Service places strong emphasis on the provision of vocational training for prisoners. It is continuing to work with FÁS and other vocational training bodies to review and update, where appropriate, work and training activities and courses to ensure that prisoners can access marketable skills and vocational qualifications to improve their prospects of employability in the labour market on their release.

Future Directions

- » Continue to mainstream disabled persons into employment and training programmes;
- » Ensure that targeted employment and training programmes address the labour market needs of disabled persons;
- » Promote supports available to employers to employ or retain disabled persons;
- » The outcome of the recent review of the illness and disability schemes administered by the Department of Social and Family Affairs will be considered.
- » Arising from the High Level Group on Traveller issues, specific employment interventions and supports for Travellers will be identified and developed;
- » Consider initiatives to enhance participation by all groups under the Equal Status Act.

4.7.4 Older Workers

Labour Market

Government policy is to facilitate those who wish to extend their working lives to do so. Equality legislation safeguards older workers from discrimination in the labour market and the Equality Authority makes employers aware of the benefits of employing older people through age awareness campaigns. In the past decade the employment rate for those aged 55-64 has increased by 10%. The average exit age from the labour force has also been increasing with provisional Eurostat data for 2003 indicating that the exit age in Ireland is the highest in the EU at 64.4 years.

The share of the population of working age is high and set to continue to increase for some time. According to Eurostat, the current ratio is 6 people of working age to every 1 person aged 65 and over but by 2025 this ratio will fall to 4:1. (The EU25 ratio is currently 4:1 and by 2025 is expected to be 3:1). In the long-term, however, the challenge of an ageing society will need to be met by ensuring that older workers are encouraged to remain in employment and pension systems are both adequate and sustainable.

To further facilitate the employment of older workers, a range of issues may be considered, including:

- » Providing for flexibility in the retirement age;
- » Creating incentives for workers who want to remain in or return to the labour market after age 65;
- » Facilitating a gradual move into retirement through changed working arrangements;
- » Tightening the conditions for early retirement;
- » Increasing the contributions required for full pensions.

In addition, the OECD is undertaking a review of policies in relation to older workers and this is expected to be available before the end of the year.

Pensions

Significant improvements have been made in State old age pension rates since 1997. Pension rates have increased by between 81 and 94% while prices have increased by 31% and earnings by 51%. The social insurance based old age (contributory) pension is paid at a rate of €179.30 per week for a single person under 80 years of age. This represents approximately 32% of gross average industrial earnings. Means tested social assistance old age pensions are paid at a maximum rate of €166 per week.

National Pensions Reserve Fund

A key component of Ireland's strategy to tackle the future cost of pensions is the National Pensions Reserve Fund. The Government is statutorily committed to investing the equivalent of 1% of GNP annually in the Fund. This has the objective of meeting as much as possible of the cost of social welfare and public service pensions from 2025 onwards.

The National Pensions Review will examine the key issues and challenges facing Ireland's pensions system in the coming years. The Review will put forward the further reforms it considers should be undertaken to modernise the system in response to ongoing demographic, social and economic developments.

Future Directions

- ▶▶ The findings of the OECD Review on older workers will be considered and implemented where appropriate.
- ▶▶ The outcome of the National Pensions Review will inform future policy development;
- ▶▶ The Government is committed to increasing social welfare pensions to €200 per week by 2007.

4.7.5 Economic Migration

The CSO Population and Labour Force Projections 2006-2036 estimates that for the period up to 2011, net migration will be in the region of 100,000 to 150,000 depending on the level of economic growth.

Following EU enlargement on 1 May 2004, Ireland together with the UK and Sweden were the only three countries to allow free movement of workers from new Member States, without the need for work permits. Employers are expected to procure the vast majority of their labour requirements from within the EEA; new work permits, for workers from outside the EEA, are now confined to highly skilled/highly paid positions. Reflecting these changes the number of new permits issued in the nine months to end September 2005 was just in excess of 6000. This compares with a figure of 22000 for 2003, the year immediately prior to enlargement.

The latest population and migration estimates indicate that the total immigration flow into Ireland in the year to April 2005 was 70,000. The estimated number of emigrants in the same period was 16,600, giving a net migration figure of 53,400, compared with 31,600 in 2004. Over a third of the immigrants (38%) were nationals of the 10 new Member States.

FÁS assists immigrants to achieve appropriate vocational qualifications and provides technical English training as part of this.

4.7.6 Future Directions

- ▶ The Minister for Enterprise, Trade and Employment has introduced legislation which will codify the existing administrative work permit arrangements, provide new and increased protections for migrant workers and allow for the introduction of a Green Card System, which would comprehend long-term or permanent residency. This is intended for employees in the highly skilled/highly paid occupations of sectors identified by Forfás and the Expert Group for Future Skills Needs. This will form the core of a new skills based migration policy, details of which will be published shortly.
- ▶ Forfás and the Expert Group for Future Skills Needs will develop a skills based migration policy paper to be published by the end of 2005.
- ▶ The Department of Justice, Equality and Law Reform are working on an Immigration and Residence Bill which will be published in 2006.

4.8 Improve Adaptability Of Workers And Enterprises

Promoting Flexibility combined with Employment Security

Employment Guidelines 21: To promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.

Facilitating a balance between job flexibility and security will continue to be a priority. Policies which facilitate an employment environment emphasising adaptability, job security and improving living standards will continue to be developed.

4.8.1 Work/Life Balance

Greater reconciliation of work and family life is being strengthened and enhanced through new provisions in the legislation on maternity, adoptive and parental leave. The National Centre for Partnership and Performance supports and encourages enterprise to address organisational change through partnership-style arrangements, enabling firms to build capability and to improve performance.

The National Framework Committee on Work/Life Balance Policies aims to raise awareness and encourage the provision of work/life balance at the level of the enterprise. This Committee was established under the social partnership process and comprises representatives from Government Departments, the Equality Authority and employer and union organisations.

4.8.2 Report of the Forum on the Workplace of the Future

The Report was launched in March 2005 and its recommendations form the basis for a National Workplace Strategy. This will support new forms of work organisation at national and organisational level. In identifying the gaps in Irish workplaces, the Report focuses on five strategic priorities:

- ▶ Commitment to workplace innovation;
- ▶ Capacity for change;
- ▶ Developing Future Skills;
- ▶ Access to Opportunities;
- ▶ Quality of Working Life.

Equality and diversity are identified as a key overarching strand in the National Workplace Strategy to be progressed through the work of the National Framework Committee on Equal opportunities at the level of the Enterprise in promoting planned and systematic approaches to workplace equality.

4.8.3 Health and Safety in the Workplace

The Health and Safety Authority is responsible for the enforcement and promotion of all workplace health and safety legislation. Despite the continued expansion in employment, particularly in construction, the rate of workplace fatality continued to decrease in 2004, with 50 reported fatalities due to workplace injury in 2004, a decrease of 23% on 2003. The work-related fatality rate was 3 per 100,000 workers in 2003 and in 2004 it was 2.7 per 100,000 workers.

The Safety, Health and Welfare at Work Act 2005 will facilitate further improvements on safety and health. While the basic principles of Health and Safety law remain unchanged, the Act includes new and more detailed provisions.

