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Please note these papers have been prepared as a contribution to the discussions in the breakout sessions at the National Economic Dialogue. They should not be seen as prescriptive but rather seek to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.
Breakout Session 1

“Budgeting for a Changing Ireland”

Chair: Minister for Finance and Public Expenditure and Reform, Paschal Donohoe T.D.

Rapporteur: Dr. Edgar Morgenroth

Potential Issues/Questions for Discussion

1. How can the evidence from evaluations be best translated into policy proposals? What are the main factors that need to be taken into consideration?

2. Through what mechanism can alignment between the Capital Plan and the National Planning Framework be best achieved?

3. How can proposals seeking resources for prevention and early intervention actions today address the uncertainty around future delivery of “better outcomes” and “cost savings”?

4. Is the highly progressive nature of the Irish Income Tax system a barrier to its sustainability in a competitive international market for FDI and for the attraction of skilled mobile workers? Does it act to influence potential indigenous undertakings to establish outside of Ireland? What evidence is there?

5. What constitutes fairness? Is the high level of progressivity of the Irish income tax system truly equitable? How sustainable is it that 24% of all income tax and USC collected in the State is paid by the top 1% of income earners? Would further progressivity measures, such as the withdrawal of tax credits above certain income levels, undermine the sustainability of the system?

6. Has Ireland achieved the right balance between implementing international tax reform and offering certainty to business? How do we ensure that our corporation tax offering continues to attract high quality investment that creates substantive employment?
Background

The Irish economy continues to grow, with strong contributions from domestic demand and underlying net exports. GDP growth of 4.3 per cent is forecast for this year. The outlook for next year and over the medium term is relatively positive, with the economy projected to grow by 3.7 per cent in 2018.

Overall stance of budget policy

The overall approach to the Budget will be to maintain a prudent approach to the public finances. This year’s Budget remains on course to achieve the deficit target of 0.4%. The focus of Budget 2018 will be to meet the Medium Term Budgetary Objective of a balanced budget in structural terms, defined as a deficit of 0.5 per cent of GDP. The forthcoming Summer Economic Statement will contain revised estimates of the fiscal space for 2018 to 2021. However, the fiscal space only indicates the level of resources that may be available. It would not be consistent with prudent budgetary policy to use all the fiscal space, while missing our deficit targets.

I: Expenditure

In the three year period since 2014, gross voted expenditure is set to have increased by 9%. Budget 2017 outlines average increase of 3.5% per annum over the 2017-2020 period. Given the impact the economic crisis had on society this represents a level of growth that is prudent and responsible.

We have now moved from a budgetary cycle where cuts had to be made to one where moderate and sustainable expenditure growth is now planned over the medium-term. In this regard, significant, targeted investment in much-needed, key public services and infrastructure can be made while maintaining sound public finances into the future.

Despite the improvement in the Irish economy, there are increasing and competing public service demands emerging which means that public expenditure policy must prioritise additional spending between numerous demands. Departmental expenditure ceilings contain provisions for Departments impacted by changing demographics. However, providing for these expenditure pressures has direct implications on the State’s ability to allocate funding to other policies in an era of constrained resources. It remains important that there is continued focus on evaluating the totality of Departmental expenditure to ensure that effective services can continue to be provided for our ageing population.
Managing Expenditure into the Future

In order to continue to deliver on Government priorities an ongoing, systematic, programme of assessment and evaluation of how we spend public funds is essential to ensure that the available resources provide much needed public services and social infrastructure.

Spending Review

On Budget day last year it was announced that a spending review would be carried out in advance of Budget 2018. This review is currently underway and unlike the approach taken in previous spending review rounds, it is focused on the need to prioritise between competing demands, rather than a need to reduce overall expenditure. This review will also move away from the 'comprehensive' approach taken in previous years, to a system of 'rolling' selective reviews. All current Departmental expenditure - with the exception of pay rates - will be examined over a three year period.

This approach of ongoing examination and re-prioritisation of funding is standard international practice in public expenditure management. It allows for an examination of the totality of Government spending on an ongoing basis, rather than focusing on the additional amount that may be available in a given year. This is intended to ensure that the maximum efficiency and effectiveness is achieved for every euro of public funding and allows a focus on the medium-term sustainability, efficiency and effectiveness of public spending.

Review of Capital Expenditure

The Programme for a Partnership Government committed to additional capital investment over the period of the Capital Plan, to be allocated in such areas as housing, transport, communications, education and health services. Following the decision to commit €2.2 billion of this amount in support of the Government’s Action Plan on Housing and Homelessness, and other commitments made in Estimates 2017, there remains approximately €2.6bn in uncommitted additional capital funding to be allocated over the period 2018 to 2021, following the completion of the mid-term capital review. This investment will result in aggregate Exchequer capital expenditure increasing by almost 75% between 2016 and 2021, thus ensuring that Ireland’s continued strong economic performance is reflected in an increased level of capital investment over the coming period.
It is important to ensure that the additional capital resources available are targeted in priority public capital infrastructure required to support Ireland’s medium-term growth potential and underpin social cohesion. The Department of Public Expenditure and Reform is currently reviewing submissions received from Departments and from the public consultation process in relation to the additional capital expenditure. This review will be informed by a macro-economic assessment of the context for capital spending, to insure that appropriate public investment in infrastructure continues to support our economic and social progress, and an Infrastructure Capacity and Demand Analysis being carried out by the Irish Government Economic and Evaluation Service. In addition, the Department is also liaising closely with the Department of Housing, Planning, Community and Local Government in order to ensure alignment between capital investment proposals and the new National Planning Framework due to be published later this year.

Prevention and Early Intervention

A core challenge for policy makers is to ensure that limited public resources are allocated to support the implementation of effective prevention and early intervention actions. Within this challenge there is a tension between ensuring that there are sufficient resources to address the problem today and the request to allocate resources to a set of actions that are expected to deliver future (undated) benefits including reductions in both the incidents and associated costs of the particular problem. While there is no simple answer to this challenge, the various reforms to the budgetary process, such as the introduction of spending reviews, performance budgeting and the Public Spending Code, provide important tools through which policy makers can fully examine the benefits of prevention and early intervention within both the broader policy framework and the totality of public expenditure.

To provide enhanced focus on earlier support, a dedicated Prevention and Early Intervention Unit has now been established in the Department of Public Expenditure and Reform. It will focus on early intervention policies that can improve the life outcomes of children in particular, as well as the quality of life of older people dealing with long term conditions such as chronic illness.

II: Taxation

Ireland’s Overall Tax Burden

Measured as a proportion of Gross Domestic Product (GDP), Ireland has a relatively low tax burden by European standards according to the latest data. In 2015, total taxes were 24.4% of GDP, the lowest among EU-28 countries, which averaged 37.1%, although this comparison is distorted by the unexpected upward revision of 32 per cent in GDP in Ireland in 2015. There are known issues around the measurement of GDP in Ireland which are being addressed by the development of a GNI* (Gross National Income “Star”) indicator. In the interim, a hybrid measure, taking Gross National Product (GNP) plus 40 per cent of the gap between GDP and GNP, puts the tax take burden at 27.9%.

If social security contributions (SSC) are excluded from the comparison (given the stronger insurance character of these systems in other EU countries compared with Ireland), the tax take at 20.0% of GDP compares to the EU-28 average of 25.7%. As a percentage of the hybrid measure this reaches 22.8%, the 10th lowest in the EU-28.
Exchequer Tax Receipts 2016

Of total exchequer tax receipts in 2016 of €48 billion, Income Taxes (including €4bn Universal Social Charge) comprised 40%, VAT and Excise (i.e. consumption taxes) 38% and Corporation Taxes 15%. In addition to these exchequer receipts, PRSI receipts accounted for €9 billion.