4.8.4 Review of dispute resolution services and modernisation of legislation

An Employment Rights Group will, as part of its work, consider how best to simplify, streamline and standardise the complaint, appeal and enforcement procedures and documentation across the various Employment Rights Bodies. The Department of Enterprise, Trade and Employment, in cooperation with the Office of the Attorney General will work on simplifying, harmonizing and consolidating the corpus of Employment Rights legislation. This will not involve changes in statutory Employment Rights entitlements or affect the adjudicative independence of the Employment Rights bodies.

4.8.5 Future Directions

- ▶▶ The Work/Life Balance Committee will continue to undertake a range of activities including the provision of financial assistance to organisations, information dissemination activities, seminars, and research activities;
- ▶▶ A High Level Group representative of Government Departments, semi-State agencies and the social partners will oversee the implementation of the National Workplace Strategy;
- ▶▶ Unemployment Assistance and Benefit schemes will be reviewed with a view to encouraging part-time work;
- ▶▶ As well as ensuring compliance with health and safety legislation the Health and Safety Authority has developed a national strategy for prevention and will continue to run a number of publicity campaigns on preventing workplace accidents and work-related ill health.

4.9 Wage and Labour Costs

Employment Guideline 22: To Ensure Employment Friendly Wage And Other Labour Cost Developments

The wage bargaining process in Ireland is set out above, under Guideline 5.

4.9.1 National Minimum Wage (NMW)

The National Minimum Wage Act 2000 provides that an experienced adult employee must be paid an average hourly rate of pay. The current rate is €7.65 with effect from 1st May 2005. The NMW is usually agreed within the social partnership process. This occurs through either the social partners proposing an increase to the rate or the rate being reviewed by the Labour Court at their request.

An employee may refer a complaint in relation to entitlements under the NMW Act 2000 to a Rights Commissioner of the Labour Relations Commission or make a complaint to the Labour Inspectorate of the Department of Enterprise, Trade and Employment. It is open to the employee to choose whichever course of action he/she wishes to pursue but both options may not be pursued to resolve the same issue.

4.9.2 Joint Labour Committees (JLCs)

JLCs are bodies established under the Industrial Relations Act 1946 to provide machinery for fixing statutory minimum rates of pay and conditions of employment. They may be set up by the Labour Court on the application of (i) the Minister for Enterprise, Trade and Employment or (ii) a trade union or (iii) any organisation claiming to be representative of the workers or the employers involved. JLCs operate in areas where collective bargaining is not well established and wages tend to be low. Proposals submitted by a JLC that are confirmed by the Labour Court through the making of an Employment Regulation Order (ERO) become that statutory minimum pay and conditions of employment for the workers concerned. Employers are bound under penalty to comply with the ERO. At present there are 19 JLCs.

4.9.3 Registered Employment Agreement (REA)

An REA is a collective agreement made either (i) between a trade union or unions and an individual employer or employers organisation or (ii) by a registered Joint Industrial Council, which relates to the pay or conditions of employment of any class, type or group of workers and which has been registered with the Labour Court under the Industrial Relations Act 1946. The effect of registration is to make the provisions of an REA binding not only on the parties involved in its negotiation but also on others who are in the categories covered by the agreement. An REA can deal with any matter that comes under the general heading of pay or conditions of employment. Each REA must contain a disputes procedure that is binding. There are 6 active industry-wide REAs.

4.10 Increase Investment In Human Capital Through Better Education And Skills, Lifelong Learning

Employment Guidelines 23, 24: To expand and improve investment in human capital; To adapt education and training systems in response to new competence requirements

4.10.1 Lifelong Learning

Ireland is committed to encouraging participation in further education and training and equipping all individuals with the skills needed in a rapidly changing labour market. The challenge is to upgrade the competencies and qualifications of the workforce (particularly those with low skill levels and in low level occupations) by providing targeted training programmes, including, the updating of the apprenticeship programme.

4.10.2 Framework for the development of Lifelong Learning

The framework for the development of Lifelong Learning is set out in the Taskforce on Lifelong Learning Report. An Interdepartmental Steering Committee oversees the implementation of the Report's recommendations. Significant progress has already been recorded, particularly in relation to the national framework of qualifications, the white paper on adult education and curricular and structural issues relating to education and training provision.

Continued priorities in the implementation of the framework for Lifelong Learning include:

- ▶▶ Addressing skill needs and widening access to lifelong learning in the context of an integrated approach to education and training;
- ▶▶ Tackling disadvantage in terms of literacy and numeracy, early school leaving and providing second chance education and training for those with low skills;
- ▶▶ Addressing access barriers through a strengthening of financial supports, guidance, counselling and childcare services and increased flexibility of provision;

The Expert Group on Future Skills Needs will formulate a National Skills Strategy to assist in the delivery of One Step Up and other training initiatives.

4.10.3 National Adult Educational Guidance Initiative

Under this initiative there are currently 35 projects, regionally based, in operation. The initiative meets the demands of adults who are participating in further education, literacy and community education programmes. It offers information, advice and guidance on a one to one and group basis to help the learners make informed choices. A National Database on Adult Learning Options is being developed through the Institute of Guidance Counsellors and Qualifax, which aims to provide information through the web on adult learning opportunities.

4.10.4 National Framework of Qualifications

The national framework of qualifications defines the relationship between all education and training awards, allowing all learning achievements to be measured in a coherent way. By encompassing all awards, it will facilitate progression through different levels and forms of learning (e.g. from schools to the workplace and from further to higher education and training) and transfer into new fields of learning. The framework will also enable the recognition in Ireland of international awards. It is intended to be fully implemented by the end of 2008.

4.10.5 In Company Training

As recognised in the European Commission's Continuing Vocational Survey, Irish companies devote considerable resources to employee training compared to many other Member States. The Report of the Enterprise Strategy Group stressed the importance of further increasing workforce education and skill levels. A substantial increase in funding of €36 million was provided to FÁS in 2005 for the expansion of training for people in employment, including, basic workforce education. A significant part of this funding is being absorbed through existing FÁS measures. In addition, training is being provided through projects being managed by private organisations on a contract basis. This training will cover basic skills provision, occupational-specific upskilling, functional and general management training and entrepreneurial development.

4.10.6 FÁS In Company Training

The principal in-company training supports provided by FÁS comprise a range of sectoral training initiatives, the Competency Development Programme and Excellence Through People.

4.10.7 Apprenticeship

FÁS has overall responsibility for the statutory based apprentice training system. Apprenticeship training is a standards-based system that takes at least four years to complete and involves on- and off the job training. To ensure that apprenticeship remains attuned to the needs of the labour market, FÁS will continue to review the curricula, assessment process and delivery mechanisms for apprenticeships. In addition, FÁS is progressing 10 additional occupations towards formal apprenticeship training and qualification and has others under consideration.

4.10.8 Competency Development Programme (CDP)

The CDP represents a major innovation in the delivery of in-company training. The training effort is focused on raising employee skill levels as distinct from addressing the training needs of firms. Programmes are identified based on local and national needs in consultation with industry organisations and the development agencies.

4.10.9 Excellence Through People

Excellence Through People is the national standard for employee development. It aims to establish a level of good practice for the training and development of employees.

4.10.10 Workplace Basic Education Fund

Funding is provided in 2005 to implement and manage a scheme to support literacy/numeracy training initiatives in the workplace. This new scheme will complement the activities of the Department of Education and Science as regards adult literacy and numeracy issues.

4.10.11 FÁS e-College

FÁS eCollege provides online distance learning and development opportunities, through the medium of the Internet. Courses are designed to enable those who wish to upgrade their skills or acquire new skills. Online learning will continue to be developed.

4.10.12 Department of Enterprise, Trade and Employment In Company Training

The Department issued an open call for in-company training proposals in 2002. Following assessment by external consultants it made funding commitments in respect of 23 projects. The majority of these focus on the development of training systems in areas such as basic skills, IT for the low skilled and management training for SMES. A second call for proposals is now being issued.

4.10.13 Training Networks

The Skillnets Training Networks Programme allows enterprises to access training and learning programmes by either forming or becoming part of a Training Network. A further mandate was recently granted to Skillnets to provide increased funding and support for enterprises over the period 2005-2010. Funding of €55 million is envisaged for this 5-year period.

4.10.14 Future Directions

- ▶ Continue to develop the various in-company training measures in consultation with relevant organisations, in particular through the Competency Development Programme;
- ▶ Monitor the ongoing provision of in-company training;
- ▶ Promote the benefits of training and develop measures to assist enterprises identify their training needs and increase investment in this area;
- ▶ Develop supports to enable individual employees avail of continuous learning, upskilling and reskilling opportunities
- ▶ Ensure FÁS training and employment programmes enable participants to access and progress within the National Framework of Qualifications;
- ▶ Implement the revised apprenticeship programme and extend the apprenticeship approach to other occupations;
- ▶ Continue to develop and promote FÁS e-College as a flexible training tool.

4.11 Education

Education policy aims to ensure that all young people leave the education system with a high quality education and related qualifications to support their full participation in society and in the economy. At present, 85.3% of persons aged 20-24 complete upper secondary education against the EU target of 90% by 2010. The majority of this cohort go on to third level education in State-aided universities, institutes of technology, and the private fee-paying third level colleges.

4.11.1 DEIS (Delivering Equality Of Opportunity In Schools)

In May 2005 the Department of Education and Science published DEIS (Delivering Equality Of Opportunity In Schools) a 5 year Action Plan for Educational Inclusion. The plan is one of a number of interventions to address disadvantage, which include second-chance education and training, increased participation by under-represented groups in further and higher education and the development of provisions for pupils with special educational needs. The Plan will address the educational needs of pupils in disadvantaged areas through a more targeted approach covering pre-school through second-level education. It will be implemented on a phased basis and emphasises the need to tackle literacy and numeracy as well as issues such as attendance, progression, retention and attainment. The Plan is central to the Department's response to the special initiative on educational disadvantage set out in *Sustaining Progress*. Objectives and targets under the new Action Plan will inform and complement the formulation of future national education targets in the context of both NAPsincl and social partnership agreements.

4.11.2 Early School Leavers

The policy in Ireland is that each person should have the opportunity to reach his or her full educational potential, with completion of upper secondary education (aged 17-18) being the minimum target. The unemployment rate for those under 25 has fallen significantly in over the last decade and now stands at 8.4%, below the EU average of 18.3%. Policy still seeks to ensure that persons with little or no education/skills are not isolated and vulnerable to potential economic downturn. It is delivered through measures which address early school leaving, combine education with labour market participation and upskilling. The European Youth Pact identifies the need to provide education and training to address the labour market challenges facing young people. Ireland supports the Pact's emphasis on youth and the policies it proposes.

Early school leaving policies are having a positive impact with the most recent CSO data showing Ireland making progress towards the target of achieving an EU average rate of no more than 10% early school leavers, with a rate of 12.9% in 2004.

The success of programmes dedicated to preparing participants for employment is continuing to be sustained. 90% of students who complete Post Leaving Certificate courses progress to employment or further education. In the case of Youthreach, the figure is 74% and for VTOS it is 69%. FÁS will continue to work in partnership with Community Training Centres to provide early school leavers with basic skills and work experience, and to aid progress towards further training or employment.

4.11.3 Adult Literacy

The National Development Plan set a target of 110,000 participants on adult literacy programmes for the period 2000-06. This target was achieved in 2002-03. The further development of literacy and numeracy skills literacy will remain a priority in the context of adult learning.

4.11.4 Higher Education

Participation in higher education is essential to creating more and better jobs and has a key role in advancing progress towards a knowledge based economy. There has been a significant expansion of higher education over the past two decades in terms of numbers and investment. This growth is reflected in strong performance by Ireland among OECD countries in terms of higher education participation rates for the school leaver age cohort. The latest data available indicates that this stood at 55% in 2003. This compares with rates of 44% in 1998, 36% in 1992 and 20% in 1980.

4.11.5 Equity of Access to Higher Education

The National Office for Equity of Access to Higher Education will progress its Achieving Equity of Access Action Plan 2005-2007. The Plan sets out the actions needed to increase the participation of under-represented groups in higher education.

4.11.6 OECD Review of Higher Education

The Report addresses a range of issues and makes recommendations regarding the funding and functions of higher education, increasing third level participation, and encouraging lifelong learning. The Review is playing a key role in the development of a unified strategy for higher education.

Future Directions

- ▶▶ The school completion programme will be extended to all urban schools participating in the School Support Programme over the next two years.
- ▶▶ Rollout of services under the national educational welfare board will continue with priority being accorded to disadvantaged communities.
- ▶▶ Adult literacy and back to education programmes will continue to be developed

4.11.7 European Social Fund (ESF)

The ESF helps to develop employment by promoting employability, entrepreneurship, and equal opportunities and by investing in the education, training and up-skilling of the labour force. Over the period of the National Reform Programme, ESF funding will support the development of skills in the labour force through the Employment and Human Resources Development Operational Programme (EHRDOP). The EQUAL Community Initiative will address inequality and discrimination in the labour market by providing ESF support to projects (Development Partnerships) to test innovative approaches to tackling labour market inequality. A particular emphasis will be placed on mainstreaming best practice from this programme. At a policy level the development of Vocational Education and Training (VET) will remain a priority. The key focus in the next few years will be the implementation of the Maastricht Communiqué on VET and the policy steer it gives in relation to credit accumulation and transfer in VET, enhanced mobility tools and, ultimately, the development of a European Qualifications Framework.



COMMON CONTRIBUTION BY THE BRITISH AND IRISH GOVERNMENTS

The British and Irish Governments remain committed to the full implementation of the Good Friday Agreement. They look forward to the early restoration of the political institutions of the Agreement, including the Northern Ireland Executive and Assembly and the North/South Ministerial Council.

They believe that strong, sustainable economic development is an essential component of the long-term success of the Northern Ireland Peace Process. That is best achieved through the full operation of the devolved institutions and the North/South structures of the Agreement.

They support the central ambition of the Lisbon Strategy to promote economic growth and employment, in order to ensure that Europe remains dynamic and competitive in the global economy and to help achieve wider social and environmental objectives.