Tax and Economic Growth
Economic growth (i.e. larger GDP) increases the potential tax revenue that can be raised to finance public expenditure. In turn, taxes influence economic activity and therefore the composition and evolution of GDP. Hence the importance of growth-friendly taxation. The OECD has produced a hierarchy that ranks taxes on the basis of impacts on economic growth. This suggests that corporate income taxes are the most growth-harmful type of tax, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property the least growth-harmful.

Equity
Tax (and expenditure) policies need to be carefully calibrated to help ensure that the benefits of such growth are distributed widely across society. Without inclusive growth, the social and economic costs of inequalities can increase and ultimately erode confidence in public institutions.

Broadening the tax base, including reducing tax expenditures, is one of the tax policy design principles identified by the OECD for achieving inclusive economic growth. The importance of progressivity (vertical equity) of the overall fiscal system is another principle highlighted. In Ireland, the reduction in the Gini coefficient (a measure of income inequality) as between market incomes (i.e. before taxes and transfers) and disposable incomes is greater than in any other OECD country reflecting the progressive nature of the income tax system and the effect of transfers. Contrasting with vertical equity, horizontal equity implies that the tax system should afford similar treatment to similar people.

Broadening the Tax Base
Broadening the tax base so that tax is levied on a wider range of income, expenditure and assets (both across and within tax heads) allows a given overall tax burden to be raised with lower tax rates. This ameliorates the distortionary effects of higher rates. Additionally, the relative volatility of economic activity in a small open economy such as Ireland means that to achieve the same degree of tax revenue stability that applies in other countries, Ireland needs a relatively broader and more diverse tax base.

Trade-Offs
In the pursuit of different goals, trade-offs are faced. One example of the trade-offs that arise between horizontal equity and efficiency considerations is that, from the former perspective, it might be argued that all types of income should be taxed similarly. On the other hand, an efficiency perspective would suggest differential tax treatment on the basis of the OECD hierarchy.

Another example trade-off is that between revenue volatility and progressivity. Ireland’s income tax system is notably progressive but its revenues are also highly sensitive to small changes in income earned. Tax credits, in particular, are a driver of progressivity but also of revenue volatility.
However, as indicated by the OECD’s ‘Tax Design for Inclusive Economic Growth’, there are some design approaches which are aligned with and contribute to multiple goals at the same time, or involve minimal trade-offs (e.g. broadening the tax base can further both efficiency and equity goals).

Other Principles
Other important principles in tax system design include: neutrality (meaning that the tax system should not affect taxpayer behaviour so that decisions are based on preferences before tax considerations); stability (economic actors benefit from certainty while significant changes to the tax system can be associated with substantial transition costs); and flexibility (the tax system should be responsive to changed economic circumstances).

Finally, it is important to bear in mind that the national fiscal rules now in place require that public expenditure commitments are sustainably financed and safeguarded from dependence on cyclical revenues.

Income Tax
Ireland’s income tax system is highly progressive with those on higher incomes paying proportionately higher rates of tax. A consequence of this progressivity is high marginal tax rates, which influence individual decisions on labour force participation.

At low to middle incomes, OECD comparison of Ireland’s labour tax wedge shows that it is below the OECD average for one-earner and two-earner families, with and without children, at all income levels up to and including 167% of the average wage. (Based on 2015 data and average wage of €34,874.) At 9.5%, Ireland has the third lowest tax wedge in the OECD for a married single-earner couple on the average wage with two children. This compares to the OECD average of 26.7%.

Tax reductions introduced in Budgets 2015, 2016 and 2017 have reduced the marginal tax rate on PAYE income up to €70,044 from 52% to 49%. The 49% rate applies to income from €33,800 for a single individual, i.e. this marginal rate is reached at below the average wage (c. €37,600 in Q1 2017).

In tandem with the above, the entry point to USC was increased and the lower rates of USC were reduced in recent Budgets. Further reductions in rates and increases in the exemption thresholds for USC (and indeed Income Tax) could impact severely on the sustainability of the Income Tax system.

International Tax avoidance
There is now an international consensus that, in an increasingly interconnected world, national tax laws have not always kept pace with global corporations, fluid movement of capital, and the rise of the digital economy. This has created gaps and mismatches that can be exploited to generate opportunities for tax avoidance. Research undertaken by the OECD since 2013 indicates that this problem results in annual losses of anywhere from 4 - 10% of global corporate income tax (CIT) revenues, i.e. USD 100 to 240 billion annually.
The OECD Base Erosion and Profit Shifting project (BEPS) gives countries the tools they need to ensure that profits are taxed where economic activities generating the profits are performed and where value is created.

Ireland has been at the forefront in implementing the BEPS recommendations on country-by-country reporting as well as introducing the first OECD-compliant patent box, called the knowledge development box. Ireland has also been to the fore in progressing this work at EU level through the Anti-Tax Avoidance Directive and at OECD level through the Multilateral Instrument.

However, it is important that these initiatives do not create an environment of uncertainty for legitimate business investment in Ireland. Research by the ESRI points out that a competitive corporate tax rate is a significant factor in attracting FDI to Ireland especially from countries outside the European Union. This research concludes that in addition to maintaining a competitive corporate tax rate, Ireland’s attractiveness to FDI would benefit from policies aimed at maintaining cost competitiveness and enabling further R&D investment.

The key challenge for Ireland is to continue to lead on tackling tax avoidance, while maintaining tax policies that attract substantive FDI and foster growth. The review of the corporate tax code by Seamus Coffey which is to be delivered to the Minister for Finance and Public Expenditure and Reform will make a number of recommendations for actions Ireland can take which will be considered by the Minister and the Department.
Breakout Session 2

“Productivity, Competitiveness and Investment in a Changing Global Environment”

Chair: Tánaiste and Minister for Enterprise and Innovation, Frances Fitzgerald T.D.
Rapporteur: Dr. Seamus McGuinness

Potential Issues/Questions for Discussion

1. How do we best assist enterprises improve productivity and competitiveness, in the context of external challenges?

2. How best can we close the ‘productivity gap’ between the most productive firms and “lagging firms” so as to improve overall productivity?

3. Is there a productivity gap between Irish and foreign firms, and if so, what can be done about it?

4. What are the key cost challenges and how can they be adjusted?

5. How do we get buy-in to improving productivity and competitiveness amongst stakeholders in the public and private sector?

6. Can structural reforms play a role in enhancing productivity and competitiveness?

7. How should our export and inward investment strategies address external challenges?
Background

Ireland’s recovery is now entering a more mature phase. Notwithstanding the well-known limitations with headline measures of economic activity, a broader set of indicators show an economy that continues to perform strongly. The most visible sign of this is the labour market, with the level of employment having passed the two million mark, and now at its highest level since 2008. Following a number of years of rebalancing, the composition of activity is also now more sustainable, with the exporting and domestic sectors all positively contributing to growth.

As a small open economy, Ireland depends on trade and foreign investment for sustainable growth, employment, capital and innovations. Relative to its share of economic output Ireland is one of the most open economies in the world, with exports consistently exceeding of GDP in recent years, and total trade, the sum of exports and imports, roughly twice our level of GDP over the same period. Ireland’s position as one of the most globalised economies is also evident by inward foreign direct investment metrics, such as FDI flows or stocks, as a share of GDP.

Given our external connections, continued economic growth cannot be taken for granted. Whilst the outlook for the world economy has improved over the past year, Ireland is almost uniquely exposed to international economic shocks. The broader international backdrop is of exceptional policy uncertainty, most notably arising from the UK’s exit from the EU in 2019, and the continuing uncertainty associated with the policy stance in the US. While the aggregate impacts to date from the UK decision have been relatively muted, the depreciation of sterling has proven challenging for certain sectors that are most exposed to the UK. In the medium term a ‘hard Brexit’, involving WTO type tariffs, would have a severe impact on Irish-UK trade.