They believe that improved co-operation within Ireland, North and South, on matters when appropriate and of mutual benefit has an important role to play in meeting the Lisbon objectives.

In the modern world, the key issue is how European economies respond to the challenges from outside Europe. This requires a stable, consistent macro-economic environment along with flexible, innovative and responsive reforms.

While there are important differences, many of the challenges faced by Ireland, North and South, are similar. These include the need:

- » to respond to globalisation and maintain competitiveness
- » to continue to grow employment and employment rates
- » to increase productivity
- » to innovate and to develop greater R&D capability
- » to enable people to acquire and maintain the skills needed for a modern, dynamic knowledge economy and to adapt to changes over their working lives
- » to promote enterprise and entrepreneurship
- » to provide a positive climate for business, including through more efficient regulation
- » to remove barriers to physical, labour and academic mobility as part of the completion of the European single market
- » to build world-class infrastructure
- » to achieve equality and good relations
- » to promote the highest standards of environmental protection

It is clear that meaningful mutual benefits can be secured through co-operation on an all-island basis in many areas. This is already evident in policy areas such as energy, where the authorities both North and South are co-operating to create an all-island energy market, and tourism, which is now being marketed on an all-island basis. The Governments believe that further co-operation in areas such as those outlined above can lead to further positive results.

In order to advance co-operation, to mutual benefit, the two Governments will work together to:

- ▶▶ identify those areas and policies where co-operation is appropriate and mutually beneficial.
- ▶▶ communicate with each other in relation to common needs associated with those areas.
- ▶▶ work together to develop joint approaches designed to realise those benefits.
- ▶▶ assess the potential for lessons to be learned from each other.

SOCIAL PARTNERSHIP - THE IRISH MODEL OF SOCIAL DIALOGUE

1. Historical Context

- 1.1** There has been a long history in Ireland of co-operation involving the social partners. There is a long established tradition of free collective bargaining involving employers and trade unions; and trade unions and employers have participated in a variety of committees and councils over the years. The most active in recent years has been the National Economic and Social Council (NESC) which is chaired by the Department of the Taoiseach and which was established in 1973 to advise Government on the development of the national economy and the achievement of social justice.
- 1.2** The beginning of the current model of Social Partnership can be traced back to the very difficult economic situation in which Ireland found itself in the mid 1980s. Unemployment had reached 17%. There was a 25% drop in manufacturing. Inflation while declining was running at an average of 12% in the period. On top of this the public finances were unsustainable, with a National Debt/GNP ratio of 125% in 1987.

2. Regenerating the Economy

- 2.1** The sense of national crisis prompted a concerted search for ways to escape the vicious circle of stagnation, rising taxes and spiralling debt. This search, involving the social partners, Government Departments and key analysts, was centred in the National Economic and Social Council, which, over the previous decade, has developed a capacity for strategic analysis and a respected role in policy advice. It led to the publication of the Council's Strategy for Development 1986 - 1990, which set out key principles which needed to be followed in order to regenerate the economy and improve equity.
- 2.2** The key message in the NESC Strategy had been that Ireland needed a strategy to manage the interlocking elements of the economy and the behaviour of economic agents. More specifically, it set out that moderate growth would underpin international competitiveness, reverse the cycle of pressures on the public finances and, by reducing inflationary pressures, lend credibility to the exchange rate strategy reflected in Ireland's membership of the Exchange Rate Mechanism.

3. The Programme for National Recovery

- 3.1** In October 1987, the first social partnership agreement, the Programme for National Recovery (PNR) was agreed. The PNR followed these lines and embodied, in particular, trade union support for a radical correction of the public finances. In return for this commitments were made that the real value of social welfare payments would be maintained despite these fiscal corrections. In addition reforms would help to maintain real living standards for wage earners. The PNR also established a new Central Review Committee, representing Government and the social partners, to monitor implementation of the Programme and facilitate ongoing dialogue on key economic and social issues - including unforeseen crises. This central review mechanism was supplemented by social partner involvement in a number of working groups as well as informal contact between Government and the Social Partners, with the Department of the Taoiseach acting as the coordinator.

4. Programme Evolution

- 4.1** The pattern of negotiation which applied in the case of the PNR has been followed in the case of each of the successor agreements, with a strategic report by the National Economic & Social Council - assessing past experience, setting out parameters for the future - providing a focus for the subsequent negotiations. The broad macro-economic strategy, including the combination of relatively moderate pay increases and tax reductions has been largely adhered to in these agreements.
- 4.2** Each of the six agreements has had a different focus and has contained significant innovations, reflecting the unique challenges and opportunities of their time.
- 4.3** Social partnership is a responsive and continually evolving process aimed at ensuring wide and appropriate involvement. In this context the fourth Programme included the direct involvement in social partnership for the first time of representatives of the community and voluntary sector. The social partnership process now consists of government representatives and four pillars comprised of Employer/Business, Trade Union, Farmer and Community and Voluntary interests.
- 4.4.** In parallel with this expansion of membership, the range of issues addressed also broadened, beyond pay and industrial relations issues, to include wider economic and social policy areas.

5. The importance of the Irish Model of Social Partnership

- 5.1** Social Partnership is essentially a process of deliberation, involving a search for consensus in addressing trade-offs between and within different groups in addressing joint problems. It is a very practically oriented process: the social partners have not spent too much time on ideological disputes and this has been a major strength.
- 5.2** The central importance of the social partnership agreements has been their ability to create the necessary conditions and consensus which has enabled Ireland to substitute a virtuous circle in the economy of growth, jobs and better social provision, for the vicious circle of stagnation, rising taxation and spiralling debt. The agreements have also presented established business and potential investors and Government with the prospect of stability and certainty over a multi-annual time frame. The agreements have also yielded significant benefits in terms of industrial peace. For these reasons, successive Governments have reaffirmed the centrality of the principle of social partnership to the Irish model of economic and social development.

6. Institutional Arrangements

- 6.1** The institutional arrangements that were put in place at national level underlined the reality that reforms required could only succeed with the active consent and participation of a wide range of stakeholders. A major value of these arrangements has been their ability to provide a "safe space" for the various economic and social policy actors to engage in analysis and deliberation while also remaining focused on the big picture and the longer term strategic interests of society.
- 6.2** There are a number of structures in place for monitoring and reviewing the implementation of the current Programme, *Sustaining Progress*. Quarterly plenary meetings of the four pillars are held to review progress. This includes an annual meeting every July of all parties to the Agreement, chaired by the Taoiseach, and attended by his colleagues the Tánaiste, and Minister for Finance. A Steering Group representing Government and each of the pillars has overall responsibility for the management of the implementation of the agreement, including in particular the Special Initiatives. The National Implementation Body (NIB), established in December 2000,

oversees the delivery of the industrial peace and stability provisions of social partnership agreements. The NIB is chaired by the Department of the Taoiseach and includes the General Secretary of the Irish Congress of Trade Unions (ICTU) and the Director General of the Irish Business & Employers Confederation (IBEC).

6.3 Various institutional developments have taken place below the central level, at which Government, the social partners and local communities have also developed expertise in dialogue and negotiation. There have also been significant developments in national public service reform; in reform of the local authority system and in the development of local area based responses, particularly in disadvantaged areas. A particular innovation in the fourth Programme, Partnership 2000 was agreement on a national framework for developing partnership at the enterprise level, defined in terms of 'a common interest to secure the competitiveness, viability and prosperity of the enterprise'.

7. National Reform Partnerships

7.1 The 2004 Spring Council conclusions called on Member States to build Reform Partnerships involving the social partners, in accordance with national arrangements and traditions. At the April 2004 Plenary meeting, it was agreed that Ireland's social partnership process was the appropriate vehicle to act as the Irish National Reform Partnership. The social partners have been consulted on the Lisbon Review and the preparation of the National Reform Programme.

7.2 The Irish National Economic & Social Council will also complete its report on the Lisbon Strategy in the coming months, focusing in particular on the open method of coordination and its applications in the Irish context.

8. Challenges

8.1 The immediate challenge for the Irish Government and the social partners is to negotiate a seventh national agreement, appropriate to current conditions. Formal negotiations are expected to commence in November and will, once again, be informed by the National Economic & Social Council three-year strategic overview to be published in October.

ANNEX 3

COHESION POLICY 2007-2013

Implications for Ireland

The European Commission published its proposals for Cohesion Policy for the period 2007-13 in February 2004. In July 2005, the Commission proposed Community Strategic Guidelines that set out a framework for new programmes which will be supported by the European Regional Development Funds, the European Social Fund (ESF) and the Cohesion Fund. Cohesion Policy will aim to promote balanced, harmonious and sustainable development throughout the EU and improve the quality of life of Europe's citizens. Future programmes funded from the Structural Funds will need to contribute to growth and jobs in line with the renewed Lisbon agenda.

As far as Ireland is concerned, both the Border Midland and West and the Southern and Eastern NUTS II Regions will qualify for support under the **Regional Competitiveness and Employment Objective**. The BMW region will receive enhanced support as a *phasing-in region* under this objective which would be higher (in per capita terms) than other regions in this Objective. Ireland will also receive funding under the **Territorial Cohesion Objective** to build on the success of the current INTERREG programmes with Northern Ireland and with Wales. Other transnational programmes will continue to be feature of the new programming period. The nature of the interventions that will be funded will be limited under the Commission proposals and will concentrate on:

- ▶▶ Innovation and the knowledge economy (R&D, technology transfer etc);
- ▶▶ Environment and risk prevention with specific emphasis on promoting development linked to bio-diversity, energy efficiency and renewable energy;
- ▶▶ Access to transport and communication services of general economic interest outside major urban areas.

National Strategic Reference Framework (NSRF)

- ▶▶ Ireland will prepare a *National Strategic Reference Framework (NSRF)* setting out the Irish strategy for Cohesion Policy and providing a link with the Community Strategic Guidelines. A strategic section will set out the link between the Community priorities and national and regional policies and the priority themes chosen for assistance from the funds. The NSRF will also describe the operational arrangements and the indicative funding from each fund for the key activities to implement the Lisbon and Gothenburg agendas and the European Employment Strategy.

RESEARCH AND DEVELOPMENT / INNOVATION

Key R&D Policy Challenges

Strengthening the Public Research Base. Through investments by the Higher Education Authority (HEA), Science Foundation Ireland (SFI) and the research councils, over thirty new centres of research excellence are being established. Annual output of PhDs in science, engineering and technology disciplines will have increased by 60% to over 500 annually between 2002 and 2006.

The OECD Review of Higher Education (September 2004) recommended that Ireland would need to double the number of PhD students by 2010. A commensurate increase in the number of Principal Investigators/leading researchers in the public research sector for research and supervision will also be required. To achieve these targets, we need to move to a longer-term basis for planning for research investment to meet the development needs of the economy.

As a small and open economy we cannot be competitive or develop the required critical mass in all areas of science and technology. We need to focus and to develop centres of excellence that will form the basis for creating the magnets for innovation, wealth creation and high quality employment into the future. A greater alignment is required between the needs of enterprise and society in Ireland and public investment in research.

University Reform

Quality of graduate and researcher output is as, if not more, important, as quantity. Top-ranking universities are essential components of knowledge-economy infrastructure. To compete, our universities need to be flexible and responsive and university Presidents need to have the executive authority required to motivate and build vibrant universities. This will require changes to streamline and strengthen governance so as to ensure they have the appropriate talent, experience, empowerment and motivation at the top of each Irish university to deliver change, catch up and pursue excellence. A number of universities are actively pursuing a reform agenda, in recognition of the changing international landscape for the best students, teachers and researchers.

We have also to develop our Institutes of Technology sector in a differentiated way in research and technology development to enable them to better work with enterprise, in particular in a regional development context and to enable them to compete for research funding streams, as with all other institutions, on the basis of merit.

Links between Science Base and Enterprise

Ultimately it is success in markets that provides jobs, growth and the resources for additional investment in research; effective links between markets and the research base are therefore important to enhance the efficient allocation of limited public resources for research. Historically, the levels of research collaboration have been low in Ireland, due to the low absorptive base of enterprise, shortages of funding and cultural barriers in terms of timeframes and operating procedures as between enterprise and academia. Harnessing the full potential of the increased public investment in research necessitates very close relationships and collaboration between the enterprise base and the science base. The role of Government is in part to provide clear and certain policy and regulatory frameworks that facilitate and encourage commercialization of intellectual property and collaboration.

Recent investment through the HEA and SFI has strengthened the base of research excellence in frontier research. The next challenge is to build research and technology competencies in strategic areas of more direct medium term relevance to Ireland's enterprise base. Industry needs to have a strong role in driving research agendas with research institutions, building on existing enterprise strengths through technology development.

We recognise that a strategic process is also required involving the research funding and development agencies to identify new areas where there is a need to build competence centres by assessing technology platforms, understanding firms technology roadmaps and fostering international links.

Research Commercialisation

The infrastructure for managing intellectual property needs to mirror the increasing sophistication of our research effort and position Ireland to compete effectively in the international market for knowledge assets originating in public research institutions. The development of the systems and infrastructure within the public research institutions for the capture/protection/management and commercialisation of IP need to be upgraded to fully capitalise on the significant increases in R&D funding now and into the future. This enhancement needs to be progressive, as the investment in the research system increasingly leads to commercial application.

Technology Transfer from Foreign Sources

As a small open economy, it is likely that the exploitation of research and technology developed abroad will continue to be the key driver of economic growth and productivity in Ireland in future years. The ability of firms in Ireland to exploit research by firms and Governments in other countries to their fullest will depend on having the graduates and skilled workforce in Irish enterprise that can absorb and optimize international technology flows. The higher education sector, in particular the institutes of technology, working closely with firms, can play a stronger role in promoting the transfer and application of technologies from abroad, from both research institutions and large enterprise R&D performers.

Mobile Enterprise R&D

Ireland has consistently proved to be an attractive location of enterprise R&D activities related to production investments. In 2003, foreign affiliates accounted for 72 per cent of business expenditure on R&D. Ireland is developing as a gateway for many of the world's leading R&D performing companies from the US to establish R&D activities in Europe. Seven of the top ten US firms in Medical Devices and Pharmaceuticals sectors have R&D activities in Ireland and similarly a number of the top ten US firms in ICT Hardware and Software/Computer Services also have R&D in Ireland. At the same time Ireland's market share of new R&D projects remains low.