The demand for our exports, and in turn the supply of FDI, is generally regarded as a function of two factors. The first is external demand, an outcome that is outside of our control, the other being competitiveness, something which policy can directly influence. Indeed given the limited economic tools at our disposal, the best, and possibly only, means to protect our economy against the many global challenges is a steadfast focus on productivity and competitiveness. The more productive and competitive our economy is, the more other countries will continue to seek our goods and services, and the more they will supply direct inward investment.

Productivity

Productivity reflects the ability of economies, and firms within economies, to produce more output by better combining inputs and is generally regarded as the ultimate engine of sustained economic growth. It is one of the key drivers of an economy’s competitiveness, the other being costs, and efforts to boost productivity remain at the core of our economic strategy. As Ireland approaches a position of full employment, a very welcome development, the importance of productivity will only increase, as the economic returns from our existing pool of capital and labour will be constrained without productivity enhancing investments at the enterprise level in capital, technology, organisational innovation and skills. Structural reforms (e.g. product and labour markets reforms, reforms to the tax system, etc.) can also potentially play a role.

Notwithstanding the 2015 level shift in GDP, for a number of years Ireland has had one of the highest levels of labour productivity of OECD economies, when measured on a GDP per hour worked basis. However on a GNP basis, which strips out some - though not all - of the impacts of the foreign owned
sector, Ireland’s labour productivity (prior to the 2015 level shift) was below a number of ‘frontier’ economies, though still above the OECD average.

The composition of Irish economic activity and employment has a significant bearing on Irish labour productivity. Reflecting trends in output and employment, labour productivity growth varies substantially across sectors. At the aggregate level Ireland’s productivity performance is driven in large part by certain high-tech sectors (ICT and Manufacturing) that are mostly foreign dominated, and within these sectors, by highly productive and mostly foreign owned, firms. There is considerable heterogeneity between and within sectors in terms of productivity growth with diverging growth patterns influenced by factors such as the intensity of competition, trade openness, level of capital intensity, degree of skilled labour, propensity to invest in innovation, economies of scale, and participation in global value chains.

It is important that policy seeks to ensure productivity growth across all sectors, amongst ‘lagging’ firms within sectors, and to ensure that productivity gains and innovations ‘spill-over’ from foreign to domestic firms throughout the economy.

**Competitiveness**

As well as productivity, we must steadfastly focus on our cost base. As set out in ‘A Programme for a Partnership Government’, the Government’s objective is to protect our national competitiveness from unsustainable cost growth and to deliver a business environment which ranks in the top tier globally. Enhancing Ireland’s competitiveness performance is particularly vital in light of the challenges posed by Brexit.

In this context the continued rise in Ireland’s overall competitiveness ranking in this year’s IMD publication is very welcome news and an important signal to international investors. Ireland’s competitiveness ranking improved from 7th to 6th most competitive economy out of 63 global economies and within Europe/Euro area we are the 2nd most competitive. Other international competitiveness scorecards show a consistent pattern.

The openness of the Irish economy means the competitiveness of the enterprise sector is particularly vulnerable to negative price and cost shocks which are outside the influence of domestic policymakers. These include unfavourable exchange rate movements, higher international energy prices or imported inflation from our major trading partners. While the depreciation of sterling since the Brexit vote has placed considerable pressure on some of the sectors of the economy that are most exposed to the UK, other external factors have been relatively benign. Without a focus on our domestic costs base, adverse movements in some of these other external factors could erode recent and hard won competitiveness gains.

While the cost base for enterprise has improved across a range of metrics since 2010, (e.g. the cost of starting a business, communications costs and average income taxes), Ireland remains a relatively high cost location and already the return to sustained levels of growth has resulted in a series of upward cost pressures, (e.g. labour and property cost). Recent reports by the National Competitiveness Council have highlighted a number of short and medium term downside risks, some of which have already emerged, which could undermine national competitiveness, growth and living standards.

As the economy continues to grow, infrastructure bottlenecks and skills shortages are emerging. Ireland’s economic infrastructure and related networks have a strong bearing on the competitiveness of indigenous enterprises and as a driver of inward investment. Absolute levels of Irish investment are
recovering, and over the medium term, capital investment as a percentage of GDP is projected to increase but remains low relative to pre-crisis levels. The supply of housing has failed to keep pace with the increase in demand, itself an outcome of the recovering economy, and this imbalance has manifested itself in rising rental costs and higher house prices. On the intangibles side, levels of public investment in R&D in Ireland remain below competitor economies, including the UK. Developing our infrastructure base, while complying with the EU fiscal rules, is a fundamental challenge to enhancing competitiveness.

Access to competitively priced sources of finance is critical to enable enterprises to establish and expand their operations, and improve their productivity. Limited, or costly, credit damages the environment for entrepreneurship, scaling and investment. Despite significant reductions, interest rate charges to Irish SMEs are 60 basis points higher than those charged to UK SMEs and 20 basis points higher than the average charge across the EU 28.

Implications for Investment

Despite increasing international competition for globally mobile investment, Ireland has maintained a remarkably strong performance (top ten in the world) in terms of per capita FDI levels. The contribution of inward investment, to employment, innovation activity, expenditure in the wider economy (on payroll, purchases of Irish goods and Irish services) and taxation revenue remains vital to our economy.

Potential policy changes regarding the taxing of MNCs in the US could have a major impact on global FDI. The competitiveness and consistency of our tax offerings, our legal, regulatory and administrative environment, our cost base, the availability of talent, technology and property solutions are crucial to attracting and retaining inward investment post Brexit. A key challenge for Ireland is sustaining and enhancing investment from established investors, while at the same time diversifying Ireland’s FDI portfolio by tapping into new opportunities and investments from new markets.

Continued focus on the drivers of productivity and competitiveness, such as infrastructure, innovation, education, access to finance, a growth friendly tax system, remain vital to underpinning Ireland’s long term track record as a location for inward investment.
Breakout Session 3
“Supporting Labour Market Participation”

Chair: Minister for Employment and Social Protection, Regina Doherty T.D.
Rapporteur: Dr. Mary Murphy

Potential Issues/Questions for Discussion

Overall

1. Is the current level of labour force participation, 70.5%, sustainable over the long-term?

2. What level of labour force participation should Ireland be aiming to achieve?

Short-medium term challenges

3. How can discouraged workers be attracted to return to the labour force?

4. Given the changes in the labour market since 2012, is public investment in activation, including employment supports and skills development, fit for purpose?

5. As migration is likely to be a key source of labour supply in the future, what policy issues need to be considered to ensure new entrants are effectively integrated into the labour force?

Medium-long term challenges

6. In terms of increasing participation rates, how can policies be better integrated across departments to lessen barriers to employment?
Background

Labour Force Developments

The participation rate is defined as “a measure of the proportion of a country’s working-age population that engages actively in the labour market, either by working or looking for work”\(^1\). It provides an indication of the scale of the supply of labour available to engage in the production of goods and services, relative to the working-age population. In 2016 the labour force participation rate in Ireland for persons aged 15 to 64 years was 70.5%. This represents a labour force of approximately 2.12 million people\(^2\).

Figure 1: Labour Force Participation Rate (15-64 years), 2004-2016

The labour force participation rate has evolved over time as illustrated in Figure 1 above.

- From 2004 to 2007 the rate increased by 3.9 percentage points from 68.7% to 72.6%.
- During the period 2008 to 2011 the rate fell to 69.2% reflecting the downturn in the economy.
- Since 2012 the rate has increased slowly reaching 70.5% in 2016.