The promotion and marketing of Ireland as a location for mobile enterprise R&D needs to be stepped up significantly and a stronger development approach adopted with the existing base of foreign firms in Ireland to attract additional R&D functions. To maximize the spillovers and returns to the economy from foreign firm R&D activities, effective links also need to be developed with SMEs where possible in such cluster development strategies.

International Research Policy and Linkages

As a small and open economy, Ireland's future success is intrinsically linked to the success of the Lisbon Strategy to develop Europe as a more competitive and attractive place for businesses and knowledge workers and in creating an internal market for research, a 'European Research Area'. While the key policy requirements for boosting research and innovation in the enterprise sector and strengthening the science base are at national level, the EU has a key role in complementing national initiatives, in particular through the Framework Programmes.

Ireland has continued to perform well in the EU Framework Programme (FP6) over recent years, achieving its just re-tour. However, the participation of industry has declined as the complexity of the research teams at EU level has increased. There is a need to review the current National Support Structures for promoting the Framework Programme in order to facilitate maximum participation in the Programme. The higher education sector in Ireland, which continues to increase its participation, needs to develop a more proactive approach to bring Irish industry

into international research networks. National research funders need to incentivise and drive research teams to leverage funding from international sources and to leverage Irish enterprise participation.

As the complexity and multi-disciplinary nature of research increases, Ireland will need to prioritise links with research institutions and infrastructures internationally rather than seeking to develop all required infrastructures nationally.

There is also a need to build on the measures already taken at national level to improve the entry conditions for third country researchers and their family members and to move quickly to implement EU proposals in this area.

Policy Oversight and Review

Significant progress has been achieved in establishing a new oversight and review framework for research policy, as set out above. The key challenge for these new arrangements is to achieve a high degree of co-ordination and coherence in research funding. The over-riding principle is to maintain the freedom of Government Departments and funding agencies to operate to meet their policy objectives, while at the same time reducing the fragmentation of the national innovation system and increasing the productivity and efficiency of research expenditure.

Enhanced Public Support Mechanisms for Enterprise R&D

We currently have too few firms doing R&D and those that are, are not doing enough. We need a new approach to the provision of State support for in-company R&D, that recognises that firms at different levels of technological sophistication and absorptive capacity require different supports, through the various stages from awareness of the role of R&D to their product and process development for new markets, to developing an R&D strategy, developing in-house capabilities and forging links with the public research sector, nationally and internationally and ensuring that they get the best possible return on investment in R&D.

Researcher Careers

PhD graduates that do not take up employment in enterprise or tenured lecture/research positions can be faced with uncertain career prospects before getting a permanent post in academia and can become "*perpetual post-docs*". The fundamental issue is that there are not enough permanent positions in the public research system for the very best who want to stay in an academic research environment and this structural weakness will need to be addressed, through for example the provision of additional permanent posts in Irish universities up to international standards.

Examples of policy initiatives and measures currently planned and underway.

The preparation of the Strategic Implementation Plan (SIP), which is currently underway, will provide a comprehensive and coherent science policy for Ireland for the future. The SIP covers the following areas:

- » STI strengths, weaknesses, opportunities and threats;
- » Innovation and Entrepreneurship;
- » R&D in enterprise;
- » Turning knowledge into products and services and required research commercialisation infrastructures;
- » R&D in public research system
- » capacity and infrastructures issues;
- » sectoral strategies of Government Departments;
- » Creating a highly attractive environment for researchers.

Policy initiatives/measures aimed at strengthening the public science base and its links with industry:

In 2005, 35% of funding for the third level research is provided in a Block Grant from the Dept. of Education and Science (DES) and the remainder of Government funding to HE is allocated on a competitive basis. For example, SFI accounts for 25% of funding to HE in 2005 and this is all allocated competitively, on the basis of excellence. The main infrastructure funding of the HEA (capital element of the Programme for Research and Training in Third Level Institutions (PRTLII)) accounts for 7% of Government HE research funding and is also allocated through competition.

The HEA has recently published an impact assessment of the PRTLII. The report takes a positive view of the impact of the PRTLII to date and strongly recommends its continuation well beyond the current NDP. It makes a number of recommendations for Government, the HEA and institutions in the future management of the programme.

Funding for research projects, programmes, postgraduate research students and fellowships is provided competitively by two research councils established in 2000 - the Irish Research Council for the Humanities and Social Sciences (IRCHSS) and the Irish Research Council for Science, Engineering and Technology (IRCSET).

The Programmes of SFI and HEA have specifically targeted the development of centres of excellence (CoEs) over the last five years. Over thirty CoEs have been established with leading research teams, and are in the process of ramping up. SFI has also introduced a specific programme to link industry to frontier research, its Centres for Science, Engineering and Technology;

Existing competence centres are being enhanced, such as the Tyndall Institute in Cork and new ones being established, such as the centre for bio-processing training and research, NIBRT;

Enterprise Ireland (EI) is working to develop applied research centres in the universities and IoTs, in particular linked to industry needs;

The DES has introduced a specific fund for the university sector to promote and encourage reform programmes;

Funding for co-operation with Northern Ireland involves support for cross-border collaborative initiatives between third-level institutions. Expenditure in 2003 on the 21 successful awards was approx. €300,000, while the full annual cost is approx €2 million.

The HEA has for several years provided small dedicated funding on a competitive basis to the universities to support innovation in areas of strategic interest (c. €10 million per annum). In recent years, funding has been provided for innovation in teaching and learning in the universities, as well as measures to support the development of e-learning in the institutions. This has helped support new techniques in teaching and learning, as well as new strategies for the development of e-learning. The HEA is currently in the process of developing a new recurrent funding mechanism. Under the new model, it is proposed that provision be made for strategic funding allocated on a competitive basis to be increased to 10% (potentially rising to 15%) of the overall block grant for universities.

A number of new incubation and innovation centres for start-ups have been established with State support through EI and funding from the private sector, including the Nova Centre in UCD, and similar facilities in DCU and UCC and also in the IoTs;

The Advisory Science Council and ICSTI have developed National Codes of Practice for the management and commercialization of IP from publicly funded research and public-private collaborative R&D. Forfás is monitoring and promoting the timely implementation of the fundamentals of the Codes;

EI is initiating a pilot industry-led cluster based technology programme in areas such as embedded systems and should have a measurable impact on the levels of enterprise-academic collaboration;

The DETE and the HEA, together with the development agencies, Forfás and higher education institutions are developing proposals for the future structure and resourcing of commercialisation functions. An appropriately resourced intellectual property capture/protection/management and commercialisation function needs to be developed within each institution supported by external expertise and assistance, as required.