The evolution of the labour force participation rate can be divided into two broad factors: structural and cyclical developments. Structural elements include changes in the structure of the population, demographic factors such as ageing and migration, and the degree of attachment of certain cohorts to the labour market which can be significantly influenced by levels of educational attainment. The impact of structural factors is likely to occur over the medium to long term. In contrast, cyclical factors can play a role in the short to medium term with economic conditions prevailing at a given point in time affecting individual’s choices to enter or exit the labour force. This effect may be referred to as the discouraged worker\(^3\) effect.

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2. This is based on data reported in the Quarterly National Household Survey by the Central Statistics Office. The total labour force is recorded at 2.19 million including 66,500 persons aged 65 and over.
3. A discouraged worker is a person of legal employment age who is not actively seeking employment or who does not find employment after long-term unemployment. This is usually because an individual has given up looking or has had no success in finding a job.
International Comparison

This section compares participation rates in Ireland with other European countries. Ireland’s participation rate, at 70.5%, was 3.3 percentage points below the EU-15 average in 2016 as illustrated in Figure 2.

Figure 2: Comparison of participation rates across EU-15 countries (15-64 year cohort), 2016

In terms of changes over time, Ireland’s participation rate has diverged from the EU-15 average. Back in 2007 when Ireland’s participation rate was at peak levels, it was 0.7 percentage points above the EU-15 average. Over the period 2008 to 2011, Ireland’s participation rate experienced a decline while the EU-15 average remained relatively stable as demonstrated in Figure 3. Both rates have grown since 2013 but the gap has remained constant at approximately 3.4 percentage points.

Figure 3: Irish versus EU-15 participation rate (15-64yrs), 2007-2016
Cohort Analysis

Labour force participation rates vary by age and gender. As with the overall participation trend, rates for each cohort have also evolved over time due to the differing impact of structural and cyclical factors.

Gender

In relation to gender, there are two notable details. Firstly, male participation rates exceed female participation rates both in Ireland and the EU with a more significant gap of 13.3 percentage points prevailing in Ireland. Secondly, the Irish male participation rate is closer to the EU-average than the female rate with a gap of 2 percentage points and 4.8 percentage points respectively.

| Table 1: Comparison of participation rates by gender, 2016Q4 (Source: Eurostat) |
|---------------------------------|-----------------|-----------------|
|                   | Ireland | EU-15 | Difference    |
| Male               | 77.2%   | 79.2% | -2.0 percentage points |
| Female             | 63.9%   | 68.7% | -4.8 percentage points |
| Difference         | 13.3 percentage points | 10.5 percentage points |

In terms of changes over time in an Irish context, the male participation rate fell during the economic downturn and remains below 2007/2008 levels. The female participation rate also fell over the period albeit to a lesser extent and by 2016 it had returned to just above 2007 levels. These developments have led to a narrowing of the gap between male and female participation rates over the past decade, from 18.3 percentage points in 2007 to 13.8 percentage points in 2016.

Age

Labour force participation tends to follow an inverted U shape pattern with low participation at either end of the age distribution and high participation from mid-20’s through to late 50’s as shown in Figure 4.

Figure 4: Comparison of participation rates by age cohort, 2016

Ireland’s participation rates are below the EU-15 average for all age cohorts except for the 20-24 and 60 plus age groups. The most significant gap occurs in the 40-54 age groups with Ireland trailing the EU-15 rate by an average of 6.6 percentage points.

In terms of developments over the past decade, the 15-24 age cohort underwent considerable change over the past decade with reductions in the size of the labour force in both Ireland and the EU. In an Irish context this was driven by both a reduction in the size of the population cohort and cyclical...
conditions. For the 35-54 age cohort, Irish participation rates strengthened over the past decade but the over 55 cohort saw the most significant increases in participation levels.

**Future Outlook**

There is scope for increased participation in the short-run as the economy continues to improve with the potential for more discouraged workers to be attracted to return to the labour force. Migration is set to be another source of increased labour supply.

However, growth in participation rates over the longer term may be constrained by the underlying demographic trend. Labour force projections, based on CSO forecasts and Central Bank analysis\(^4\), point to a decreasing participation rate over the long-term based on certain population projection assumptions. Furthermore, while Ireland reported an old-age dependency ratio\(^5\) of 21.2 in 2015 below the OECD average of 27.6, population ageing will see this ratio increase in the future. The OECD projections forecast the ratio increasing to 27.3 in 2025 and 47.8 by 2050.

Overall policy has a role to play in supporting labour force participation with particular focus on the potential to increase participation rates for the 35-59 age cohort and closer to the EU average.


\(^5\) OECD definition: the demographic old-age dependency ratio is defined as the number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64.
Breakout Session 4

“Spatial Planning to Address the Needs of the Modern Population”

Chair: Minister for Housing, Planning and Local Government, Eoghan Murphy T.D.

Rapporteur: Dr. Larry O’Connell

Potential Issues/Questions for Discussion

1. Is there broad agreement that there is a need for more spatially balanced development in Ireland and that regional cities offer significant potential to be the focal point to drive growth and development in their regions?

2. What are the main obstacles that are hindering balanced regional development at present? How might we overcome these obstacles to develop one or more strong regional complements to Dublin?

3. In order to support balanced growth, are there measures that could be adopted to support the maintenance of rural communities and halt rural population decline?

4. What administrative and/or governance structures are required to support and drive effective spatial planning?

5. How can we ensure that the Government’s Capital Plan is aligned with the goals of balanced development and should consideration be given to a dedicated fund to ensure spatial development is supported and delivered upon?

6. How can we manage development to ensure that we address major environmental challenges such as protecting air, water quality, biodiversity and climate change, and transforming our energy and transport systems away from a dependency on fossil fuels towards green energy?
Background

In addition to meeting the immediate challenges facing Ireland - such as addressing the housing shortage - the Government and the planning system must also look to the longer term and ask ‘What would we like Ireland to be like in 20 years’ time?’

Although we cannot accurately predict how Ireland will look in 20 years, it is possible to make informed and strategic choices in response to the challenges and opportunities we may face in the future.

Research conducted by the ESRI as part of the National Planning Framework (NPF) process suggests the challenges will include:

- population growth, with as many as one million additional people in Ireland by 2040;
- an ageing population, with the number of people over 65 double current levels;
- over 500,000 more people will be at work, a lot of which will be high skilled jobs that are increasingly tending to cluster in and around cities; and
- the need for at least an extra 500,000 homes that will have to be provided close to services and amenities.

![Population Change (%), 1991 to 2016 by Electoral Division](image)
If we continue along a path of business as usual, the result will be that around three quarters of the extra population and related homes will locate on the eastern side of the country, much of it clustered around, but not necessarily happening in, Dublin. This will further exacerbate the sprawl of housing areas, scattered employment and car-based commuting, presenting major challenges around lop-sided development, under-utilised potential, congestion and adverse impacts on people’s lives, health and the environment.

Figure 2: Population, Distribution and Movements Infographic Census 2016

If we want Ireland to be the best that it can be, we must do things differently and take the opportunity we now have to plan for a better future for all by ensuring that development and services are delivered in the right places at the right time.

The National Planning Framework - Ireland 2040 Our Plan

The fact is that we have not always grasped the opportunity that good forward planning offers. That can and must change. The National Planning Framework (NPF) will set a new strategic planning and development context for Ireland and all its regions from now until 2040.

The NPF will provide a long-term and place-based aspect to public policy and investment, coordinating the various sectoral areas such as housing, jobs, transport, health, and education, the environment and communications into an overall coherent strategy. The NPF will also consider interactions with Northern Ireland and how terrestrial and maritime planning processes might interact and integrate.

The plan must and will be shaped by the people’s views on the future of our country. A public consultation exercise was held in February and March of this year, attracting over 3,300 submission
from all parts of the country, while a schools poster competition gave a platform to children and youth to engage in the consultation process.

The Department of Housing, Planning, Community and Local Government is now reviewing and synthesising submissions which will inform the preparation of a draft plan. There will be a further opportunity for the public to have their say when the draft version of the NPF is published later this year.

Figure 3: Housing Profile Infographic Census 2016

NPF and Spatial Planning

The NPF is the successor to the National Spatial Strategy (NSS), but it differs from its predecessor in a number of ways. The NPF will:

- be a statutory document, approved by the Oireachtas, having been subjected to statutory environmental assessment;
- be backed by Government, both in terms of the Executive and across Departments and Agencies;
- be aligned with and supported by public and private investment;
- be a strategy as opposed to a ‘wish list’, that will involve hard choices;
- address all parts of Ireland, avoid the perception of ‘winners’ and ‘losers’, but avoid unrealistically seeking to treat all parts of the Country in the same way;
- include an economic dimension, but not be solely based on economic considerations;
- include a particular focus on implementation and evaluation, with capacity for review.
The implementation of the NPF will be as important as its preparation, and we will ensure legislative support, backed up by wider political and institutional commitment, so that the NPF influences policy at local, regional and national government levels.

It is through these measures and processes that we will enable the right development to occur in the most suitable places and at the right time, thus ensuring sustainability and the best use of scarce resources as we realise the vision that our people set for Ireland in 2040.
Breakout Session 5

“Delivering Future Skills Needs”

Chair: Minister for Education and Skills,
Richard Bruton T.D.

Rapporteur: Dr. Adele Whelan

Potential Issues/Questions for Discussion

1. How do we embed appropriate flexibility and ensure continued enhancement in the quality of teaching and learning in our education system in order to anticipate and respond to the rapidly changing need for talent and skills across all sectors?

2. How do we make further progress in providing access for under-represented groups and provide for second-chance educational opportunities?

3. How do we ensure our Further Education and Training sector is aligned with labour market needs and that resources are targeted in the most effective manner?

4. How do we meet the funding challenges facing the Higher Education Sector? What is the appropriate role of the three main beneficiary’s (state, employers and students) in meeting these challenges?

5. What more can be done to increase opportunities for upskilling at work?

6. What is the best way of ensuring that there is a clear focus on strengthening outcomes and outputs from the sector, while recognising the different starting points of the clients for whom programmes are designed to serve?
Background

The quality, flexibility and level of educational achievement of our workforce has been central to Ireland’s economic development in recent decades. Ireland’s strong economic performance within a globalised, international trading environment would not have taken place without the transformation in our education system over that period.

Ireland is facing an unprecedented range of external challenges, including the implications of Brexit, increasing uncertainty regarding the international trading environment and threats to the relative competitiveness of Ireland’s tax regime. These risks highlight the importance of having a world class skilled and educated workforce that can meet the evolving needs and respond to the challenges.

The Further Education and Training sector and the Higher Education sector are central in ensuring that we have a world class skilled and educated workforce that can respond to and leverage the challenge facing the Irish economy in order to safeguard economic growth.

Investment in Education

Total expenditure on education is projected to amount to €9.54bn in 2017, 16% of total expenditure. Approximately 75% of education’s expenditure is directed towards pay and superannuation. Expenditure is largely focused on first, second and early years (72%) with expenditure on special education needs now greater than total expenditure on Higher Education.

The recovery has meant that there are increases in expenditure in recent years (Figure 2) but at much more sustainable rates than pre crisis. From 2014 to 2017 total expenditure will have grown by 7% (8% in education).

Figure 1: Breakdown in Education Expenditure 2017 by policy area

- First, Second and Early Years Education: €1.6 billion (17%)
- Skills Development: €0.6 billion (7%)
- Higher Education: €6.6 billion (72%)
- Capital Services: €0.3 billion (4%)

Figure 2: Growth in expenditure over three year interval

- 2014-2017: 7% (8%)
- 2011-2014: -4% (6%)
- 2008-2011: -1% (9%)
- 2005-2008: 38% (29%)
- 2002-2005: 26% (34%)
- 1999-2002: 57% (45%)

(Education % in Brackets)
Demographic pressures

Ireland now has 1 million young people under the age of 15, the highest proportion in the EU. It is projected that under a low growth scenario the number of students in Higher Education will increase by 27% by 2028 over 2015 levels as the current cohort of younger age pupils continue to advance through the education system.

Figure 3: Projections of Demand for Third Level Education 2015 - 2029

Government response

There are several strategies underpinning the Higher Education and Further Education and Training sectors. Taking account of these the Minister for Education and Skills has produced the Action Plan for Education 2016-2019 which identifies commitments in relation to all areas of education including HE and FET, which must be delivered within the three-year timeframe.

Figure 4: Strategic Context underpinning Higher Education & Further Education & Training
Further Education and Training

The objective of the Further Education and Training Sector (FET) support is to raise the education and skills of unemployed people in order to support their return to the labour market. FET and skills development provision is funded from the Exchequer and the National Training Fund (NTF). Despite a considerable fall in the unemployment rate, investment in this sector has remained relatively stable since 2007, with an overall annual expenditure of over €800 million since 2011. However, there has been a change in the composition of spending.

The State’s investment in and development of FET has enabled the country to attract and support employers in a wide range of sectors, and to collaborate with local employers and industry. FET not only relates to initial education and training for those entering and supporting the labour market. It also plays a critical role in helping to spread the benefits of economic growth more widely by supporting those furthest from the labour market who require longer term interventions to facilitate progression. However, as the labour market grows and unemployment declines, the appropriate level of expenditure on the various FET programmes needs to be critically reviewed to ensure that it appropriately reflects labour market conditions. Figure 5 below shows the relatively steady aggregate expenditure on FET and the unemployment rate from 2013-2017.

![Figure 5: FET Expenditure and Unemployment %](image)

Note: the costs of ETB teachers and PLC provision are not included in these figures.

Following the onset of the fiscal and economic crisis in 2008 and the impact on the labour market, Government policy refocused investment away from traditional schemes and towards the education and training of unemployed people resulting in the movement of funding across programmes. This refocusing was most marked in terms of the movement from Traditional Craft Based Apprenticeships to training programmes for unemployed people, such as Momentum and Specific Skills Training. Springboard + continues to address skills shortages in key areas of the economy. More recently, as the employment situation continues to improve, there is greater scope for redirecting investment back towards in-employment programmes, such as the revised and expanded Apprenticeship Schemes.

A mid-term review of the FET Strategy 2014-19 is due to commence shortly. This provides the opportunity to reflect on the progress made to date in the integration of the FET sector and assess whether the breakdown between labour market and wider socially focussed FET provision correlates with wider labour market conditions.
Investment in Higher Education

Higher education (HE) expenditure in 2017 amounts to approximately €1.6 billion, 17% of gross voted expenditure. Of this, €979m is spent on core grants to HEIs with a further €418m spent on student supports, €92m on superannuation and €40m on research activities. Figure 6 below illustrates the change in core grant and student support expenditure from 2008 to 2017 against the increasing trend in student numbers.

Since 2008, the HE student staff ratio increased from 16:1 to 20:1, while core funding per student decreased from €12,000 to €9,000 per student. The increasing student numbers, both currently and projected, combined with the decline in expenditure poses a potential significant funding challenge in the future. Student numbers are expected to increase to 241,300 by 2028 (34% expected increase on 2016 student numbers).

The Expert Group on Future Funding for Higher Education estimated that the HE sector alone requires an increased annual investment of €0.6 billion by 2021 and €1 billion by 2030. These estimates are based on meeting increased demographics and reducing the student/staff ratio in Higher Education from the current 20:1 to 14:1. This is an increase of almost 38% in 2021 and 63% by 2030 above current levels.