Policy initiatives/measures aimed at creating a competitive environment rewarding innovative companies and conducive to increased private investment in R&D:

- » The enterprise development agencies provide a range of supports to companies and to researchers seeking to commercialise their research results. These include capability supports for large R&D investments, and RTI Competitive grants for those at an early stage or for on-going small/medium scale research activity, support for collaborative research with third level through Innovation Partnerships, feasibility study grants and technology management and graduate placement/development funding and programmes;
- » The Government introduced a tax credit for incremental R&D in the Finance Act 2004, at a rate of 20%;
- » The Patent Royalty Exemption Scheme encourages invention and risk taking to companies and to individuals;
- » The State, through EI has actively engaged with the financial sector to develop the venture capital sector for higher risk investments, with some success. EI also takes equity stakes in technology start-ups and through the early stage growth of companies;
- » Public procurement is not used to promote innovation per se, but the potential for initiatives in this area is being considered by the Department of Finance in conjunction with the EU Commission and Forfás;
- » EI ran pilot awareness campaigns to promote RTDI to firms in 2003 and is to relaunch a similar programme, providing a number of days of consultancy to firms to develop strategic technology and R&D plans;
- » A pilot technology assessment exercise is underway in nanotechnology to determine the extent to which a greater focus can be achieved in research investments through forward planning involving industry and the research sector;

- » The Industrial Development Authority (IDA Ireland) is working with the Irish management of foreign affiliates to develop local capacity for R&D and to win mandates for R&D for these Irish operations. Emerging clusters linking the research and enterprise bases are being given a special focus, e.g., through enhancing the links between the medical device industry cluster in Galway and the NUIG research in regenerative medicine and medical devices.

Policy initiatives/measures aimed at ensuring a sufficient supply of qualified researchers:

- » DETE initiated the Discover Science and Engineering Programme in 2003 to specifically promote interest and understanding of the sciences among school pupils at primary and second levels;
- » The number of PhD graduates in SET has been rapidly expanded through the research councils and PRTL, increasing by 60% between 2002 and 2006;
- » DETE, through SFI launched a €1m fund to promote greater female participation in research careers and to enable women return to research careers;
- » The CSA is promoting the concept of longer, seven year PhD fellowships with research funding bodies to provide greater certainty for research careers;
- » The development agencies are working with existing enterprises to develop significant R&D centres and are seeking to attract new mobile R&D activities, which are providing challenging and well rewarded jobs. Recent examples include Bell Labs, Bristol Myers Squibb, Wyeth, Intel, Glanbia, Dairygold and Megazyme;
- » A EU backed initiative is underway to establish a European Network of Mobility Centres to remove obstacles to the mobility of researchers. DETE nominated and supports the Conference Heads of Irish Universities (CHIUI) who operate Ireland's national mobility centre and mobility portal. The Mobility Centre provides assistance to researchers wishing to pursue careers in academia and industry,
- » In general, work permits for researchers are handled efficiently and without undue delay. A fast track arrangement has recently been introduced by DETE for researchers in the case of publicly funded research contracts and grants. It is intended to pursue further measures to improve the entry conditions for third country researchers and their family members in line with EU proposals in this area.
- » Progress that has been made in the education sector on a range of the recommendations of a report prepared by a high level Task Force on the Physical Sciences, established by the Minister for Education and Science in 2001, includes:
 - » Revised syllabi have been introduced at primary and Junior Certificate levels,
 - » New syllabi have been implemented for leaving certificate physics, biology and chemistry,
 - » €3.0m was issued to primary schools to support the new science curriculum in 2003,
 - » An additional annual per capita grant for Physics and Chemistry was introduced at Leaving Certificate level in 2000,
 - » A grant scheme of €12m was established to re-equip schools opting into the revised Junior Certificate Science syllabus,
 - » ICT integration projects in teaching and learning have been provided under the Schools IT Initiative,
 - » Reviews on Mathematics, grading of subjects in the Leaving Certificate and gender equity issues in science have been undertaken.

Food Research

The FIRM programme operated by the Department of Agriculture and Food has led to the development of third level centres of excellence in food research, the delivery of a highly qualified cadre of post-graduate and doctoral researchers and innovative research outputs with food safety and commercial outcomes. The model of competitive international co-operation where excellence and collaboration are both required to secure funding, the independent evaluation process and the restriction of grant aid to high quality projects has yielded first-class research and increased capacity and capability in food research at third level.

In 2004, a working group between DAF and Enterprise Ireland, the development agency, was set up to identify areas of commercial opportunity offered by research proposals and to enhance awareness by industry and research institutions of areas with potential for growth.

The Research Stimulus Fund is a sub-measure of the RTDI Operations Programme 2000-2006 with a budget of €4.13 million. It has been used to fund a total of 28 projects, many of which are now nearing completion.

The main focus of RSF is to provide funding to research institutions on a competitive basis, for research aimed at filling R&D gaps in production agriculture, environment, rural economy and related policy requirements not covered by the mainstream research programmes. An additional non-NDP related €1.5 million was allocated in the 2005 estimates and is being used to fund sustainable agri-production research projects covering Agri-Environment, Non-Food Crops and Agri-Food Economics Themes.

The research funded is of a 'public good' nature the results of which are made freely available to support sustainable agricultural production practices. Preference is given to projects involving inter-institutional collaboration and/or the development of critical mass."

FÁS PROGRAMMES AND SERVICES SERVICES FOR JOB SEEKERS

Placement and Career Guidance Services

Help people to explore career options and find the right job. These services also include intensive guidance and support for long-term unemployed people and others experiencing difficulty in accessing the labour market.

FÁS JobsIreland

Allows people to source suitable jobs or training courses, submit details to employers with suitable vacancies or electronically distribute their CV to employers.

European Employment Services

Assists people wishing to work within the EU Member States through the EURES network.

TRAINING SERVICES

Specific skills training

Trainees attend courses in a range of skill areas such as engineering, construction.

Bridging/foundation training

Provides support for those needing additional help to progress onto further training, education or entry to employment.

Standards based Apprenticeship

Provides modular on and off the job training leading to an internationally recognised qualification.

Traineeship for non craft occupations

Provides occupational skills development programmes providing on and off the job training leading to recognised qualifications and occupational routes for progression.

Evening Courses

Courses such as start your own business and IT. These are available in training centres nationwide.

Community Training Programmes

Provides training opportunities for unemployed people and help enhance the local environment.

LABOUR MARKET PROGRAMMES

Community Employment

Provides temporary work experience and some training within voluntary groups and public sector bodies.

Job Initiative

Provides full-time employment within communities for those unemployed for over 5 years.

Social Economy

Supports the development of social economy enterprises and provides sustainable employment opportunities within communities for the long-term unemployed.

Jobs Clubs

Assists unemployed people who are 'job ready' to seek and obtain employment.

Services for Early School Leavers

Works closely with the Vocational Education Committees to help early school leavers integrate into the labour market (through Youthreach) in Community Training Centres.

SERVICES FOR PERSONS WITH A DISABILITY

Wage Subsidy Scheme

Offers a financial subsidy to employers to encourage them to employ people with disabilities.

Supported Employment Programme

Provides the support of a job coach whose role it is to assess career aspirations and match these with suitable job opportunities in the open labour market.

Workplace Equipment/Adaptation Grant

Supports any additional costs to an employer in employing or retaining an employee with a disability. It also supports any additional costs of self-employment for people with disabilities.

Disability Awareness grants for employers

Promotes the employment of disabled people by raising awareness of their effectiveness as employees.