The latest estimates of total fiscal space for tax and expenditure at Budget 2017 for the period 2018-21 is €9.3 billion. Assuming the split between the various components as set out in the Summer Economic Statement last year is maintained then the estimated additional funding requirements of the Higher Education sector would equate to 19% of the total available fiscal space for current expenditure measures over the four year period.
The Casells Report (Investing in National Ambition: A Strategy for Funding Higher Education) indicated in order to meet the future funding requirements of the Higher Education sector the role of the three main beneficiaries within the system must be realised. Employers, students and the state all benefit from Higher Education. Employers from a better educated and trained workforce, the students from higher earnings throughout their work/life cycle and the state from a higher tax revenue, civic participation and better general health. For all three beneficiaries to continue to capture the gains from Higher Education future funding models need to be examined.

Recent developments in the HE & FET sector

The National Skills Strategy, published in 2016, sets out a vision for the period to 2025 of how Ireland can continue to develop relevant skills and ensure that our supply of skills is activated and effectively used in order to help drive Ireland’s growth both economically and societally over the next decade. The Strategy, which was developed in close consultation with employers, provides the policy framework in which the education system responds to skills needs. Other key developments include:

- **Responding to economy and employer’s needs** - A new National Skills Council has been established to advise on the prioritisation and delivery of skills needs across the economy, together with nine Regional Skills Fora to help employers maximise the opportunities available from regional and local skills pools. The Apprenticeship Council continues to develop a wide range of new apprenticeships to meet skills needs in the economy. This new national and regional-level architecture will complement existing engagement mechanisms, including at institutional level. The current Employer Exchequer Funding Mechanism public consultation has also highlighted the need for greater engagement with employers in making allocations from the NTF.

- **Reforms to funding, performance and accountability models** - While the Cassells report is clear that there is insufficient funding in the higher education system, it is also clear that increased investment must be introduced in tandem with reform of the funding model to ensure that it is channelled for maximum impact. The implementation of a system performance framework, strategic dialogue and the current review of the HE funding model underpins a changed relationship between the State and the higher education system and provides to a new level of accountability for public funding against national objectives. Annual FET Service Plans published by SOLAS set out in detail how the State’s investment in FET will be used by SOLAS and the 16 Education and Training Boards in alignment with Government priorities.

- **More flexible, skills based learning opportunities** - Working with employers, the FET and HE sectors have already delivered a diverse range of programmes through Momentum and Springboard+ to provide opportunities for the unemployed to reskill and upskill to find employment in growth sectors and meet employer needs. Alternative delivery models including part time and need to be considered that promote inclusive learning, provide opportunities for upskilling and second chances.

The reforms summarised above have been developed in tandem with an evolved approach to HE and FET provision. Providers have adapted to funding constraints by driving internal efficiencies and becoming more responsive to industry needs in order to grow and develop. As the economic situation continues to improve it is important that the sector builds on these efficiencies.
Breakout Session 6

“Planning for the Future- Climate Change Policy for Long-Term Sustainability”

Chair: Minister for Communications, Climate Action and Environment, Denis Naughten T.D.

Rapporteur: Brigid McManus

Potential Issues/Questions for Discussion

1. What are the sectoral and regional considerations that should be taken into account in planning and developing policies for climate action?

2. How should environmental and climate change challenges inform the development of sustainable infrastructure, spatial planning?

3. Ireland’s climate challenge cannot be seen solely in terms of the provision of direct Exchequer funding - what role can legislation, regulation, behavioural change and fiscal instruments play in addressing the scale of the challenge facing Ireland?

4. How can capital investment be best utilised to help address Ireland’s climate change challenges (e.g. in terms of meeting existing 2020 and forthcoming 2030 targets and overall transition to a low carbon economy)?

5. How can funding/financing for investment in infrastructure for long term transition to a low carbon economy be incentivised?

6. How should climate risk be managed and mitigated in designing economic and fiscal policy and in the annual budgetary process?
Background

Ireland has a range of existing climate change commitments and obligations that have been undertaken at UN, EU and/or national level (see annex 1).

Emissions within Ireland – and every EU Member State – are broken down into two distinct sectors:

(a) the Emissions Trading Scheme (ETS) and
(b) the non-ETS.

The ETS comprises big emitters in the EU (of which about 100 installations are in Ireland – power generation, cement manufacturers etc). The non ETS sector spans agriculture, transport, residential, industry and commercial, and waste sectors. Unlike the ETS sector where the installation themselves has responsibility for their emissions, within the non ETS it is the State’s responsibility to ensure that binding targets set by the EU in terms of mitigation are met.

Meeting Ireland’s climate change obligations for 2020 and preparing for transition to a low carbon economy will be challenging. It will require not only the provision of direct Exchequer funding, but legislation, regulation, behavioural change will be required in order to address the scale of the challenge. Climate obligations need to be factored into future plans of individuals, society, business, local and central government. Adaptation to climate change and the mitigation of emissions must inform analyses of policies and measures across a range of sectors – e.g. agriculture, transport, energy, built environment, water and health.

Non ETS targets for 2013 to 2020

The EU Effort Sharing Decision (2009) established binding annual greenhouse gas emission targets for Member States for the period 2013-2020. Ireland has one of the most challenging headline targets of reducing carbon emissions by 20% by 2020 (relative to 2005). Member State targets were largely agreed on a formula based on GDP per capita.

Figure 1: EU Member State targets for 2020

Member State greenhouse gas emission limits in 2020 compared to 2005 levels

Emissions Projections to 2020

The latest (April 2017) EPA projections estimate that Ireland’s non ETS emissions in 2020 would be at most 4% below 2005 levels under the ‘with [existing] measures’ scenario.

There has been progress in driving emissions reduction (e.g. Carbon Tax, rebalancing VRT, energy efficiency initiatives). However, if there is higher than projected levels of economic growth/or if there are delays in implementation of existing policies then the gap to reaching the 2020 may increase and make Ireland’s 2030 targets more challenging to attain.

Ireland has a distinct emissions profile amongst EU Member States - particularly in terms of agriculture and transport.

![Figure 2: Projected sectoral share of non-ETS greenhouse gas emissions in 2020 for the With Additional Measures scenario.](image)

Source: EPA 2017

Horizon scanning

Climate change poses a risk to economic development over the longer term through increasing average temperatures, more extreme weather conditions, the increased likelihood of flooding etc. There is also significant fiscal risk associated with failing to reduce greenhouse gases in line with climate change targets.

Energy security is also a key challenge as Ireland is heavily reliant on energy imports (more than many other EU Member States). Energy consumption is rising and will continue to do so as the economy expands. Therefore notwithstanding the increasing levels of electricity produced from renewable sources over the medium and longer term the Irish economy will remain exposed to changes in supply conditions and prices in international markets.

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*With Additional Measures scenario takes into account an expected shortfall in achieving full energy efficiency targets and renewable targets for electricity, transport and heat as set out in the National Energy Efficiency Action Plan and National Renewable Energy Action Plan.*
Preparing for long term sustainably/ managing risks

The Government published its National Policy Position in April 2014. It has a long term vision based on:

- an aggregate reduction in carbon dioxide emissions of at least 80% (compared to 1990 levels) by 2050 across the electricity generation, built environment, and transport sectors, and
- in parallel, an approach to carbon neutrality in the agriculture and land-use sector including forestry, which does not compromise capacity for sustainable food production.

The Climate Action and Low Carbon Development Act 2015 provides for recurring National Mitigation Plans and National Adaptation Frameworks. A National Mitigation Plan will be published shortly with the National Adaptation Framework due before the end of 2017. The Act also provides for the establishment of the Climate Change Advisory Council.

Funding Within the Capital Plan

Investment projects across many areas of the Capital Plan will have a beneficial climate change impact. These areas include the upgrade of public building stock to more energy efficient levels, the significantly improved energy efficiency of school buildings, and delivery of improved public transport to reduce emissions from the transport sector. The Capital Plan allocates €444 million for investment in energy efficiency and renewable energy programmes from 2016 to 2021. As well as Exchequer investment, the commercial State sector also plans investments in renewables, including biomass and forestry, in order to deliver upon the Government’s objectives in this area. To address flooding, which can have a devastating impact on affected communities and local economies, €430 million is being provided under the Plan for flood mitigation initiatives to protect threatened localities from river and coastal flood risk.

The Plan is now being reviewed to ensure that capital spending is strictly aligned with national economic and social priorities. This includes contribution to climate goals, in addition to other factors such as general economic benefits; positive impact on equality and social inclusion; alignment with the new National Planning Framework; and addressing current bottlenecks.

EU 2030 Effort Sharing Proposed Targets

In December 2015 Ireland along with other Governments negotiated a new global treaty on climate change – known as the ‘Paris Agreement’. It aims to hold temperature rise to well below 2°C above pre-industrial levels, with an ambition to pursue efforts to limit the increase to 1.5°C. It has a legally binding provision that each Party (i.e. country) shall prepare, communicate and maintain successive nationally determined mitigation commitments (NDC) that will represent progression over time and reflect the highest possible ambition.

The European Union put forward an NDC on behalf of its Member States as per the agreement reached at the European Council in October 2014. The October 20147 European Council agreed that all Member States contribute to the EU’s reduction target of at least a 40% reduction in 2030 (compared to 1990 levels). The target will be delivered collectively by the EU with reductions in the Emissions
The European Commission published, on 20 July 2016, a proposed Effort Sharing Regulation on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 (‘the Effort Sharing Regulation’).

The key implications for Ireland of the proposed Effort Sharing Regulation are as follows:

- A headline target to reduce emissions from the non-ETS sector (comprising primarily the agriculture, built environment, transport and waste sectors) by 30% from 2005 levels.
- The possibility of access, at a cost, to what are termed “flexibilities” – and subject to such flexibilities being reflected in the final regulation:
  - ability to apply a one-off flexibility to transfer allowances worth up to 4% of 2005 emissions between the ETS and non-ETS;
  - additional flexibility from land use, land use change and forestry (LULUCF) for afforestation/crop land grassland management, amounting to 5.6% of 2005 emissions (2.68m tonnes).

It is important to note that negotiations with the European Commission relating to Member State targets for distributing the overall EU 2030 target reduction in non-ETS GHG emissions are still ongoing.

When the burden sharing is agreed, meeting those targets will (when transposed) be legally binding on the Exchequer. The challenge is to achieve a ‘fair and balanced’ outcome for all while ‘balancing considerations of fairness and solidarity’. There will be implications for the public finances from those forthcoming targets.
Annex 1: Ireland’s climate Change Obligations to 2020

Ireland’s Climate Change Obligations

Binding at EU Level

| 20% Reduction in Greenhouse Gases (compared to 1990 levels) |
| 20% of Energy Consumed in the European Union from Renewable Energy (RES) |
| 20% Improvement in the European Union’s Energy Efficiency (EE) |

21% Reduction within Emission Trading Scheme
10% Reduction in Non-Emission Trading Scheme

From EU Agreement but legally binding on Exchequer

Ireland agreed a 20% Target for Non-ETS in 2020 (compared to 1990 levels)
Ireland agreed a 16% Target in 2020 (early targets 2013-2020)

10% of energy in transport (RES T)
3% of public buildings retrofitted per year
40% renewable electricity (RES E)
12% renewable heat (RES H)

National Low Carbon Transition and Mitigation Plan Due: June 2017
National Adaptation Framework Due: December 2017

Voluntary Political Commitment (from UN level)

Ireland as part of the EU made a voluntary pledge to contribute to the EU’s share of the developed countries’ goal to mobilise USD100bn per annum by 2020 to help developing countries deal adequately with climate change
Ireland’s current contribution from public sources is c. €30-35m per annum

The Exchequer picks up some of the damage-related costs such as spend on natural disasters e.g. scheme to assist farmers affected by flooding (EÚG Volta) and the humanitarian assistance scheme (UN Volta)
Breakout Session 7

“The Agri-Food Sector – Addressing Brexit and Broader Global Challenges”

Chair: Minister for Agriculture, Food and the Marine, Michael Creed T.D.
Rapporteur: Tom Arnold

Potential Issues/Questions for Discussion

1. How can research, development and innovation contribute to the sector’s response to global challenges including Brexit?

2. How can the agri-food sector build on our environmental sustainability credentials, assist to meet legally binding climate and energy targets while also improving economic sustainability for the sector?

3. In terms of diversification, what markets should be prioritised (if any) and how can more be done with our own resources (public and private) to help get Irish produce into these markets and ensure a profitable return?

4. Human capital – which parts of agri-food sector face difficulties in attracting and retaining suitable employees, and what actions could assist?

5. Which existing and possible future EU measures could potentially assist the Irish agri-food sector in mitigating the effects of global challenges including Brexit?
Background

Importance of the agri-food sector

The agri-food sector:

• is Ireland’s largest indigenous industry, with an annual turnover of €26 billion,
• contributes 7.6% of GDP, 8.6% of employment (over 173,000 jobs),
• generates 10.4% of merchandise exports, with exports to 170+ countries (value: over €12bn in 2016) and
• is widely dispersed and contributes significantly to the rural economy.

Food Wise 2025:

The industry led strategy Food Wise 2025 (published in July 2015) sets out a ten year plan for the agri-food sector and is part of a series of rolling ten year strategies for the sector. It underlines the sector’s unique position within the Irish economy, and it illustrates the potential which exists for this sector to grow even further.

Food Wise 2025 identifies ambitious and challenging growth projections for the industry over the next ten years including:

• 85% increase in exports to €19bn; and
• the creation of 23,000 additional jobs all along the supply chain from primary production to high value added product development.

In addition to specific sectoral recommendations, Food Wise has five cross-cutting themes:

• Sustainability: It states that: “environmental protection and economic competitiveness are equal and complementary – one cannot be achieved at the expense of the other.” It supports technology and processes that result in a more efficient use of resources.
• Human capital: Highlighting the need for the attraction, retention and development of key skills and talent right along the supply chain.
• Market Development: Identifying the need to ensure that Irish products are targeted at the right markets and at the right segments within these markets.
• Competitiveness: Identifying competitiveness challenges at farm and processing level. It calls for productivity improvements through the development and application of cutting edge technology. Innovation and human capital will be key.
• Innovation: Identifying gaps in translating research into products/practice and in capacity to absorb new research. It argues for a greater focus on consumer insights in driving future investment in RDI.
Global Challenges

Trade of agricultural products in a free market may be as close as one gets to perfect competition in a real world environment – in general, there are thousands of farmers/suppliers while produce is reasonably interchangeable. As a result, producers have very limited control over the prices they charge.

A backdrop for the Agri-food sector is a variety of global economic challenges including:

• **Competition and Competitiveness**: Challenges in this areas arise in two ways:
  
  (i) The need to ensure cost competitiveness through the application of the most efficient production and processing methods, using the latest technologies. Increased efficiency reduces production costs and allows the sector to successfully navigate periods of price volatility;
  
  (ii) The need to respond to the demands of consumers in a wide variety of markets, both domestic and global. This is increasingly driven by consumer insights which serve to identify consumer tastes and preferences to which the agri-food industry can respond.

• **Prices**: Agri prices are subject to considerable fluctuations: supply and demand (locally and globally), inputs, harvest quantitates, prices of goods (crops, animals) – and while in general retail prices of food in western societies do not experience such large scale fluctuations, commodity price changes can have significant impacts on producer incomes. In addition, capturing value may involve developing branding, building business processes/logistics, accessing new markets, new formulations, RDI, optimising input formulations.