Employment Retention Grant Scheme

Provides for the retraining of the employee in alternative duties or the same duties using modified techniques.

Job Interview Interpreter Grant

Offers persons a hearing or speech impairment funding to have an interpreter attend the job interview.

Personal Reader Grant

Available to people who are blind or visually impaired and may need assistance with job related reading.

SERVICES FOR BUSINESS

Training Advisory Services

Assists in the identification of training needs and the development of training strategies for companies.

Excellence Through People

Encourages the development of employees to full potential so as to maximise their contribution to the specific needs of their organisation and provides recognition for the achievement of this aim.

Competency Development Programme

Raises the competency level of targeted employees in particular occupations within specific sectors.

National Sector Specific Programmes

Plans specific training programmes in collaboration with various business sectors.

NATIONAL INDICATORS TO MEASURE PERFORMANCE AGAINST CERTAIN ASPECTS OF THE EUROPEAN EMPLOYMENT STRATEGY

The idea of measuring and comparing performance is central to the European Employment Strategy. Comparison between Member States facilitates identification of strengths and weaknesses inherent in Member States Labour Markets. The majority of these comparisons are based on statistics supplied by the National Statistics bureau (in Ireland the CSO) and verified by Eurostat, thus giving cross-country comparability. In the case of certain data requirements indicators are not available on a harmonised basis and must be developed based on National Sources. As these indicators cannot offer the degree of cross-country comparability that agreed Eurostat data does, it has been agreed to focus on the trend within Member States as opposed to conducting a ranking exercise. Outlined below are indicators based on National Sources for Employment Guideline 19.

INDICATOR CODE	DEFINITION ¹⁹	U 25'S	U 25'S	ADULTS	ADULTS
		Male	Fem.	Male	Fem.
(KEY) PREV. 7	Share of young/adult unemployed becoming unemployed in month X, still unemployed in month X+6/12, and not having benefited from intensive counselling and job search assistance (Category 1).	0.7%	0.8%	0.5%	0.6%
(KEY) PREV. 8 (A)	Share of young/adult unemployed becoming unemployed in month X, still unemployed in month X+6/12, and not having been offered a new start in the form of training, retraining, work experience, a job or other employability measure (Category 2-7).	2.5%	2.6%	3.6%	3.3%
(KEY) PREV. 9 (B)	Share of young/adult unemployed becoming unemployed in month X, still unemployed in month X+6/12, and not having been offered a new start in the form of training, retraining, work experience, a job or other employability measure (Category 1-7).	3.1%	3.4%	4.1%	3.8%
(CONTEXT) PREV. 8	Share of young/adult unemployed becoming unemployed in month X, still unemployed in month X+6/12 without any break of more than one month.	4.6%	5.1%	5.1%	4.8%

19. Please note that due to the timing of collection of administrative data in the Irish context that the indicators regarding prevention, and in particular the indicator re inflow into LTU are measured at 7 months for under 25's and 10 months for adults. (not 6 and 12 respectively as put forth in the Guidelines)

B) Activation

Key indicator 10

Number of long-term registered unemployed participants in an active measure (training, retraining, work experience or other employability measure) in relation to the sum of the long-term unemployed participants plus registered long-term unemployed (yearly averages).

The table below refers to Active Measures provided by FÁS only as at 31st December 2004. Yearly average long-term unemployed 28,425. **Sources: FÁS /CSO**

PROGRAMMES	LONG TERM UNEMPLOYED	TOTAL PARTICIPANTS	ACT 10
SPECIFIC SKILLS TRAINING	278	3,300	0.67%
TRAINEESHIP	82	1,674	0.19%
RETURN TO WORK	17	361	0.04%
BRIDGING / SKILLS FOUNDATION	144	1,774	0.35%
C.Y.T.P. / LOCAL TRAINING INITIATIVE	132	2,336	0.32%
LINK WORK EXPERIENCE	9	174	0.02%
COMMUNITY TRAINING CENTRES	49	2,419	0.12%
SPECIAL TRAINING PROVIDERS	43	1,831	0.10%
JOB TRAINING SCHEME	17	124	0.04%
WIDER HORIZONS	19	99	0.05%
SOCIAL ECONOMY	684	2,060	1.65%
TOTAL TRAINING	1,474	16,152	3.56%
COMMUNITY EMPLOYMENT	9,611	22,194	23.17%
JOB INITIATIVE	1,969	1,969	4.75%
TOTAL EMPLOYMENT SCHEMES	11,580	24,163	27.92%
NATIONAL TOTAL	13,054	40,315	31.47%

IRISH LABOUR MARKET DATA 2000-2005

STATISTIC	2000	2005	% CHANGE
PERSONS IN THE LABOUR FORCE (000'S)	1745.9	2014.8	+15.4%
PERSONS IN EMPLOYMENT (000'S)	1671.4	1929.2	+15.4%
OVERALL EMPLOYMENT RATE	64.5%	67.1%	+2.6%
EMPLOYMENT GROWTH RATE	5.1%	5.1%	-
FEMALE EMPLOYMENT RATE	53.2%	58%	+4.8%
OLDER WORKERS EMPLOYMENT RATE	44.4%	50.7%	+6.3%
UNEMPLOYED PERSONS (000'S)	74.5	85.6	+14.8%
UNEMPLOYMENT RATE OVERALL	4.3%	4.2%	-0.1%
FEMALE UNEMPLOYMENT RATE	4.2%	3.8%	-0.4%
LONG TERM UNEMPLOYMENT (000'S)	27.7	27.6	-0.3%
LONG TERM UNEMPLOYMENT RATE	1.6%	1.4%	-0.2%
TOTAL DAYS LOST DUE TO INDUSTRIAL DISPUTES	97,046	20,784	-78.5%
WORK PERMITS ISSUED BY DETE (000'S)*	18.006	34.067	+89.1%
ANNUAL WORKPLACE FATALITIES HSA*	70	50	-40%
AVERAGE WEEKLY EARNINGS ALL INDUSTRIES	€497.13	€677.47	+36.2%

Figures in Italics refer to 2004 data



PERSONS EMPLOYED BY ECONOMIC SECTOR (000'S)	2000	2005	% CHANGE
AGRICULTURE, FORESTRY AND FISHING	132.9	113.7	-14.4%
OTHER PRODUCTION INDUSTRIES	309.5	294.2	-4.9%
CONSTRUCTION	166.2	242.2	+45.7%
WHOLESALE AND RETAIL TRADE	235.2	266.9	+13.4%
HOTELS AND RESTAURANTS	108.1	111	+2.6%
TRANSPORT, STORAGE AND COMMUNICATION	101.3	118.2	+16.6%
FINANCIAL AND OTHER BUSINESS SERVICES	210.8	257.1	+21.9%
PUBLIC ADMINISTRATION AND DEFENCE	78.4	98.2	+25.2%
EDUCATION	102.8	123.1	+19.7%
HEALTH	133	188	+41.3%
OTHER SERVICES	93.3	116.4	+24.7%

All Data CSO Quarterly National Household Survey Q2 (except where indicated*)

DETE: Department of Enterprise, Trade and Employment

HSA: Health and Safety Authority