• **International Trade Policy**: a key challenge is to secure the best possible trading environment for the agri-food sector, including through the negotiations by the EU of international trade agreements.

• **Investment challenges and uncertainty**: overhang of recession – underinvestment and the need to play catch up. The need to develop differentiated products/brands for higher returns from quantity of output. Uncertainty can impact on investment potential e.g. milking parlour for the farmer, cheese plant for the co-op.

• **Extreme weather events and natural disasters**: which have multiple impacts including impacts on crop yields – implications include effects on world prices.

• **Climate Change**: The Paris Agreement on Climate Change was agreed in December 2015. The Climate Action and Low Carbon Development Act 2015 requires 5 yearly National Climate Mitigation Plans and National Climate Adaptation Frameworks (both of which are forthcoming and have chapters on Agriculture).

Apart from the risks posed by climate change itself, there are also potential compliance costs associated with current emission and renewable energy targets to 2020 and the outcome of ongoing negotiations on individual EU Member State targets for 2030 under the non-Emissions Trading Scheme. In particular, the level of Ireland’s 2030 non-ETS greenhouse gas emissions reduction target could potentially pose a significant challenge to the State in meeting the costs of compliance.
• **Food safety:** Threats to food safety could arise from contamination of food or a significant outbreak of food-borne human illness. A food scare associated with a food product, the outbreak of a major disease in farmed animals or evidence of environmental degradation associated with agriculture would have implications for the health of citizens and where such incidents are of Irish origin, would have the potential to jeopardise international trade in Irish food.

• **Geo-Political Risks**

  o **Brexit:** could have multiple implications including putting pressure on the EU budget which in turn could put pressure on the CAP budget (see following section on Brexit)

  o **US Economy:** divergence in outlook from previous administrations with possible global implications.

**Brexit**

Being good at producing beef/dairy/agri-food and having comparative advantage brings inherent risks. Ireland’s agri-food sector is exposed to the UK Brexit decision as the sector has a high dependence on the UK market (see annex).

Concerns in relation to the impact on the agri-food sector are at the top of the Government’s Brexit agenda. There are ongoing consultations with stakeholders, together with engagement with UK, Northern Ireland and EU counterparts – with a view to managing risk and uncertainty about Brexit and strengthening, developing and managing alliances.

The most immediate concerns for agri-food exporters after the Brexit vote was the significant drop in the value of sterling against the euro. Budget 2017 addressed these challenges, with the allocation of significant additional resources to Bord Bia and BIM in order to provide Brexit-related supports to affected companies; additional agri-taxation measures, and increased funding under the Rural Development Programme (RDP) and Seafood Development Programme. The Budget also provided funding for the €150m Agriculture Cashflow Support Loan scheme.

The more medium- to long-term impacts of Brexit include the potential disruption that will arise from:

• new trading arrangements and possible tariffs,

• changes to regulations and standards,

• border controls and certification, and

• the related areas of veterinary and health certification.

DAFM and its agencies, together with the relevant stakeholders, have been giving careful consideration to these potential impacts. In order to ensure that the process works well, a number of practical steps have been put in place, including:

• The establishment of a Brexit Response Committee and a dedicated Brexit Unit in D/AFM,
• The creation of a Stakeholder Consultative Committee, complemented by frequent contact with representative organisations and companies on an ongoing basis,

• D/AFM provided additional funding to Bord Bia for the development of their ‘Brexit Barometer’

• Close consultation with Bord Bia, Bord Iascaigh Mhara and Enterprise Ireland in order to ensure that they are in a position to provide Brexit-related supports to affected companies, and

• The addition of Brexit as a standing item on the agenda of the Food Wise 2025 High Level Implementation Committee.

DAFM are also leading an intensified programme of trade missions and other initiatives aimed at opening new markets and develop existing markets for Irish agri-food exports, with supports from all the State agencies involved.
A: IMPORTANCE OF THE AGRI-FOOD SECTOR IN THE IRISH ECONOMY

<table>
<thead>
<tr>
<th>Key Indicators for Agri-Food Sectors</th>
<th>Employment in the Agri-Food Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP (2014)</td>
<td>7.6%</td>
</tr>
<tr>
<td>% of employment (2016 avg)</td>
<td>8.6%</td>
</tr>
<tr>
<td>% of merchandise exports (2016)</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

According to the Census of Industrial Production, 2014 the Food and Beverage Sector accounts for
21% of all Industry Turnover
22% of all Industry Gross Output

B. EXCHANGE RATES (Euro/STG)

Source: Central Bank

BREXIT ANALYSIS & PLANNING DOCUMENT Please note this document is part of ongoing Brexit analysis and scenario planning for input into larger Government deliberative processes. Unless explicitly referenced by Government decision, any proposal contained in this document does not represent Government policy and should not be represented as such.
C: AGRI-FOOD TRADE

Total agri-food exports increased by 38% between 2010 and 2016 to **€12.2 bn** (total imports were €8.2bn) including growth in exports to the UK (+24%) and the rest of the EU (+25%). However, the most significant export growth was seen in exports to non-EU destinations (+85%), driven particularly by growth in exports to Asia (+185%) and the Americas (+103%).

Despite the growth in new markets, the UK remains by far our single largest trading partner for the agri-food sector, in 2016 total agri-food **exports** to the UK totalled **€4.8bn (39%)** while **imports** were **€3.7bn (40%)** with a trade surplus of €1.1bn.

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7 CSO data, “agri-food” includes edible food and drink and non-edible products by forestry, hides and skins.
The prepared consumer foods category includes a range of value added products. The UK remains a key market for PCF accounting for 63% (£1.6bn) of export value and 57% (£1.9bn) of import value.

Prepared foods eg. bakery, biscuit, soups, sauces with the exception of dairy-based enriched powders, value added meats, value added seafoods, value added horticulture, non-alcoholic beverages
### CHALLENGES

- The Irish agri-food sector is particularly exposed to the impact of Brexit, given the sector’s disproportionate reliance on the UK market compared to other sectors of the Irish economy.

- A number of analyses have been conducted on the potential impact of a UK exit from the EU on Ireland’s agri-food sectors. All of these analyses show that the result would be unambiguously bad for the Irish agri-food sector.

- Short-term challenges for the sector mainly arise from the impact of the significant drop in the value of Sterling against the euro, which has created difficulties for those most exposed to the UK market, especially the horticulture sector.

- Medium term challenges arise from changes to the EU-UK trading relationship, changes to regulations and standards, border controls and certification, and the related areas of veterinary and health certifications.

### RESPONSES

**DAFM provided the following supports under Budget 2017:**

- Low-cost flexible finance for farmers – Agri Cash Flow Support Loan Scheme of €150m, which has now been fully subscribed.

- Additional funding to Bord Bia (€2m, bringing total additional funding to date to €3.6m) and Bord Iascaigh Mhara in order to support affected companies.

- Increased funding under the Rural Development Programme and the Seafood Development Programme.

**DAFM is continuing its consultation through:**

- National Stakeholder Consultative Committee (most recent meeting 11 April 2017)

- The All Island Civic Dialogue process (most recently on 3 May 2017).

- Regular ongoing contacts with representative organisations and companies.

**Minister and DAFM continuing engagement with EU Member State and UK/NI counterparts through:**

- Bilateral meetings, in capitals and en marge of Agri-Fish Councils.

- Contacts with European Commission and Barnier Task Force.

**Market diversification strategy being intensified, including through Ministerial leading of trade missions** (the USA and Mexico in June 2017, Saudi Arabia and the United Arab Emirates in March 2017, following visits last Autumn to South East Asia, – further trade missions are planned in 2017)